

QCR HOLDINGS INC
Form 10-Q
August 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

For the transition period from _____ to _____

Commission file number 0-22208

QCR HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

42-1397595

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

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 743-7761

(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, 2014, the Registrant had outstanding 7,928,643 shares of common stock, \$1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$56,292,577	\$41,950,790
Federal funds sold	20,490,000	39,435,000
Interest-bearing deposits at financial institutions	36,786,049	33,044,917
Securities held to maturity, at amortized cost	166,787,372	145,451,895
Securities available for sale, at fair value	515,335,097	551,758,458
Total securities	682,122,469	697,210,353
Loans receivable held for sale	1,302,175	1,358,290
Loans/leases receivable held for investment	1,548,065,574	1,458,921,268
Gross loans/leases receivable	1,549,367,749	1,460,279,558
Less allowance for estimated losses on loans/leases	(23,067,024)	(21,448,048)
Net loans/leases receivable	1,526,300,725	1,438,831,510
Premises and equipment, net	36,313,537	36,755,364
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,770,677	1,870,433
Bank-owned life insurance	52,844,877	52,002,041
Restricted investment securities	16,347,125	17,027,625
Other real estate owned, net	10,951,214	9,729,053
Other assets	21,397,545	23,873,150
Total assets	\$2,464,839,483	\$2,394,952,924

LIABILITIES AND STOCKHOLDERS' EQUITY LIABILITIES

Deposits:		
Noninterest-bearing	\$531,062,583	\$542,566,087
Interest-bearing	1,146,305,692	1,104,425,156
Total deposits	1,677,368,275	1,646,991,243
Short-term borrowings	204,321,854	149,292,967
Federal Home Loan Bank advances	222,900,000	231,350,000
Other borrowings	151,452,927	142,448,362
Junior subordinated debentures	40,356,154	40,289,830
Other liabilities	33,797,744	37,003,742
Total liabilities	2,330,196,954	2,247,376,144

STOCKHOLDERS' EQUITY

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Preferred stock, \$1 par value; shares authorized 250,000	-	29,867
June 2014 - 0 shares issued and outstanding		
December 2013 - 29,867 shares issued and outstanding		
Common stock, \$1 par value; shares authorized 20,000,000	8,049,889	8,005,708
June 2014 - 8,049,889 shares issued and 7,928,643 outstanding		
December 2013 - 8,005,708 shares issued and 7,884,462 outstanding		
Additional paid-in capital	60,999,044	90,154,528
Retained earnings	71,137,294	64,637,173
Accumulated other comprehensive loss	(3,937,188) (13,643,986)
Less treasury stock, June 2014 and December 2013 - 121,246 common shares, at cost	(1,606,510) (1,606,510)
Total stockholders' equity	134,642,529	147,576,780
Total liabilities and stockholders' equity	\$2,464,839,483	\$2,394,952,924

See Notes to Consolidated Financial Statements (Unaudited)

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

	2014	2013
Interest and dividend income:		
Loans/leases, including fees	\$ 16,868,806	\$ 16,369,605
Securities:		
Taxable	2,573,649	2,629,832
Nontaxable	1,448,415	944,100
Interest-bearing deposits at financial institutions	71,243	61,724
Restricted investment securities	139,570	131,151
Federal funds sold	3,693	2,989
Total interest and dividend income	21,105,376	20,139,401
Interest expense:		
Deposits	1,101,615	1,176,855
Short-term borrowings	60,811	103,435
Federal Home Loan Bank advances	1,495,980	1,726,622
Other borrowings	1,174,594	1,162,893
Junior subordinated debentures	307,033	261,544
Total interest expense	4,140,033	4,431,349
Net interest income	16,965,343	15,708,052
Provision for loan/lease losses	1,001,879	1,520,137
Net interest income after provision for loan/lease losses	15,963,464	14,187,915
Noninterest income:		
Trust department fees	1,444,414	1,197,181
Investment advisory and management fees	710,858	695,094
Deposit service fees	1,091,923	1,054,223
Gains on sales of residential real estate loans	132,971	246,621
Gains on sales government guaranteed portions of loans	508,168	765,738
Securities gains	571	16,460
Earnings on bank-owned life insurance	388,672	423,883
Bargain purchase gain on Community National Acquisition	-	1,841,385
Losses on other real estate owned, net	(126,657)	(83,339)
Other	1,193,293	791,510
Total noninterest income	5,344,213	6,948,756
Noninterest expense:		
Salaries and employee benefits	9,922,191	9,186,233
Occupancy and equipment expense	1,838,971	1,586,841
Professional and data processing fees	1,403,915	1,438,753

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FDIC and other insurance	695,365	627,390
Loan/lease expense	377,492	251,868
Advertising and marketing	501,548	412,041
Postage and telephone	258,121	257,611
Stationery and supplies	145,635	150,718
Bank service charges	324,397	284,345
Acquisition and data conversion costs	-	432,326
Other	638,894	606,223
Total noninterest expense	16,106,529	15,234,349
Net income before income taxes	5,201,148	5,902,322
Federal and state income tax expense	1,193,312	1,857,091
Net income	\$4,007,836	\$4,045,231
Less: Preferred stock dividends	373,869	810,838
Net income attributable to QCR Holdings, Inc. common stockholders	\$3,633,967	\$3,234,393
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$0.46	\$0.60
Diluted	\$0.45	\$0.59
Weighted average common shares outstanding	7,924,624	5,393,062
Weighted average common and common equivalent shares outstanding	8,050,514	5,497,275
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,**

