QCR HOLDINGS INC
Form 10-Q
November 08, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended September 30, 2018

[ ] 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	42-1397595
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 736 3580

(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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes [X]   No [   ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b 2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]
Smaller reporting company [ ]	Emerging growth company [ ]	

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

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

Yes [   ]   No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 1, 2018, the Registrant had outstanding 15,673,883 shares of common stock, $1.00 par value per share.

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QCR HOLDINGS, INC. AND SUBSIDIARIES

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Throughout this Quarterly Report on Form 10-Q, we use certain acronyms and abbreviations, as defined in Note 1.

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2018 and December 31, 2017

	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 73,406,657	$ 75,721,663
Federal funds sold	33,070,000	30,197,000
Interest-bearing deposits at financial institutions	96,590,367	55,765,012
Securities held to maturity, at amortized cost	395,421,195	379,474,205
Securities available for sale, at fair value	255,323,442	272,907,907
Total securities	650,744,637	652,382,112
Loans receivable held for sale	2,557,907	645,001
Loans/leases receivable held for investment	3,650,828,460	2,963,840,399
Gross loans/leases receivable	3,653,386,367	2,964,485,400
Less allowance for estimated losses on loans/leases	(43,077,457)	(34,355,728)
Net loans/leases receivable	3,610,308,910	2,930,129,672
Bank-owned life insurance	67,443,063	59,059,494
Premises and equipment, net	73,828,512	62,838,255
Restricted investment securities	28,679,400	19,782,525
Other real estate owned, net	12,203,780	13,558,308
Goodwill	73,618,426	28,334,092
Core deposit intangible	16,136,914	9,078,953
Other assets	56,701,829	45,817,687
Total assets	$ 4,792,732,495	$ 3,982,664,773
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 802,090,334	$ 789,547,696
Interest-bearing	2,986,186,588	2,477,107,360
Total deposits	3,788,276,922	3,266,655,056
Short-term borrowings	12,929,499	13,993,122
Federal Home Loan Bank advances	359,128,925	192,000,000
Other borrowings	73,950,426	66,000,000
Junior subordinated debentures	37,626,070	37,486,487
Other liabilities	63,433,264	53,242,979
Total liabilities	4,335,345,106	3,629,377,644
Stockholders' Equity:		

Preferred stock, $1 par value; shares authorized 250,000 September 2018 and December 2017- No shares issued or outstanding	—	—
Common stock, $1 par value; shares authorized 20,000,000 September 2018 - 15,673,760 shares issued and outstanding December 2017 - 13,918,168 shares issued and outstanding	15,673,760	13,918,168
Additional paid-in capital	269,373,303	189,077,550
Retained earnings	179,826,524	151,962,661
Accumulated other comprehensive loss:		
Securities available for sale	(7,347,979)	(866,223)
Derivatives	(138,219)	(805,027)
Total stockholders' equity	457,387,389	353,287,129
Total liabilities and stockholders' equity	$ 4,792,732,495	$ 3,982,664,773

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended September 30,

	2018	2017
Interest and dividend income:		
Loans/leases, including fees	$ 44,033,687	$ 29,245,320
Securities:		
Taxable	1,521,789	1,367,212
Nontaxable	3,516,550	2,862,208
Interest-bearing deposits at financial institutions	323,636	141,331
Restricted investment securities	329,767	172,776
Federal funds sold	105,042	52,018
Total interest and dividend income	49,830,471	33,840,865
Interest expense:		
Deposits	8,722,555	3,556,189
Short-term borrowings	78,053	33,248
Federal Home Loan Bank advances	1,272,538	607,751
Other borrowings	924,780	724,854
Junior subordinated debentures	519,062	362,475
Total interest expense	11,516,988	5,284,517
Net interest income	38,313,483	28,556,348
Provision for loan/lease losses	6,205,828	2,086,436
Net interest income after provision for loan/lease losses	32,107,655	26,469,912
Noninterest income:		
Trust department fees	2,195,828	1,721,401
Investment advisory and management fees	1,059,413	968,452
Deposit service fees	1,655,529	1,522,461
Gains on sales of residential real estate loans, net	336,679	98,409
Gains on sales of government guaranteed portions of loans, net	46,417	91,974
Swap fee income	1,110,182	194,256
Securities losses, net	—	(63,588)
Earnings on bank-owned life insurance	474,426	428,002
Debit card fees	845,740	754,803
Correspondent banking fees	195,450	239,060
Other	889,161	746,073
Total noninterest income	8,808,825	6,701,303
Noninterest expense:		
Salaries and employee benefits	17,432,632	13,423,943
Occupancy and equipment expense	3,318,470	2,516,274
Professional and data processing fees	2,537,027	2,950,839
Acquisition costs	1,292,043	407,997
Post-acquisition compensation, transition and integration costs	493,063	522,740

FDIC insurance, other insurance and regulatory fees	932,746	690,894
Loan/lease expense	369,379	257,540
Net income from operations of other real estate	(50,362)	(160,640)
Advertising and marketing	983,762	669,923
Bank service charges	461,656	460,153
Correspondent banking expense	205,121	204,189
CDI amortization	541,665	230,867
Other	1,982,408	1,221,028
Total noninterest expense	30,499,610	23,395,747
Net income before income taxes	10,416,870	9,775,468
Federal and state income tax expense	1,608,035	1,921,533
Net income	$ 8,808,835	$ 7,853,935
Basic earnings per common share	$ 0.56	$ 0.60
Diluted earnings per common share	$ 0.55	$ 0.58
Weighted average common shares outstanding	15,625,123	13,151,350
Weighted average common and common equivalent shares outstanding	15,922,324	13,507,955
Cash dividends declared per common share	$ 0.06	$ 0.05

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Nine Months Ended September 30,

	2018	2017
Interest and dividend income:		
Loans/leases, including fees	$ 113,655,270	$ 84,571,466
Securities:		
Taxable	4,671,333	3,770,022
Nontaxable	10,100,598	8,198,173
Interest-bearing deposits at financial institutions	748,953	559,697
Restricted investment securities	776,013	435,096
Federal funds sold	222,814	104,778
Total interest and dividend income	130,174,981	97,639,232
Interest expense:		
Deposits	20,132,044	8,779,548
Short-term borrowings	173,469	76,365
Federal Home Loan Bank advances	3,218,769	1,365,433
Other borrowings	2,375,837	2,103,731
Junior subordinated debentures	1,473,965	1,042,227
Total interest expense	27,374,084	13,367,304
Net interest income	102,800,897	84,271,928
Provision for loan/lease losses	11,046,402	6,214,538
Net interest income after provision for loan/lease losses	91,754,495	78,057,390
Noninterest income:		
Trust department fees	6,490,896	5,153,609
Investment advisory and management fees	3,069,423	2,798,886
Deposit service fees	4,797,385	4,297,210
Gains on sales of residential real estate loans, net	539,266	307,360
Gains on sales of government guaranteed portions of loans, net	404,851	1,129,668
Swap fee income	3,717,761	635,353
Securities losses, net	—	(25,124)
Earnings on bank-owned life insurance	1,291,686	1,357,049
Debit card fees	2,456,134	2,201,125
Correspondent banking fees	672,807	684,306
Other	2,822,331	2,228,133
Total noninterest income	26,262,540	20,767,575
Noninterest expenses:		
Salaries and employee benefits	49,214,623	39,662,218
Occupancy and equipment expense	9,516,939	7,716,829
Professional and data processing fees	8,015,966	7,374,930
Acquisition costs	1,798,184	407,997
Post-acquisition compensation, transition and integration costs	658,377	522,740