	2014	2013
Interest and dividend income:		
Loans/leases, including fees	\$33,644,396	\$31,458,432
Securities:		
Taxable	5,156,443	5,090,281
Nontaxable	2,902,471	1,746,573
Interest-bearing deposits at financial institutions	161,770	121,478
Restricted investment securities	268,495	256,256
Federal funds sold	7,012	3,863
Total interest and dividend income	42,140,587	38,676,883
Interest expense:		
Deposits	2,203,208	2,293,646
Short-term borrowings	112,507	167,702
Federal Home Loan Bank advances	3,051,956	3,459,434
Other borrowings	2,346,125	2,353,648
Junior subordinated debentures	612,207	503,084
Total interest expense	8,326,003	8,777,514
Net interest income	33,814,584	29,899,369
Provision for loan/lease losses	2,096,041	2,577,919
Net interest income after provision for loan/lease losses	31,718,543	27,321,450
Noninterest income:		
Trust department fees	2,944,756	2,236,851
Investment advisory and management fees	1,359,850	1,304,435
Deposit service fees	2,137,808	1,962,046
Gains on sales of residential real estate loans	196,458	537,772
Gains on sales government guaranteed portions of loans	702,187	1,610,962
Securities gains	21,196	16,460
Earnings on bank-owned life insurance	842,836	862,570
Bargain purchase gain on Community National Acquisition	-	1,841,385
Losses on other real estate owned, net	(144,705)	(529,969)
Other	2,030,668	2,310,273
Total noninterest income	10,091,054	12,152,785
Noninterest expense:		
Salaries and employee benefits	19,940,109	17,928,916
Occupancy and equipment expense	3,733,259	3,015,711
Professional and data processing fees	2,988,321	2,578,814

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FDIC and other insurance	1,410,115	1,183,301
Loan/lease expense	723,128	496,959
Advertising and marketing	839,135	676,609
Postage and telephone	548,796	476,302
Stationery and supplies	297,386	261,388
Bank service charges	622,429	559,840
Acquisition and data conversion costs	-	788,904
Other	1,144,271	1,226,105
Total noninterest expense	32,246,949	29,192,849
Net income before income taxes	9,562,648	10,281,386
Federal and state income tax expense	1,665,597	2,971,011
Net income	\$7,897,051	\$7,310,375
Less: Preferred stock dividends	1,081,877	1,621,675
Net income attributable to QCR Holdings, Inc. common stockholders	\$6,815,174	\$5,688,700
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$0.86	\$1.10
Diluted	\$0.85	\$1.08
Weighted average common shares outstanding	7,912,830	5,160,327
Weighted average common and common equivalent shares outstanding	8,040,279	5,265,809
Cash dividends declared per common share	\$0.04	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30,	
	2014	2013
Net income	\$4,007,836	\$4,045,231
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	7,656,064	(21,238,019)
Less reclassification adjustment for gains included in net income before tax	571	16,460
	7,655,493	(21,254,479)
Unrealized losses on derivative instruments	(251,149)	-
Other comprehensive income (loss), before tax	7,404,344	(21,254,479)
Tax expense (benefit)	2,928,330	(8,162,990)
Other comprehensive income (loss), net of tax	4,476,014	(13,091,489)
Comprehensive income (loss) attributable to QCR Holdings, Inc.	\$8,483,850	\$(9,046,258)

	Six Months Ended June 30,	
	2014	2013
Net income	\$7,897,051	\$7,310,375
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	16,146,238	(22,594,571)
Less reclassification adjustment for gains included in net income before tax	21,196	16,460
	16,125,042	(22,611,031)
Unrealized losses on derivative instruments	(251,149)	-
Other comprehensive income (loss), before tax	15,873,893	(22,611,031)
Tax expense (benefit)	6,167,095	(8,683,184)
Other comprehensive income (loss), net of tax	9,706,798	(13,927,847)
Comprehensive income (loss) attributable to QCR Holdings, Inc.	\$17,603,849	\$(6,617,472)

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Six Months Ended June 30, 2014 and 2013

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance							
December 31, 2013	\$29,867	\$8,005,708	\$90,154,528	\$64,637,173	\$(13,643,986)	\$(1,606,510)	\$147,576,780
Net income	-	-	-	3,889,215	-	-	3,889,215
Other comprehensive income, net of tax	-	-	-	-	5,230,784	-	5,230,784
Preferred cash dividends declared	-	-	-	(708,008)	-	-	(708,008)
Redemption of 15,000 shares of Series F Noncumulative Perpetual Preferred Stock	(15,000)	-	(14,985,000)	-	-	-	(15,000,000)
Proceeds from issuance of 6,189 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	6,189	78,256	-	-	-	84,445
Proceeds from issuance of 9,814 shares of common stock as a result of stock options exercised	-	9,814	85,582	-	-	-	95,396
Stock compensation	-	-	347,752	-	-	-	347,752

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expense							
Tax benefit of nonqualified stock options exercised	-	-	18,647	-	-	-	18,647
Restricted stock awards	-	27,197	(27,197)	-	-	-	-
Exchange of 10,300 shares of common stock in connection with restricted stock vested, net	-	(10,300)	(167,684)	-	-	-	(177,984)
Balance March 31, 2014	\$14,867	\$8,038,608	\$75,504,884	\$67,818,380	\$(8,413,202)	\$(1,606,510)	\$141,357,027
Net income	-	-	-	4,007,836	-	-	4,007,836
Other comprehensive income, net of tax	-	-	-	-	4,476,014	-	4,476,014
Common cash dividends declared, \$0.04 per share	-	-	-	(315,053)	-	-	(315,053)
Preferred cash dividends declared	-	-	-	(373,869)	-	-	(373,869)
Redemption of 14,867 shares of Series F Noncumulative Perpetual Preferred Stock	(14,867)	-	(14,809,055)	-	-	-	(14,823,922)
Proceeds from issuance of 8,361 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	8,361	119,797	-	-	-	128,158
Proceeds from issuance of 630 shares of common stock as a result of stock options exercised	-	630	5,159	-	-	-	5,789
	-	-	179,265				179,265

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Stock compensation expense							
Tax benefit of nonqualified stock options exercised	-	-	1,284	-	-	-	1,284
Restricted stock awards	-	2,290	(2,290)	-	-	-	-
Balance June 30, 2014	\$-	\$8,049,889	\$60,999,044	\$71,137,294	\$(3,937,188)	\$(1,606,510)	\$134,642,529

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

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Tax benefit of nonqualified stock options exercised	-	-	35,251	-	-	-	35,251
Restricted stock awards	-	16,798	(16,798)	-	-	-	-
Exchange of 16,798 shares of common stock in connection with restricted stock vested, net	-	(16,798)	(289,113)	-	-	-	(305,911)
Balance March 31, 2013	\$54,867	\$5,057,562	\$79,041,338	\$55,780,849	\$3,870,325	\$(1,606,510)	\$142,198,431
Net income	-	-	-	4,045,231	-	-	4,045,231
Other comprehensive loss, net of tax	-	-	-	-	(13,091,489)	-	(13,091,489)
Common cash dividends declared, \$0.04 per share	-	-	-	(228,971)	-	-	(228,971)
Preferred cash dividends declared	-	-	-	(810,838)	-	-	(810,838)
Proceeds from issuance of 834,715 shares of common stock as a result of the acquisition of Community National Bancorporation, net	-	834,715	12,181,894	-	-	-	13,016,609
Proceeds from issuance of 9,560 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	9,560	104,221	-	-	-	113,781
Proceeds from issuance of 3,769 shares of common stock as a result of stock options exercised	-	3,769	33,070	-	-	-	36,839
	-	-	162,123				162,123

Stock compensation expense							
Tax benefit of nonqualified stock options exercised	-	-	4,197	-	-	-	4,197
Restricted stock awards	-	12,707	(12,707)	-	-	-	-
Balance June 30, 2013	\$ 54,867	\$ 5,918,313	\$ 91,514,136	\$ 58,786,271	\$ (9,221,164)	\$ (1,606,510)	\$ 145,445,913

See Notes to Consolidated Financial Statements (Unaudited)

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

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$7,897,051	\$7,310,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,390,389	1,280,550
Provision for loan/lease losses	2,096,041	2,577,919
Stock-based compensation expense	527,017	455,921
Deferred compensation expense accrued	684,984	419,956
Losses on other real estate owned, net	144,705	529,969
Amortization of premiums on securities, net	1,002,893	1,972,391
Securities gains	(21,196)	(16,460)
Loans originated for sale	(22,215,215)	(52,272,708)
Proceeds on sales of loans	23,169,975	56,915,600
Gains on sales of residential real estate loans	(196,458)	(537,772)
Gains on sales of government guaranteed portions of loans	(702,187)	(1,610,962)
Amortization of core deposit intangible	99,756	-
Accretion of acquisition fair value adjustments, net	(304,876)	-
Gain on the sale of premises and equipment	(42,554)	-
Increase in cash value of bank-owned life insurance	(842,836)	(862,570)
Bargain purchase gain on Community National acquisition	-	(1,841,385)
Decrease (increase) in other assets	(1,870,989)	6,556,417
Decrease in other liabilities	(3,791,845)	(1,217,181)
Net cash provided by operating activities	\$7,024,655	\$19,660,060
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold	18,945,000	22,229,000
Net increase in interest-bearing deposits at financial institutions	(3,741,132)	(10,189,746)
Proceeds from sales of other real estate owned	771,902	303,766
Purchase of derivative instruments	(2,071,650)	-
Activity in securities portfolio:		
Purchases	(36,089,884)	(238,534,747)
Calls, maturities and redemptions	27,756,298	124,663,560
Paydowns	12,563,485	27,762,742
Sales	25,877,578	6,167,531
Activity in restricted investment securities:		
Purchases	(839,500)	(4,818,750)
Redemptions	1,520,000	4,950,000
Net increase in loans/leases originated and held for investment	(91,280,287)	(51,708,379)
Net cash received from the sale of premises and equipment	291,006	-
Purchase of premises and equipment	(1,197,014)	(950,802)