FDIC insurance, other insurance and regulatory fees	2,529,415	1,957,413
Loan/lease expense	920,215	811,362
Net cost of (income from) operations of other real estate	11,190	(118,453)
Advertising and marketing	2,430,085	1,846,942
Bank service charges	1,368,318	1,331,499
Correspondent banking expense	614,212	604,233
CDI amortization	1,150,767	692,600
Other	4,504,639	3,263,183
Total noninterest expenses	82,732,930	66,073,493
Income before income taxes	35,284,105	32,751,472
Federal and state income tax expense	5,479,924	6,946,555
Net income	$ 29,804,181	$ 25,804,917
Basic earnings per common share	$ 2.06	$ 1.96
Diluted earnings per common share	$ 2.02	$ 1.91
Weighted average common shares outstanding	14,477,783	13,151,672
Weighted average common and common equivalent shares outstanding	14,786,777	13,509,566
Cash dividends declared per common share	$ 0.18	$ 0.15

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and Nine Months Ended September 30, 2018 and 2017

	Three Months Ended September 30,	
	2018	2017
Net income	$ 8,808,835	$ 7,853,935
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(1,652,382)	289,086
Less reclassification adjustment for gains (losses) included in net income before tax	—	(63,588)
	(1,652,382)	352,674
Unrealized gains (losses) on derivatives:		
Unrealized holding losses arising during the period before tax	576,559	(8,446)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	(187,087)	(95,361)
	763,646	86,915
Other comprehensive income (loss), before tax	(888,736)	439,589
Tax expense (benefit)	(276,849)	165,012
Other comprehensive income (loss), net of tax	(611,887)	274,577
Comprehensive income	$ 8,196,948	$ 8,128,512

	Nine Months Ended September 30,	
	2018	2017
Net income	$ 29,804,181	$ 25,804,917
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(8,530,983)	2,057,586
Less reclassification adjustment for gains (losses) included in net income before tax	—	(25,124)
Less reclassification adjustment for adoption of ASU 2016-01	855,039	—
	(7,675,944)	2,082,710
Unrealized gains (losses) on derivatives:		
Unrealized holding gains (losses) arising during the period before tax	404,100	(186,000)
	(89,914)	(354,813)

Less reclassification adjustment for ineffectiveness and caplet amortization before tax	494,014	168,813
Other comprehensive income (loss), before tax	(7,181,930)	2,251,523
Tax expense (benefit)	(2,033,882)	864,468
Other comprehensive income (loss), net of tax	(5,148,048)	1,387,055
Comprehensive income	$ 24,656,133	$ 27,191,972

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Three and Nine Months Ended September 30, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance December 31, 2017	$ 13,918,168	$ 189,077,550	$ 151,962,661	$ (1,671,250)	$ 353,287,129
Net income	—	—	10,549,961	—	10,549,961
Other comprehensive loss, net of tax	—	—	—	(3,201,540)	(3,201,540)
Impact of adoption of ASU 2016-01	—		666,900	(666,900)	—
Common cash dividends declared, $0.06 per share	—	—	(833,730)	—	(833,730)
Issuance of 2,669 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	2,669	100,262	—	—	102,931
Issuance of 13,074 shares of common stock as a result of stock options exercised	13,074	192,522	—	—	205,596
Stock-based compensation expense	—	495,493	—	—	495,493
Restricted stock awards - 6,860 shares of common stock	6,860	(6,860)	—	—	—
Exchange of 3,814 shares of common stock in connection with payroll taxes for restriced stock and in connection with stock options exercised	(3,814)	(174,109)	—	—	(177,923)
Balance, March 31, 2018	$ 13,936,957	$ 189,684,858	$ 162,345,792	$ (5,539,690)	$ 360,427,917
Net income	—	—	10,445,385	—	10,445,385
Other comprehensive loss, net of tax	—	—	—	(1,334,621)	(1,334,621)

Common cash dividends declared, $0.06 per share	—	—	(835,881)	—	(835,881)
Issuance of 5,728 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,728	215,173	—	—	220,901
Issuance of 26,641 shares of common stock as a result of stock options exercised	26,641	362,292	—	—	388,933
Stock-based compensation expense	—	291,912	—	—	291,912
Restricted stock awards - 3,972 shares of common stock	3,972	(3,972)	—	—	—
Exchange of 642 shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	642	(17,023)	—	—	(16,381)
Balance, June 30, 2018	$ 13,973,940	$ 190,533,240	$ 171,955,296	$ (6,874,311)	$ 369,588,165
Net income	—	—	8,808,835	—	8,808,835
Other comprehensive loss, net of tax	—	—	—	(611,887)	(611,887)
Common cash dividends declared, $0.06 per share	—	—	(937,607)	—	(937,607)
Issuance of 1,699,414 shares of common stock, net of issuance costs as a result of merger with Springfield Bancshares	1,699,414	78,831,543	—	—	80,530,957
Issuance of 3,205 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	3,205	120,396	—	—	123,601
Issuance of 1,754 shares of common stock as a result of stock options exercised	1,754	32,300	—	—	34,054
	—	318,906	—	—	318,906

Stock-based compensation expense					
Restricted stock awards - 5,300 shares of common stock	5,300	(5,300)	—	—	—
Exchange of 9,853 shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	(9,853)	(457,782)	—	—	(467,635)
Balance September 30, 2018	$ 15,673,760	$ 269,373,303	$ 179,826,524	$ (7,486,198)	$ 457,387,389

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QCR HOLDINGS, INC. AND SUBSIDIARIES

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

Three and Nine Months Ended September 30, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance December 31, 2016	$ 13,106,845	$ 156,776,642	$ 118,616,901	$ (2,459,589)	$ 286,040,799
Net income	—	—	9,184,965	—	9,184,965
Other comprehensive loss, net of tax	—	—	—	410,739	410,739
Common cash dividends declared, $0.05 per share	—	—	(656,574)	—	(656,574)
Issuance of 3,573 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	3,573	83,091	—	—	86,664
Issuance of 44,284 shares of common stock as a result of stock options exercised	44,284	630,290	—	—	674,574
Stock-based compensation expense	—	388,753	—	—	388,753
Restricted stock awards - 13,289 shares of common stock	13,289	(13,289)	—	—	—
Exchange of 6,772 shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	(6,772)	(283,518)	—	—	(290,290)
Balance, March 31, 2017	$ 13,161,219	$ 157,581,969	$ 127,145,292	$ (2,048,850)	$ 295,839,630
Net income	—	—	8,766,017	—	8,766,017
Other comprehensive loss, net of tax	—	—	—	701,739	701,739
Common cash dividends declared,	—	—	(657,003)	—	(657,003)