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Net cash received from Community National acquisition	-	3,025,073
Net cash used in investing activities	\$(47,494,198)	\$(117,100,752)

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase in deposit accounts	30,392,132	87,620,739
Net increase (decrease) in short-term borrowings	55,028,887	(13,896,757)
Activity in Federal Home Loan Bank advances:		
Advances	15,000,000	119,000,000
Calls and maturities	(23,450,000)	(111,400,500)
Proceeds from term debt	10,000,000	10,000,000
Principal payments on term debt	(1,000,000)	-
Payment on 364-day revolving note	-	(5,600,000)
Repayment of Community National's other borrowings at acquisition	-	(3,950,000)
Payment of cash dividends on common and preferred stock	(1,649,555)	(1,813,624)
Redemption of 15,000 shares of Series F Noncumulative Perpetual Preferred Stock, net	(15,000,000)	-
Redemption of 14,867 shares of Series F Noncumulative Perpetual Preferred Stock, net	(14,823,922)	-
Proceeds from issuance of common stock, net	313,788	229,278
Net cash provided by financing activities	\$54,811,330	\$80,189,136
Net increase (decrease) in cash and due from banks	14,341,787	(17,251,556)
Cash and due from banks, beginning	41,950,790	61,568,446
Cash and due from banks, ending	\$56,292,577	\$44,316,890

(Continued)

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

	2014	2013
Supplemental disclosure of cash flow information, cash payments for:		
Interest	\$8,376,272	\$8,897,240
Income/franchise taxes	\$3,057,500	\$1,031,120
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale and derivative instruments, net	\$9,706,798	\$(13,927,847)
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(177,984)	\$(424,587)
Transfers of loans to other real estate owned	\$2,138,768	\$187,500
Supplemental disclosure of cash flow information for Community National Acquisition:		
Fair value of assets acquired:		
Cash and due from banks *	\$-	\$9,286,757
Federal funds sold	-	12,335,000
Interest-bearing deposits at financial institutions	-	2,024,539
Securities available for sale	-	45,853,826
Loans/leases receivable held for investment, net	-	195,658,486
Premises and equipment, net	-	8,132,021
Core deposit intangible	-	3,440,076
Bank-owned life insurance	-	4,595,529
Restricted investment securities	-	1,259,375
Other real estate owned	-	550,326
Other assets	-	5,178,583
Total assets acquired	\$-	\$288,314,518
Fair value of liabilities assumed:		
Deposits	\$-	\$255,045,071
Other borrowings	-	3,950,000
Junior subordinated debentures	-	4,125,175
Other liabilities	-	3,911,053
Total liabilities assumed	\$-	\$267,031,299
Net assets acquired	\$-	\$21,283,219
Consideration paid:		
Cash paid *	\$-	\$6,261,684
Issuance of 834,715 shares of common stock	-	13,180,150
Total consideration paid	\$-	\$19,441,834
Bargain purchase gain	\$-	\$1,841,385

* Net cash received at closing totaled \$3,025,073

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Recent accounting developments: In January 2014, FASB issued ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The objective of ASU 2014-04 is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU 2014-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Management is in the process of evaluating the impact of ASU 2014-04 on the Company's consolidated financial statements.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 2 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2014				
Securities held to maturity:				
Municipal securities	\$ 165,737,372	\$ 1,492,583	\$(2,609,628)	\$ 164,620,327
Other securities	1,050,000	-	-	1,050,000
	\$ 166,787,372	\$ 1,492,583	\$(2,609,628)	\$ 165,670,327
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 334,083,927	\$ 109,470	\$(8,572,941)	\$ 325,620,456
Residential mortgage-backed and related securities	152,965,071	2,200,301	(1,270,158)	153,895,214
Municipal securities	32,871,334	1,156,141	(170,004)	33,857,471
Other securities	1,401,827	560,129	-	1,961,956
	\$ 521,322,159	\$ 4,026,041	\$(10,013,103)	\$ 515,335,097
December 31, 2013:				
Securities held to maturity:				
Municipal securities	\$ 144,401,895	\$ 299,789	\$(7,111,579)	\$ 137,590,105
Other securities	1,050,000	-	-	1,050,000
	\$ 145,451,895	\$ 299,789	\$(7,111,579)	\$ 138,640,105
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 376,574,132	\$ 41,696	\$(20,142,841)	\$ 356,472,987
Residential mortgage-backed and related securities	160,110,199	1,153,409	(3,834,157)	157,429,451
Municipal securities	35,813,866	923,315	(778,324)	35,958,857
Other securities	1,372,365	524,798	-	1,897,163
	\$ 573,870,562	\$ 2,643,218	\$(24,755,322)	\$ 551,758,458

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2014:						
Securities held to maturity:						
Municipal securities	\$37,351,435	\$(982,726)	\$47,726,709	\$(1,626,902)	\$85,078,144	\$(2,609,628)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$284,171,721	\$(8,502,103)	\$13,725,024	\$(70,838)	\$297,896,745	\$(8,572,941)
Residential mortgage-backed and related securities	8,124,317	(95,270)	55,800,561	(1,174,888)	63,924,878	(1,270,158)
Municipal securities	8,765,260	(131,548)	2,184,122	(38,456)	10,949,382	(170,004)
	\$301,061,298	\$(8,728,921)	\$71,709,707	\$(1,284,182)	\$372,771,005	\$(10,013,103)
December 31, 2013:						
Securities held to maturity:						
Municipal securities	\$101,983,602	\$(6,711,240)	\$2,697,375	\$(400,339)	\$104,680,977	\$(7,111,579)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$333,194,820	\$(19,141,077)	\$10,978,390	\$(1,001,764)	\$344,173,210	\$(20,142,841)
Residential mortgage-backed and	94,723,092	(2,947,770)	14,117,719	(886,387)	108,840,811	(3,834,157)

related securities

Municipal securities	13,890,692	(724,939)	985,687	(53,385)	14,876,379	(778,324)
	\$441,808,604	\$(22,813,786)	\$26,081,796	\$(1,941,536)	\$467,890,400	\$(24,755,322)

At June 30, 2014, the investment portfolio included 529 securities. Of this number, 259 securities had current unrealized losses with aggregate depreciation of less than 4% from the total amortized cost basis. Of these, 98 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, 2014 and December 31, 2013, equity securities represented less than 1% of the total portfolio.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Proceeds from sales of securities	\$18,856,953	\$6,167,531	\$25,877,578	\$6,167,531
Pre-tax gross gains from sales of securities	571	16,460	21,196	16,460

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

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	\$2,927,386	\$2,929,942
Due after one year through five years	10,861,031	10,874,917
Due after five years	152,998,955	151,865,468
	\$166,787,372	\$165,670,327
Securities available for sale:		
Due in one year or less	\$4,485,092	\$4,498,204
Due after one year through five years	48,898,104	48,717,600
Due after five years	313,572,065	306,262,123
	\$366,955,261	\$359,477,927
Residential mortgage-backed and related securities	152,965,071	153,895,214

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Other securities	1,401,827	1,961,956
	\$521,322,159	\$515,335,097

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

	Amortized Cost	Fair Value
Securities held to maturity:		
Municipal securities	\$102,919,232	\$102,260,651
Securities available for sale:		
U.S. govt. sponsored agency securities	271,663,942	264,421,214
Municipal securities	20,829,274	21,268,094
	\$292,493,216	\$285,689,308

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 – LOANS/LEASES RECEIVABLE

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

	As of June 30, 2014	As of December 31, 2013
Commercial and industrial loans	\$480,494,321	\$431,688,129
Commercial real estate loans		
Owner-occupied commercial real estate	247,596,151	261,215,912
Commercial construction, land development, and other land	58,042,089	57,844,902
Other non owner-occupied commercial real estate	377,737,501	352,692,115
	683,375,741	671,752,929
Direct financing leases *	155,004,018	128,901,442
Residential real estate loans **	153,199,719	147,356,323
Installment and other consumer loans	71,443,399	76,033,810
	1,543,517,198	1,455,732,633
Plus deferred loan/lease origination costs, net of fees	5,850,551	4,546,925
	1,549,367,749	1,460,279,558
Less allowance for estimated losses on loans/leases	(23,067,024)	(21,448,048)
	\$1,526,300,725	\$1,438,831,510
* Direct financing leases:		
Net minimum lease payments to be received	\$175,772,051	\$145,662,254
Estimated unguaranteed residual values of leased assets	1,642,309	1,694,499
Unearned lease/residual income	(22,410,342)	(18,455,311)
	155,004,018	128,901,442
Plus deferred lease origination costs, net of fees	5,935,700	4,814,183
	160,939,718	133,715,625
Less allowance for estimated losses on leases	(3,319,131)	(2,517,217)
	\$157,620,587	\$131,198,408

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

**Includes residential real estate loans held for sale totaling \$1,302,175 and \$1,358,290 as of June 30, 2014, and December 31, 2013, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Classes of Loans/Leases	As of June 30, 2014						Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases		
Commercial and Industrial	\$478,425,272	\$162,344	\$110,714	\$41,950	\$1,754,041	\$480,494,321	
Commercial Real Estate							
Owner-Occupied Commercial Real Estate	244,861,764	81,356	1,380,715	39,852	1,232,464	247,596,151	
Commercial Construction, Land Development, and Other Land	56,324,561	1,086,827	-	-	630,701	58,042,089	
Other Non Owner-Occupied Commercial Real Estate	366,941,393	924,340	18,800	-	9,852,968	377,737,501	
Direct Financing Leases	151,796,790	599,582	802,650	13,167	1,791,829	155,004,018	
Residential Real Estate	151,334,965	65,549	347,400	-	1,451,805	153,199,719	
Installment and Other Consumer	70,353,793	94,038	49,196	8,646	937,726	71,443,399	
	\$1,520,038,538	\$3,014,036	\$2,709,475	\$103,615	\$17,651,534	\$1,543,517,198	
As a percentage of total loan/lease	98.48	% 0.20	% 0.18	% 0.01	% 1.14	% 100.00	%