$0.05 per share					
Issuance of 4,582 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	4,582	170,061	—	—	174,643
Issuance of 8,027 shares of common stock as a result of stock options exercised	8,027	109,392	—	—	117,419
Stock-based compensation expense	—	168,314	—	—	168,314
Restricted stock awards - 2,000 shares of common stock	2,000	(2,000)	—	—	—
Exchange of 594 shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	(594)	(26,730)	—	—	(27,324)
Balance, June 30, 2017	$ 13,175,234	$ 158,001,006	$ 135,254,306	$ (1,347,111)	$ 305,083,435
Net income	—	—	7,853,935	—	7,853,935
Other comprehensive income, net of tax	—	—	—	274,577	274,577
Common cash dividends declared, $0.05 per share	—	—	(658,110)	—	(658,110)
Issuance of 2,319 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	2,319	88,052	—	—	90,371
Issuance of 19,906 shares of common stock as a result of stock options exercised	19,906	73,915	—	—	93,821
Stock-based compensation expense	—	300,599	—	—	300,599
Restricted stock awards - 4,500 shares of common stock	4,500	(4,500)	—	—	—
Balance September 30, 2017	$ 13,201,959	$ 158,459,072	$ 142,450,131	$ (1,072,534)	$ 313,038,628

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 29,804,181	$ 25,804,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,256,799	2,810,971
Provision for loan/lease losses	11,046,402	6,214,538
Stock-based compensation expense	1,106,311	857,666
Deferred compensation expense accrued	1,453,042	1,098,741
Losses (gains) on other real estate owned, net	48,598	(154,743)
Amortization of premiums on securities, net	1,201,320	1,330,946
Securities losses, net	—	25,124
Loans originated for sale	(39,923,078)	(40,423,117)
Proceeds on sales of loans	38,954,289	42,705,325
Gains on sales of residential real estate loans	(539,266)	(307,360)
Gains on sales of government guaranteed portions of loans	(404,851)	(1,129,668)
Amortization of core deposit intangible	1,150,767	692,600
Accretion of acquisition fair value adjustments, net	(2,951,021)	(4,063,435)
Increase in cash value of bank-owned life insurance	(1,291,686)	(1,357,049)
Increase (decrease) in other assets	(8,292,864)	1,666,921
Decrease (increase) in other liabilities	2,252,939	(8,610,333)
Net cash provided by operating activities	$ 36,871,882	$ 27,162,044
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in federal funds sold	(2,873,000)	1,689,000
Net decrease in interest-bearing deposits at financial institutions	22,099,041	22,727,542
Proceeds from sales of other real estate owned	1,288,208	829,213
Activity in securities portfolio:		
Purchases	(66,419,802)	(103,509,208)
Calls, maturities and redemptions	22,915,126	40,435,714
Paydowns	36,279,229	30,123,674
Sales	1,938,043	21,969,870
Activity in restricted investment securities:		
Purchases	(5,351,875)	(3,788,275)
Redemptions	109,200	199,900
Net increase in loans/leases originated and held for investment	(208,737,932)	(269,891,345)
Purchase of premises and equipment	(7,112,494)	(4,045,217)
Net cash paid for SFC Bank acquisition	(3,747,209)	—
Cash prepaid for Guaranty Bank acquisition	—	(7,803,420)
Net cash used in investing activities	$ (209,613,465)	$ (271,062,552)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in deposit accounts	82,308,885	225,109,315
Net decrease in short-term borrowings	(2,207,101)	(23,960,582)
Activity in Federal Home Loan Bank advances:		
Term advances	—	1,600,000
Calls and maturities	(27,000,000)	(6,000,000)
Net change in short-term and overnight advances	120,330,000	35,955,000
Activity in other borrowings:		
Proceeds from other borrowings	9,000,000	7,000,000
Calls, maturities and scheduled principal payments	(10,612,500)	(9,500,000)
Payment of cash dividends on common stock	(2,362,486)	(1,836,150)
Proceeds from issuance of common stock, net	969,779	1,237,492
Net cash provided by financing activities	$ 170,426,577	$ 229,605,075
Net decrease in cash and due from banks	(2,315,006)	(14,295,433)
Cash and due from banks, beginning	75,721,663	70,569,993
Cash and due from banks, ending	$ 73,406,657	$ 56,274,560

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Nine Months Ended September 30, 2018 and 2017

	2018	2017
Supplemental disclosure of cash flow information, cash payments (receipts) for:		
Interest	$ 23,102,221	$ 13,140,273
Income/franchise taxes	$ (1,099,902)	$ 10,881,610
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains on securities available for sale and derivative instruments, net	$ (5,148,048)	$ 1,387,055
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	$ (661,939)	$ (314,614)
Transfers of loans to other real estate owned	$ 46,243	$ 286,212
Due to broker for purchases of securities	$ —	$ 1,300,000
Dividends payable	$ 937,606	$ 658,110
Decrease in the fair value of interest rate swap assets and liabilities	$ 2,440,649	$ 264,721
Transfer of equity securities from securities available for sale to other assets at fair value	$ 2,614,261	$ —
Supplemental disclosure of cash flow information for acquisitions:		
Fair value of assets acquired:		
Cash and due from banks	$ 4,586,326	$ —
Interest-bearing deposits at financial institutions	62,924,396	—
Securities	4,845,441	—
Loans receivable, net	477,336,699	—
Bank-owned life insurance	7,091,883	
Premises and equipment, net	6,091,978	—
Restricted investment securities	3,654,200	—
Core deposit intangible	8,208,728	—
Other assets	989,056	—
Total assets acquired	$ 575,728,707	$ —
Fair value of liabilities assumed:		
Deposits	$ 439,579,328	$ —
Short-term borrowings	1,143,478	—
FHLB advances	73,610,427	—
Other borrowings	9,543,810	
Other liabilities	8,408,464	—
Total liabilities assumed	532,285,507	—
Net assets acquired	$ 43,443,200	$ —
Consideration paid:		
Cash paid *	$ 8,333,535	$ —
Common stock	80,637,194	—

Total consideration paid	88,970,729	—
Goodwill	$ 45,527,529	$ —

* Net cash paid at closing totalted $3,747,209

See Notes to Consolidated Financial Statements (Unaudited)

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Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2018

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, 2017, included in the Company's Annual Report on Form 10 K filed with the SEC on March 12, 2018. 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 GAAP for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10 Q and Rule 10 01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results of the interim period ended September 30, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018, or for any other period.