portfolio

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Classes of Loans/Leases	As of June 30, 2014			Total Nonperforming Loans/Leases	Percentage of Total Nonperforming Loans/Leases	
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *	Troubled Debt Restructurings - Accruing			
Commercial and Industrial Commercial Real Estate	\$41,950	\$1,754,041	\$1,483,846	\$3,279,837	16.45	%
Owner-Occupied Commercial Real Estate	39,852	1,232,464	-	1,272,316	6.38	%
Commercial Construction, Land Development, and Other Land	-	630,701	-	630,701	3.16	%
Other Non Owner-Occupied Commercial Real Estate	-	9,852,968	-	9,852,968	49.41	%
Direct Financing Leases	13,167	1,791,829	-	1,804,996	9.05	%
Residential Real Estate	-	1,451,805	343,322	1,795,127	9.00	%
Installment and Other Consumer	8,646	937,726	357,000	1,303,372	6.54	%
	\$103,615	\$17,651,534	\$2,184,168	\$19,939,317	100.00	%

*Nonaccrual loans/leases includes \$9,778,112 of troubled debt restructurings, including \$83,922 in commercial and industrial loans, \$8,897,061 in commercial real estate loans, \$156,800 in direct financing leases, \$443,224 in residential real estate loans, and \$197,105 in installment loans.

Classes of Loans/Leases	As of December 31, 2013			Total Nonperforming	Percentage of Total	
	Accruing Past	Nonaccrual Loans/Leases	Troubled Debt			

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	Due 90 Days or More	**	Restructurings - Accruing	Loans/Leases	Nonperforming Loans/Leases	
Commercial and Industrial Commercial Real Estate	\$-	\$ 1,744,981	\$ 878,381	\$ 2,623,362	12.81	%
Owner-Occupied Commercial Real Estate	60,286	1,139,385	-	1,199,671	5.86	%
Commercial Construction, Land Development, and Other Land	-	1,185,090	-	1,185,090	5.79	%
Other Non Owner-Occupied Commercial Real Estate	-	10,320,491	905,205	11,225,696	54.80	%
Direct Financing Leases	-	894,458	-	894,458	4.37	%
Residential Real Estate	20,126	1,618,483	371,995	2,010,604	9.82	%
Installment and Other Consumer	3,762	975,009	367,000	1,345,771	6.57	%
	\$84,174	\$ 17,877,897	\$ 2,522,581	\$ 20,484,652	100.00	%

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	Three Months Ended June 30, 2014					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$6,647,658	\$10,587,657	\$2,820,239	\$1,388,885	\$1,208,831	\$22,653,270
Provisions (credits) charged to expense	101,718	(33,506)	566,374	101,030	266,263	1,001,879
Loans/leases charged off	(222,057)	(311,453)	(78,755)	(50,730)	(12,982)	(675,977)
Recoveries on loans/leases previously charged off	22,059	34,994	11,273	-	19,526	87,852
Balance, ending	\$6,549,378	\$10,277,692	\$3,319,131	\$1,439,185	\$1,481,638	\$23,067,024
	Three Months Ended June 30, 2013					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,466,264	\$12,188,953	\$2,296,523	\$966,336	\$851,386	\$20,769,462
Provisions (credits) charged to expense	348,298	672,077	340,137	195,774	(36,149)	1,520,137
Loans/leases charged off	(38,685)	(820,725)	(449,622)	-	(23,875)	(1,332,907)
Recoveries on loans/leases previously charged off	14,951	150,192	567	3,231	30,746	199,687
Balance, ending	\$4,790,828	\$12,190,497	\$2,187,605	\$1,165,341	\$822,108	\$21,156,379
	Six Months Ended June 30, 2014					

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	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$5,648,774	\$10,705,434	\$2,517,217	\$1,395,849	\$1,180,774	\$21,448,048
Provisions (credits) charged to expense	1,078,508	(263,491)	919,021	96,675	265,328	2,096,041
Loans/leases charged off	(226,080)	(315,551)	(144,488)	(53,442)	(15,737)	(755,298)
Recoveries on loans/leases previously charged off	48,176	151,300	27,381	103	51,273	278,233
Balance, ending	\$6,549,378	\$10,277,692	\$3,319,131	\$1,439,185	\$1,481,638	\$23,067,024

Six Months Ended June 30, 2013

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,531,545	\$11,069,502	\$1,990,395	\$1,070,328	\$1,263,434	\$19,925,204
Provisions (credits) charged to expense	260,491	1,786,371	718,760	204,673	(392,376)	2,577,919
Loans/leases charged off	(38,900)	(820,725)	(522,671)	(112,891)	(140,487)	(1,635,674)
Recoveries on loans/leases previously charged off	37,692	155,349	1,121	3,231	91,537	288,930
Balance, ending	\$4,790,828	\$12,190,497	\$2,187,605	\$1,165,341	\$822,108	\$21,156,379

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	As of June 30, 2014					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for loans/leases individually evaluated for impairment	\$848,593	\$2,567,526	\$534,043	\$237,358	\$471,025	\$4,658,545
Allowance for loans/leases collectively evaluated for impairment	5,700,785	7,710,166	2,785,088	1,201,827	1,010,613	18,408,479
	\$6,549,378	\$10,277,692	\$3,319,131	\$1,439,185	\$1,481,638	\$23,067,024
Loans/leases individually evaluated for impairment	\$2,104,768	\$11,264,502	\$1,791,828	\$1,795,128	\$1,294,726	\$18,250,952
Loans/leases collectively evaluated for impairment	478,389,553	672,111,239	153,212,190	151,404,591	70,148,673	1,525,266,246
	\$480,494,321	\$683,375,741	\$155,004,018	\$153,199,719	\$71,443,399	\$1,543,517,198

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Allowance as a percentage of loans/leases individually evaluated for impairment	40.32	%	22.79	%	29.80	%	13.22	%	36.38	%	25.52	%
Allowance as a percentage of loans/leases collectively evaluated for impairment	1.19	%	1.15	%	1.82	%	0.79	%	1.44	%	1.21	%
	1.36	%	1.50	%	2.14	%	0.94	%	2.07	%	1.49	%

As of December 31, 2013

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

evaluated for impairment Allowance as a percentage of loans/leases collectively evaluated for impairment	1.10	%	1.14	%	1.82	%	0.79	%	0.95	%	1.14	%
	1.31	%	1.59	%	1.95	%	0.95	%	1.55	%	1.47	%

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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, 2014 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$575,419	\$730,020	\$-	\$631,165	\$ 1,899	\$ 1,899
Owner-Occupied Commercial Real Estate	380,931	380,931	-	410,136	-	-
Commercial Construction, Land Development, and Other Land	1,622,016	1,856,416	-	1,923,766	-	-
Other Non Owner-Occupied Commercial Real Estate	1,941,116	1,941,116	-	2,695,138	13,283	13,283
Direct Financing Leases	793,247	793,247	-	651,516	-	-
Residential Real Estate	954,464	954,464	-	1,137,735	2,175	2,175
Installment and Other Consumer	457,611	457,611	-	501,576	1,780	1,780
	\$6,724,804	\$7,113,805	\$-	\$7,951,032	\$ 19,137	\$ 19,137
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$1,529,349	\$2,049,051	\$848,593	\$855,050	\$ -	\$ -
	552,923	552,923	176,287	223,337	-	-

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Owner-Occupied Commercial Real Estate						
Commercial Construction, Land Development, and Other Land	600,920	600,920	461,671	605,198	-	-
Other Non Owner-Occupied Commercial Real Estate	6,166,596	6,866,187	1,929,568	5,974,240	-	-
Direct Financing Leases	998,581	998,581	534,043	648,487	-	-
Residential Real Estate	840,664	840,664	237,358	767,008	778	778
Installment and Other Consumer	837,115	837,115	471,025	788,112	-	-
	\$11,526,148	\$12,745,441	\$4,658,545	\$9,861,432	\$ 778	\$ 778
Total Impaired Loans/Leases:						
Commercial and Industrial Commercial Real Estate	\$2,104,768	\$2,779,071	\$848,593	\$1,486,215	\$ 1,899	\$ 1,899
Owner-Occupied Commercial Real Estate	933,854	933,854	176,287	633,473	-	-
Commercial Construction, Land Development, and Other Land	2,222,936	2,457,336	461,671	2,528,964	-	-
Other Non Owner-Occupied Commercial Real Estate	8,107,712	8,807,303	1,929,568	8,669,378	13,283	13,283
Direct Financing Leases	1,791,828	1,791,828	534,043	1,300,003	-	-
Residential Real Estate	1,795,128	1,795,128	237,358	1,904,743	2,953	2,953
Installment and Other Consumer	1,294,726	1,294,726	471,025	1,289,688	1,780	1,780
	\$18,250,952	\$19,859,246	\$4,658,545	\$17,812,464	\$ 19,915	\$ 19,915

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

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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, 2014 and 2013, respectively, are presented as follows:

Classes of Loans/Leases	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$589,889	\$ 11	\$ 11	\$613,506	\$ 1,937	\$ 1,937
Owner-Occupied Commercial Real Estate	383,861	-	-	3,107,106	-	-
Commercial Construction, Land Development, and Other Land	1,642,205	-	-	325,000	-	-
Other Non Owner-Occupied Commercial Real Estate	2,222,582	-	-	353,972	657	657
Direct Financing Leases	700,607	-	-	822,718	-	-
Residential Real Estate	1,014,286	720	720	1,057,657	-	-
Installment and Other Consumer	465,820	890	890	915,478	2,686	2,686
	\$7,019,250	\$ 1,621	\$ 1,621	\$7,195,437	\$ 5,280	\$ 5,280
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$989,979	\$ -	\$ -	\$1,229,737	\$ 15,307	\$ 15,307
Owner-Occupied Commercial Real Estate	334,236	-	-	653,815	-	-
Commercial Construction, Land Development, and Other Land	602,498	-	-	3,656,226	2,716	2,716
Other Non Owner-Occupied Commercial Real Estate	6,057,384	-	-	10,143,708	-	-