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

Allowance: Allowance for estimated losses on loans/leases
AOCI: Accumulated other comprehensive income (loss)
AFS: Available for sale
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
Bates Companies: Bates Financial Advisors, Inc., Bates Financial Services, Inc., Bates Securities, Inc. and Bates Financial Group, Inc.
BOLI: Bank-owned life insurance
Caps: Interest rate cap derivatives
CDI: Core deposit intangible
Community National: Community National Bancorporation
CRBT: Cedar Rapids Bank & Trust Company
CRE: Commercial real estate
CSB: Community State Bank
C&I: Commercial and industrial
Dodd-Frank Act: Dodd-Frank Wall Street Reform and

Guaranty: Guaranty Bankshares, Ltd.
Guaranty Bank: Guaranty Bank and Trust Company
HTM: Held to maturity
m2: m2 Lease Funds, LLC
NIM: Net interest margin
NPA: Nonperforming asset
NPL: Nonperforming loan
OREO: Other real estate owned
OTTI: Other-than-temporary impairment
PCI: Purchased credit impaired
Provision: Provision for loan/lease losses
QCBT: Quad City Bank & Trust Company
RB&T: Rockford Bank & Trust Company
ROAA: Return on Average Assets
SBA: U.S. Small Business Administration
SEC: Securities and Exchange Commission
SFC Bank: Springfield First Community Bank

Consumer Protection Act
EPS: Earnings per share
Exchange Act:Securities Exchange Act of 1934, as amended
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHLB: Federal Home Loan Bank
FRB: Federal Reserve Bank of Chicago
GAAP: Generally Accepted Accounting Principles
Springfield Bancshares: Springfield Bancshares, Inc.
TA: Tangible assets
Tax Act: Tax Cuts and Jobs Act of 2017
TCE: Tangible common equity
TDRs: Troubled debt restructurings
TEY: Tax equivalent yield
The Company: QCR Holdings, Inc.
USDA: U.S. Department of Agriculture

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Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

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

The acquisition of Guaranty Bank, headquartered in Cedar Rapids, Iowa occurred on October 2, 2017 and Guaranty Bank was merged into CRBT on December 2, 2017. The financial results for the periods since acquisition are included in this report. See Note 2 of the Company's Annual Report on Form 10 K for the year ended December 31, 2017 for additional information about the acquisition.

The merger with Springfield Bancshares occurred on July 1, 2018; therefore, the financial results for the period since acquisition is included in this report. See Note 2 to the Consolidated Financial Statements for additional information about the merger.

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 was adopted by the Company on January 1, 2018 and did not 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. Upon adoption of ASU 2016 01 by the Company on January 1, 2018, the fair value of the Company's loan portfolio is now presented using an exit price method. Also, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The remaining requirements of this update had no significant impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016 02, Leases. Under ASU 2016 02, lessees will be required to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases (with the exception of short-term leases). Lessor accounting is largely unchanged under ASU 2016 02. However, the definition of initial direct costs was updated to include only initial direct costs that are considered incremental. This change in definition will change the manner in which the Company recognizes the costs associated with originating leases. ASU 2016 02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities. The Company has analyzed the impact of adoption and has concluded that it will not have a significant impact on the consolidated financial statements.

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Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

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.

In February 2018, the FASB issued ASU 2018 02, Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under the standard, entities are allowed to make a one-time reclassification from AOCI to retained earnings for the effect of remeasuring deferred tax liabilities and assets originally recorded in other comprehensive income as a result of the change in the federal tax rate as defined by the Tax Act. ASU 2018 02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Companies may choose to early adopt for fiscal years or interim periods that have not been issued or made available for issuance as of February 14, 2018. The Company chose to early adopt ASU 2018 02 and apply the guidance to the consolidated financial statements for the year ended December 31, 2017.

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 – MERGERS/ACQUISITIONS

SPRINGFIELD BANCSHARES, INC.

On July 1, 2018, the Company completed its previously announced merger with Springfield Bancshares, the holding company of SFC Bank, headquartered in Springfield, Missouri. The Company acquired 100% of Springfield Bancshares common stock in the merger. SFC Bank is a Missouri-chartered bank that operates one location in the Springfield, Missouri market. As a result of the transaction, SFC Bank became the Company's fifth independent charter.

The merger with Springfield Bancshares allowed the Company to enter the Springfield, Missouri market which is consistent with the Company's strategic plan to selectively acquire other high-performing financial institutions in vibrant mid-sized metropolitan markets with a concentration of commercial clients. Financial metrics related to the transaction were favorable, as measured by EPS and ROAA accretion.

Stockholders of Springfield Bancshares received 0.3060 shares of the Company's common stock and $1.50 in cash in exchange for each common share of Springfield Bancshares held. On June 29, 2018, the last trading date before the closing, the Company's common stock closed at $47.45, resulting in stock consideration valued at $80.6 million and total consideration paid by the Company of $89.0 million. To help fund the cash portion of the purchase price, on June 29, 2018, the Company borrowed $4.1 million on its existing $10.0 million revolving line of credit. The Company also borrowed $4.9 million on this same revolving line of credit to fund the repayment of certain debt assumed in the merger shortly after closing. This note is included within other borrowings on the September 30, 2018 Consolidated

Balance Sheet. The remaining cash consideration paid to the shareholders of Springfield Bancshares came from operating cash.

The Company accounted for the business combination under the acquisition method of accounting in accordance with ASC 805. The Company recognized the full fair value of the assets acquired and liabilities assumed at the acquisition date, net of applicable income tax effects. The Company considers all purchase accounting adjustments as provisional and fair values are subject to refinement for up to one year after the closing date.

The excess of the consideration paid over the fair value of the net assets acquired is recorded as goodwill. This goodwill is not deductible for tax purposes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

The fair values of the assets acquired and liabilities assumed including the consideration paid and resulting goodwill is as follows:

	As of July 1, 2018
ASSETS	
Cash and due from banks	$ 4,586,326
Interest-bearing deposits at financial institutions	62,924,396
Securities	4,845,441
Loans/leases receivable, net	477,336,699
Bank-owned life insurance	7,091,883
Premises and equipment	6,091,978
Restricted investment securities	3,654,200
Core deposit intangible	8,208,728
Other assets	989,056
Total assets acquired	$ 575,728,707
LIABILITIES	
Deposits	$ 439,579,328
Short-term borrowings	1,143,478
FHLB advances	73,610,427
Other borrowings	9,543,810
Other liabilities	8,408,464
Total liabilities assumed	$ 532,285,507
Net assets acquired	$ 43,443,200
CONSIDERATION PAID:	
Cash	$ 8,333,535
Common stock	80,637,194
Total consideration paid	$ 88,970,729
Goodwill	$ 45,527,529

Loans acquired in a business combination are recorded and initially measured at their estimated fair value as of the acquisition date. Credit discounts are included in the determination of fair value. A third party valuation consultant assisted with the determination of fair value.

Purchased loans are segregated into two categories: PCI loans and non-PCI (performing) loans. PCI loans are accounted for in accordance with ASC 310-30, as they display significant credit deterioration since origination and it is probable, as of the acquisition date, that the Company will be unable to collect all contractually required payments from the borrower. Performing loans are accounted for in accordance with ASC 310-20, as these loans do not have evidence of significant credit deterioration since origination and it is probable that the contractually required payments will be received from the borrower.

For PCI loans, the difference between the contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable discount. Further, any excess cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the expected remaining life of the loan. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording and allowance for loan and lease losses and provision for loan losses.

For performing loans, the difference between the estimated fair value of the loans and the principal balance outstanding is accreted over the remaining life of the loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

The following table presents the purchased loans as of the acquisition date:

	PCI Loans	Performing Loans	Total
Contractually required principal payments	$ 7,552,912	$ 479,439,547	$ 486,992,459
Nonaccretable discount	(1,562,455)	—	(1,562,455)
Principal cash flows expected to be collected	$ 5,990,457	$ 479,439,547	$ 485,430,004
Accretable discount	(293,445)	(7,799,860)	(8,093,305)
Fair Value of acquired loans	$ 5,697,012	$ 471,639,687	$ 477,336,699

Changes in accretable yield for the loans acquired were as follows for the three months ended September 30, 2018:

	PCI Loans	Performing Loans	Total
Discount added at acquisition	$ (293,445)	$ (7,799,860)	$ (8,093,305)
Reclassification of nonaccretable discount to accretable	(891,569)	—	(891,569)
Accretion recognized	262,852	951,592	1,214,444
Balance at the end of the period	$ (922,162)	$ (6,848,268)	$ (7,770,430)

During the current quarter, there was no nonaccretable discount that was accelerated due to the early repayment of PCI loans. However, $891,569 of nonaccretable discount was reclassified to accretable during the third quarter of 2018 due to significant improvement on one specific credit subsequent to the acquisition date. Of this amount, $262,852 was accreted to income in the third quarter of 2018, while the remainder will be accreted over the next 11 months, which is the remaining contractual life of the loan.

Premises and equipment acquired with a fair value of $6,091,978 includes one branch location including a write-up of $617,286. The fair value was determined with the assistance of a third party appraiser. The assets and related fair value adjustments will be recognized as an increase in depreciation expense over 39 years.

The Company recorded a core deposit intangible totaling $8,208,728 which is the portion of the acquisition purchase price which represents the value assigned to the existing deposit base. The core deposit intangible has a finite life and is amortized using an accelerated method over the estimated useful life of the deposits (estimated to be ten years).

The following table presents the changes in the carrying amount of core deposit intangibles, gross carrying amount, accumulated amortization, and net book value:

	September 30, 2018
Balance at acquisition	$ 8,208,728
Amortization expense	(237,114)
Balance at the end of the period	$ 7,971,614

Gross carrying amount	$ 8,208,728
Accumulated amortization	(237,114)
Net book value	$ 7,971,614

The following presents the remaining estimated amortization of the core deposit intangible:

Years ending December 31,	Amount
2018	$ 237,114
2019	932,810
2020	915,051
2021	893,192
2022	867,227
Thereafter	4,126,220
	$ 7,971,614

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

FHLB advances and other borrowings assumed with a fair value of $83,154,237 included $40,000,000 in overnight FHLB advances, $33,610,427 of FHLB term advances, $4,743,810 in subordinated debentures and a $4,800,000 bank stock loan. The $4.8 million bank stock loan was paid off immediately after the acquisition date on July 2, 2018, at its book value.

The following table presents the assumed FHLB advances and other borrowings as of the acquisition date:

	Amount	Rate	Terms	Maturity Date	Collateral
FHLB advance	$ 40,000,000	2.10%	daily interest payments; principal due at maturity	7/2/2018	commercial and residential real estate loans
FHLB advance	4,991,962	2.01%	monthly interest payments; principal due at maturity	7/30/2018	commercial and residential real estate loans
FHLB advance	4,966,060	2.09%	monthly interest payments; principal due at maturity	10/1/2018	commercial and residential real estate loans
FHLB advance	4,848,879	2.09%	monthly interest payments; principal due at maturity	9/30/2019	commercial and residential real estate loans
FHLB advance	4,787,502	1.50%	monthly interest payments; principal due at maturity	2/10/2020	commercial and residential real estate loans
FHLB advance	4,756,169	1.93%	monthly interest payments; principal due at maturity	5/27/2020	commercial and residential real estate loans
FHLB advance	4,664,663	1.96%	monthly interest payments; principal due at maturity	1/27/2021	commercial and residential real estate loans
FHLB advance	4,595,192	2.00%	monthly interest payments; principal due at maturity	7/29/2021	commercial and residential real estate loans
Subordinated debenture	952,566	4.00%	monthly interest payments; principal due at maturity	4/30/2021	unsecured
Subordinated debenture	952,566	4.00%	monthly interest payments; principal due at maturity	4/30/2021	unsecured
Subordinated debenture	946,226	4.00%	monthly interest payments; principal due at maturity	9/15/2021	unsecured

Subordinated debenture	946,226	4.00%	monthly interest payments; principal due at maturity	9/15/2021	unsecured
Subordinated debenture	946,226	4.00%	monthly interest payments; principal due at maturity	9/15/2021	unsecured
Bank stock loan	4,800,000	5.25%	monthly interest payments; principal due at maturity	3/13/2020	4,000,000 issued and outstanding shares of common stock of SFC Bank
Fair value of FHLB and other borrowings assumed	$ 83,154,237				

During the first nine months of 2018, the Company incurred $1.4 million of expenses related to the acquisition, comprised primarily of legal, accounting, investment banking costs and personnel costs. SFC Bank results are included in the consolidated statements of income effective on the merger date. For the period July 1, 2018 to September 30, 2018, SFC Bank reported revenues of $7.4 million and net income of $2.2 million, which included $279 thousand of after tax post-acquisition, compensation, transition and integration costs.

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of September 30, 2018 and December 31, 2017 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2018:				
Securities HTM:				
Municipal securities	$ 394,371,195	$ 3,887,422	$ (10,753,857)	$ 387,504,760
Other securities	1,050,000	—	(13,480)	1,036,520
	$ 395,421,195	$ 3,887,422	$ (10,767,337)	$ 388,541,280
Securities AFS:				
U.S. govt. sponsored agency securities	$ 37,715,802	$ 9,963	$ (1,234,016)	$ 36,491,749
Residential mortgage-backed and related securities	162,933,727	35,691	(7,236,822)	155,732,596
Municipal securities	60,101,620	150,615	(1,348,028)	58,904,207
Other securities	4,254,364	—	(59,474)	4,194,890
	$ 265,005,513	$ 196,269	$ (9,878,340)	$ 255,323,442

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2017:				
Securities HTM:				
Municipal securities	$ 378,424,205	$ 2,763,718	$ (2,488,119)	$ 378,699,804
Other securities	1,050,000	—	—	1,050,000
	$ 379,474,205	$ 2,763,718	$ (2,488,119)	$ 379,749,804
Securities AFS:				
U.S. govt. sponsored agency securities	$ 38,409,157	$ 37,344	$ (349,967)	$ 38,096,534
Residential mortgage-backed and related securities	165,459,470	155,363	(2,313,529)	163,301,304
Municipal securities	66,176,364	660,232	(211,100)	66,625,496
Other securities	4,014,004	896,384	(25,815)	4,884,573
	$ 274,058,995	$ 1,749,323	$ (2,900,411)	$ 272,907,907

The Company's HTM municipal securities consist largely of private issues of municipal debt. The large majority of the municipalities are located within the Midwest. The municipal debt investments are underwritten using specific guidelines with ongoing monitoring.