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Direct Financing Leases	855,628	-	-	133,038	-	-
Residential Real Estate	779,104	4	4	302,334	-	-
Installment and Other Consumer	817,994	-	-	430,427	-	-
	\$10,436,823	\$ 4	\$ 4	\$16,549,285	\$ 18,023	\$ 18,023
Total Impaired Loans/Leases:						
Commercial and Industrial	\$1,579,868	\$ 11	\$ 11	\$1,843,243	\$ 17,244	\$ 17,244
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	718,097	-	-	3,760,921	-	-
Commercial Construction, Land Development, and Other Land	2,244,703	-	-	3,981,226	2,716	2,716
Other Non Owner-Occupied Commercial Real Estate	8,279,966	-	-	10,497,680	657	657
Direct Financing Leases	1,556,235	-	-	955,756	-	-
Residential Real Estate	1,793,390	724	724	1,359,991	-	-
Installment and Other Consumer	1,283,814	890	890	1,345,905	2,686	2,686
	\$17,456,073	\$ 1,625	\$ 1,625	\$23,744,722	\$ 23,303	\$ 23,303

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

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Owner-Occupied Commercial Real Estate	551,789	551,789	67,498
Commercial Construction, Land Development, and Other Land	2,831,715	3,066,115	503,825
Other Non Owner-Occupied Commercial Real Estate	9,573,411	10,390,693	2,603,381
Direct Financing Leases	894,458	894,458	192,847
Residential Real Estate	2,116,747	2,116,747	246,266
Installment and Other Consumer	1,350,450	1,350,450	467,552
	\$19,080,420	\$20,895,958	\$5,008,822

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

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

Internally Assigned Risk Rating	As of June 30, 2014				Total
	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Development, and Other Land	Non Owner-Occupied Commercial Construction, Other Commercial Real Estate	
Pass (Ratings 1 through 5)	\$444,280,023	\$228,602,988	\$54,249,436	\$349,022,456	\$1,076,154,903
Special Mention (Rating 6)	22,616,136	10,214,621	-	1,475,286	34,306,043
Substandard (Rating 7)	13,598,162	8,778,542	3,792,653	27,239,759	53,409,116
Doubtful (Rating 8)	-	-	-	-	-
	\$480,494,321	\$247,596,151	\$58,042,089	\$377,737,501	\$1,163,870,062

As of June 30, 2014

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Delinquency Status *	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Performing	\$ 153,199,022	\$ 151,404,592	\$ 70,140,027	\$ 374,743,641
Nonperforming	1,804,996	1,795,127	1,303,372	4,903,495
	\$ 155,004,018	\$ 153,199,719	\$ 71,443,399	\$ 379,647,136

As of December 31, 2013

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

As of December 31, 2013

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of June 30, 2014 and December 31, 2013, troubled debt restructurings totaled \$11,962,280 and \$13,413,366, respectively.

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

Classes of Loans/Leases	For the three months ended June 30, 2014				For the three months ended June 30, 2013			
	Number of Pre-Modification Loans / Leases	Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Pre-Modification Loans / Leases	Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Significant payment delay								
Commercial and Industrial	3	\$ 889,154	\$ 889,154	\$ 239,783	-	\$ -	\$ -	\$ -
Residential Real Estate	-	\$ -	\$ -	\$ -	1	\$ 91,581	\$ 91,581	\$ -
Installment and Other Consumer	-	\$ -	\$ -	\$ -	1	\$ 370,000	\$ 370,000	\$ -
	3	\$ 889,154	\$ 889,154	\$ 239,783	2	\$ 461,581	\$ 461,581	\$ -
CONCESSION - Interest rate adjusted below market								
Commercial Construction, Land Development, and Other Land	-	\$ -	\$ -	\$ -	1	\$ 337,500	\$ 337,500	\$ -
Residential Real Estate	-	\$ -	\$ -	\$ -	1	\$ 160,627	\$ 160,627	\$ -
	-	\$ -	\$ -	\$ -	2	\$ 498,127	\$ 498,127	\$ -

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CONCESSION - Other							
Commercial and Industrial	1	\$ 427,849	\$ 427,849	\$ 113,449	-	\$ -	\$ -
	1	\$ 427,849	\$ 427,849	\$ 113,449	-	\$ -	\$ -
TOTAL	4	\$ 1,317,003	\$ 1,317,003	\$ 353,232	4	\$ 959,708	\$ 959,708

Classes of Loans/Leases	For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Number of Pre-Modification Loans / Investment Leases	Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Pre-Modification Loans / Investment Leases	Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Significant payment delay								
Commercial and Industrial	3	\$ 889,154	\$ 889,154	\$ 239,783	-	\$ -	\$ -	
Owner-Occupied Commercial Real Estate	-	\$ -	\$ -	\$ -	1	\$ 47,958	\$ 47,958	
Direct Financing Leases	1	\$ 89,443	\$ 89,443	\$ -	-	\$ -	\$ -	