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

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2018 and December 31, 2017, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2018:						
Securities HTM:						
Municipal securities	$ 170,633,644	$ (5,439,521)	$ 64,984,249	$ (5,314,336)	$ 235,617,893	$ (10,753,857)
Other securities	536,520	(13,480)	—	—	536,520	(13,480)
	$ 171,170,164	$ (5,453,001)	$ 64,984,249	$ (5,314,336)	$ 236,154,413	$ (10,767,337)
Securities AFS:						
	$ 18,437,573	$ (521,633)	$ 15,829,173	$ (712,383)	$ 34,266,746	$ (1,234,016)

U.S. govt. sponsored agency securities						
Residential mortgage-backed and related securities	44,903,593	(1,712,003)	105,007,537	(5,524,819)	149,911,130	(7,236,822)
Municipal securities	79,442,346	(976,811)	10,952,533	(371,217)	90,394,879	(1,348,028)
Other securities	4,194,890	(59,474)	—		4,194,890	(59,474)
	$ 146,978,402	$ (3,269,921)	$ 131,789,243	$ (6,608,419)	$ 278,767,645	$ (9,878,340)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017:						
Securities HTM:						
Municipal securities	$ 23,750,826	$ (354,460)	$ 72,611,780	$ (2,133,659)	$ 96,362,606	$ (2,488,119)
Securities AFS:						
U.S. govt. sponsored agency securities	$ 28,576,258	$ (200,022)	$ 3,640,477	$ (149,945)	$ 32,216,735	$ (349,967)
Residential mortgage-backed and related securities	88,927,779	(871,855)	57,931,731	(1,441,674)	146,859,510	(2,313,529)
Municipal securities	10,229,337	(41,151)	9,997,433	(169,949)	20,226,770	(211,100)
Other securities	923,535	(25,815)	—	—	923,535	(25,815)
	$ 128,656,909	$ (1,138,843)	$ 71,569,641	$ (1,761,568)	$ 200,226,550	$ (2,900,411)

At September 30, 2018, the investment portfolio included 613 securities. Of this number, 434 securities were in an unrealized loss position. The aggregate losses of these securities totaled approximately 3.2% of the total amortized cost of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

the portfolio. Of these 434 securities, 171 securities had an unrealized loss for twelve months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company lacks the intent to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery.

The Company did not recognize OTTI on any investment securities for the three or nine months ended September 30, 2018 and 2017.

All sales of securities for the three and nine months ended September 30, 2018 and 2017 were from securities identified as AFS. Information on proceeds received, as well as pre-tax gross gains and losses from sales on those securities are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Proceeds from sales of securities	$ 1,938,043	$ 8,415,795	$ 1,938,043	$ 21,969,870
Gross gains from sales of securities	—	6,312	—	65,880
Gross losses from sales of securities	—	(69,900)	—	(91,004)

The amortized cost and fair value of securities as of September 30, 2018 by contractual maturity are shown below. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

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.

	Amortized Cost	Fair Value
Securities HTM:		
Due in one year or less	$ 1,710,335	$ 1,711,153
Due after one year through five years	27,876,391	27,826,476
Due after five years	365,834,469	359,003,651
	$ 395,421,195	$ 388,541,280
Securities AFS:		
Due in one year or less	$ 3,153,996	$ 3,156,871
Due after one year through five years	25,663,131	25,220,152
Due after five years	73,254,659	71,213,823
	102,071,786	99,590,846
Residential mortgage-backed and related securities	162,933,727	155,732,596
	$ 265,005,513	$ 255,323,442

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	$ 229,992,901	$ 226,439,711
Securities AFS:		
U.S. govt. sponsored agency securities	4,998,969	4,847,750
Municipal securities	50,248,182	49,027,162
Corporate securities	4,006,462	3,948,640
	$ 59,253,613	$ 57,823,552

As of September 30, 2018, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 113 issuers with fair values totaling $86.2 million and revenue bonds issued by 163 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling $360.2 million. The Company held investments in general obligation bonds in 27 states, including six states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 19 states, including seven states in which the aggregate fair value exceeded $5.0 million.

As of December 31, 2017, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 131 issuers with fair values totaling $108.0 million and revenue bonds issued by 145 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling $337.3 million. The Company held investments in general obligation bonds in 26 states, including nine states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 16 states, including seven states in which the aggregate fair value exceeded $5.0 million.

Both general obligation and revenue bonds are diversified across many issuers. As of September 30, 2018 and December 31, 2017, the Company did not hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded 5% of the Company's stockholders' equity. Of the general obligation and revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated bonds were underwritten according to loan underwriting standards and have an average loan risk rating of 2, indicating very high

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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 five charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually, and as of September 30, 2018, all were well within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of each charter's total risk-based capital.

As of September 30, 2018, 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.

NOTE 4 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of September 30, 2018 and December 31, 2017 is presented as follows:

	As of September 30, 2018	As of December 31, 2017
C&I loans*	$ 1,380,542,524	$ 1,134,516,315
CRE loans		
Owner-occupied CRE	449,056,125	332,742,477
Commercial construction, land development, and other land	224,295,259	186,402,404
Other non owner-occupied CRE	1,053,974,806	784,347,000
	1,727,326,190	1,303,491,882
Direct financing leases **	126,751,783	141,448,232
Residential real estate loans ***	309,287,535	258,646,265
Installment and other consumer loans	100,191,471	118,610,799
	3,644,099,503	2,956,713,493
Plus deferred loan/lease origination costs, net of fees	9,286,864	7,771,907
	3,653,386,367	2,964,485,400
Less allowance	(43,077,457)	(34,355,728)
	$ 3,610,308,910	$ 2,930,129,672
** Direct financing leases:		
Net minimum lease payments to be received	$ 140,055,010	$ 156,583,887
Estimated unguaranteed residual values of leased assets	929,932	929,932
Unearned lease/residual income	(14,233,159)	(16,065,587)
	126,751,783	141,448,232
Plus deferred lease origination costs, net of fees	4,039,635	4,624,027
	130,791,418	146,072,259

Less allowance	(2,632,247)	(2,382,098)
	$ 128,159,171	$ 143,690,161

* Includes equipment financing agreements outstanding at m2, totaling $98,823,351 and $66,758,397 as of September 30, 2018 and December 31, 2017, respectively.

** 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

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valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider, which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal. There were no losses related to residual values for the three and nine months ended September 30, 2018 and 2017.

*** Includes residential real estate loans held for sale totaling $2,557,907 and $645,001 as of September 30, 2018, and December 31, 2017, respectively.

Changes in accretable yield for acquired loans were as follows:

	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	PCI Loans	Performing Loans	Total	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$ (142,048)	$ (5,051,424)	$ (5,193,472)	$ (191,132)	$ (6,280,075)	$ (6,471,207)
Discount added at acquisition	(293,445)	(7,799,860)	(8,093,305)	(293,445)	(7,799,860)	(8,093,305)
Reclassification of nonaccretable discount to accretable	(891,569)	—	(891,569)	(891,569)	—	(891,569)
Accretion recognized	268,694	1,579,568	1,848,262	317,778	2,808,219	3,125,997
Balance at the end of the period	$ (1,058,368)	$ (11,271,716)	$ (12,330,084)	$ (1,058,368)	$ (11,271,716)	$ (12,330,084)

	Three months ended September 30, 2017			Nine months ended September 30, 2017		
	PCI Loans	Performing Loans	Total	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$ (83,860)	$ (5,325,471)	$ (5,409,331)	$ (194,306)	$ (9,115,614)	$ (9,309,920)
Accretion recognized	25,158	658,547	683,705	135,604	4,448,690	4,584,294

Balance at the end of the period	$ (58,702)	$ (4,666,924)	$ (4,725,626)	$ (58,702)	$ (4,666,924)	$ (4,725,626)

The aging of the loan/lease portfolio by classes of loans/leases as of September 30, 2018 and December 31, 2017 is presented as follows:

	As of September 30, 2018					
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	$ 1,371,826,021	$ 143,866	$ 526,049	$ —	$ 8,046,588	$ 1,380,542,524
CRE Owner-Occupied CRE	447,031,462	1,506,334	109,681	—	408,648	449,056,125
Commercial Construction, Land Development, and Other Land	217,512,489	3,994,986	—	1,131,975	1,655,809	224,295,259
Other Non Owner-Occupied CRE	1,043,267,553	413,292	—	—	10,293,961	1,053,974,806
Direct Financing Leases	123,407,592	1,153,460	224,015	—	1,966,716	126,751,783
Residential Real Estate	306,900,388	—	1,142,787	270,413	973,947	309,287,535
Installment and Other Consumer	99,501,411	38,912	413,565	6,967	230,616	100,191,471
	$ 3,609,446,916	$ 7,250,850	$ 2,416,097	$ 1,409,355	$ 23,576,285	$ 3,644,099,503
As a percentage of total loan/lease portfolio	99.05 %	0.20 %	0.07 %	0.04 %	0.65 %	100.00 %

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Classes of Loans/Leases	As of December 31, 2017 Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
C&I	$ 1,124,734,486	$ 8,306,829	$ 243,647	$ —	$ 1,231,353	$ 1,134,516,315
CRE Owner-Occupied CRE	331,868,142	540,435	—	—	333,900	332,742,477
Commercial Construction, Land Development, and Other Land	181,558,092	—	—	—	4,844,312	186,402,404
Other Non Owner-Occupied CRE	782,526,249	572,877	4,146	—	1,243,728	784,347,000
Direct Financing Leases	137,708,397	1,305,191	259,600	—	2,175,044	141,448,232
Residential Real Estate	253,261,821	3,552,709	393,410	74,519	1,363,806	258,646,265
Installment and Other Consumer	117,773,259	517,537	56,760	14,152	249,091	118,610,799
	$ 2,929,430,446	$ 14,795,578	$ 957,563	$ 88,671	$ 11,441,234	$ 2,956,713,493
As a percentage of total loan/lease portfolio	99.08 %	0.50 %	0.03 %	0.00 %	0.39 %	100.00 %

NPLs by classes of loans/leases as of September 30, 2018 and December 31, 2017 are presented as follows:

Classes of Loans/Leases	As of September 30, 2018 Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases*	Accruing TDRs	Total NPLs	Percentage of Total NPLs
C&I	$ —	$ 8,046,588	$ 677,859	$ 8,724,447	29.85 %
CRE Owner-Occupied CRE	—	408,648	106,470	515,118	1.76 %

Commercial Construction, Land Development, and Other Land	1,131,975	1,655,809	—	2,787,784	9.54	%
Other Non Owner-Occupied CRE	—	10,293,961	2,975,703	13,269,664	45.41	%
Direct Financing Leases	—	1,966,716	163,681	2,130,397	7.29	%
Residential Real Estate	270,413	973,947	305,792	1,550,152	5.30	%
Installment and Other Consumer	6,967	230,616	10,410	247,993	0.85	%
	$ 1,409,355	$ 23,576,285	$ 4,239,915	$ 29,225,555	100.00	%

* Nonaccrual loans/leases included $3,036,422 of TDRs, including $336,168 in C&I loans, $2,026,376 in CRE loans, $587,613 in direct financing leases, $82,151 in residential real estate loans, and $4,114 in installment loans.

	As of December 31, 2017					
Classes of Loans/Leases	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases **	Accruing TDRs	Total NPLs	Percentage of Total NPLs	
C&I	$ —	$ 1,231,353	$ 5,224,182	$ 6,455,535	34.63	%
CRE						
Owner-Occupied CRE	—	333,900	107,322	441,222	2.37	%
Commercial Construction, Land Development, and Other Land	—	4,844,312	—	4,844,312	25.99	%
Other Non Owner-Occupied CRE	—	1,243,728	—	1,243,728	6.67	%
Direct Financing Leases	—	2,175,044	1,494,448	3,669,492	19.68	%
Residential Real Estate	74,519	1,363,806	272,493	1,710,818	9.18	%
Installment and Other Consumer	14,152	249,091	14,027	277,270	1.49	%
	$ 88,671	$ 11,441,234	$ 7,112,472	$ 18,642,377	100.00	%

** Nonaccrual loans/leases included $2,282,495 of TDRs, including $122,598 in C&I loans, $1,336,871 in CRE loans, $700,255 in direct financing leases, $115,190 in residential real estate loans, and $7,581 in installment loans.

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Changes in the allowance by portfolio segment for the three and nine months ended September 30, 2018 and 2017, respectively, are presented as follows:

	Three Months Ended September 30, 2018					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 15,233,871	$ 15,819,040	$ 2,724,355	$ 2,433,102	$ 1,334,708	$ 37,545,076
Provisions (credits) charged to expense	3,698,588	2,254,313	124,803	131,977	(3,853)	6,205,828
Loans/leases charged off	(87,040)	(387,499)	(427,638)	(58,241)	(30,230)	(990,648)
Recoveries on loans/leases previously charged off	71,440	30,344	210,727	—	4,690	317,201
Balance, ending	$ 18,916,859	$ 17,716,198	$ 2,632,247	$ 2,506,838	$ 1,305,315	$ 43,077,457

	Three Months Ended September 30, 2017					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 14,207,733	$ 12,999,233	$ 2,638,301	$ 2,430,454	$ 1,080,911	$ 33,356,632
Provisions (credits) charged to expense	469,977	1,349,393	179,190	(11,654)	99,530	2,086,436
Loans/leases charged off	(338,361)	—	(268,669)	(25,822)	(16,872)	(649,724)
Recoveries on loans/leases previously charged off	63,366	10,748	103,936	6,000	4,947	188,997

Balance, ending	$ 14,402,715	$ 14,359,374	$ 2,652,758	$ 2,398,978	$ 1,168,516	$ 34,982,341

	Nine Months Ended September 30, 2018					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 14,323,036	$ 13,962,688	$ 2,382,098	$ 2,466,431	$ 1,221,475	$ 34,355,728
Provisions charged to expense	5,283,763	4,091,170	1,417,494	149,923	104,052	11,046,402
Loans/leases charged off	(911,429)	(387,499)	(1,505,824)	(110,566)	(36,063)	(2,951,381)
Recoveries on loans/leases previously charged off	221,489	49,839	338,479	1,050	15,851	626,708
Balance, ending	$ 18,916,859	$ 17,716,198	$ 2,632,247	$ 2,506,838	$ 1,305,315	$ 43,077,457

	Nine Months Ended September 30, 2017					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 12,545,110	$ 11,670,609	$ 3,111,898	$ 2,342,344	$ 1,087,487	$ 30,757,448
Provisions charged to expense	2,345,121	2,655,521	981,877	148,017	84,002	6,214,538
Loans/leases charged off	(630,704)	(10,375)	(1,611,432)	(101,006)	(40,436)	(2,393,953)
Recoveries on loans/leases previously charged off	143,188	43,619	170,415	9,623	37,463	404,308
Balance, ending	$ 14,402,715	$ 14,359,374	$ 2,652,758	$ 2,398,978	$ 1,168,516	$ 34,982,341

The allowance by impairment evaluation and by portfolio segment as of September 30, 2018 and December 31, 2017 is presented as follows:

As of September 30, 2018					
C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total

owance impaired ns/leases	$ 4,787,321	$ 3,555,829	$ 363,439	$ 226,263	$ 102,649	$ 9,035,501
owance nimpaired ns/leases	14,129,538	14,160,369	2,268,808	2,280,575	1,202,666	34,041,956
	$ 18,916,859	$ 17,716,198	$ 2,632,247	$ 2,506,838	$ 1,305,315	$ 43,077,457
paired ns/leases	$ 11,064,848	$ 15,944,006	$ 2,147,125	$ 1,148,009	$ 241,614	$ 30,545,602
nimpaired ns/leases	1,369,477,676	1,711,382,184	124,604,658	308,139,526	99,949,857	3,613,553,901
	$ 1,380,542,524	$ 1,727,326,190	$ 126,751,783	$ 309,287,535	$ 100,191,471	$ 3,644,099,503
owance a centage mpaired ns/leases	43.27 %	22.30 %	16.93 %	19.71 %	42.48 %	29.58
owance a centage nimpaired ns/leases	1.03 %	0.83 %	1.82 %	0.74 %	1.20 %	0.94
al owance as ercentage otal ns/leases	1.37 %	1.03 %	2.08 %	0.81 %	1.30 %	1.18

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As of December 31, 2017

	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
owance impaired ns/leases	$ 715,627	$ 1,429,460	$ 504,469	$ 355,167	$ 38,596	$ 3,043,319
owance nimpaired ns/leases	13,607,409	12,533,228	1,877,629	2,111,264	1,182,879	31,312,409
	$ 14,323,036	$ 13,962,688	$ 2,382,098	$ 2,466,431	$ 1,221,475	$ 34,355,728
paired ns/leases	$ 6,248,209	$ 6,529,262	$ 3,669,492	$ 1,704,846	$ 202,354	$ 18,354,163
nimpaired ns/leases	1,128,268,106	1,296,962,620	137,778,740	256,941,419	118,408,445	2,938,359,330
	$ 1,134,516,315	$ 1,303,491,882	$ 141,448,232	$ 258,646,265	$ 118,610,799	$ 2,956,713,493
owance a centage mpaired ns/leases	11.45 %	21.89 %	13.75 %	20.83 %	19.07 %	16.58
owance a centage nimpaired ns/leases	1.21 %	0.97 %	1.36 %	0.82 %	1.00 %	1.07
al owance as ercentage otal ns/leases	1.26 %	1.07 %	1.68 %	0.95 %	1.03 %	1.16

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.

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Loans/leases, by classes of financing receivable, considered to be impaired as of and for the nine months ended September 30, 2018 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	$ 4,549,509	$ 4,563,785	$ —	$ 2,139,521	$ 145,605	$ 145,605
CRE Owner-Occupied CRE	288,409	288,409	—	288,936	—	—
Commercial Construction, Land Development, and Other Land	—	—	—	—	—	—
Other Non Owner-Occupied CRE	2,018,910	2,018,910	—	504,880	26,649	26,649
Direct Financing Leases	1,569,905	1,569,905	—	2,295,387	10,852	10,852
Residential Real Estate	663,167	737,946	—	649,064	207	207
Installment and Other Consumer	130,814	130,814	—	104,290	—	—
	$ 9,220,714	$ 9,309,769	$ —	$ 5,982,078	$ 183,313	$ 183,313
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$ 6,515,339	$ 6,515,339	$ 4,787,321	$ 1,845,156	$ 5,878	$ 5,878
CRE						
	138,201	138,201	34,701	145,082	—	—

Owner-Occupied CRE						
Commercial Construction, Land Development, and Other Land	5,801,618	5,801,618	2,145,425	5,116,524	—	—
Other Non Owner-Occupied CRE	7,696,868	7,696,868	1,375,703	1,924,217	8,506	8,506
Direct Financing Leases	577,220	577,220	363,439	532,999	—	—
Residential Real Estate	484,842	507,918	226,263	447,006	8,877	8,877
Installment and Other Consumer	110,800	110,800	102,649	127,434	229	229
	$ 21,324,888	$ 21,347,964	$ 9,035,501	$ 10,138,418	$ 23,490	$ 23,490
Total Impaired Loans/Leases:						
C&I	$ 11,064,848	$ 11,079,124	$ 4,787,321	$ 3,984,677	$ 151,483	$ 151,483
CRE Owner-Occupied CRE	426,610	426,610	34,701	434,018	—	—
Commercial Construction, Land Development, and Other Land	5,801,618	5,801,618	2,145,425	5,116,524	—	—
Other Non Owner-Occupied CRE	9,715,778	9,715,778	1,375,703	2,429,097	35,155	35,155
Direct Financing Leases	2,147,125	2,147,125	363,439	2,828,386	10,852	10,852
Residential Real Estate	1,148,009	1,245,864	226,263	1,096,070	9,084	9,084
Installment and Other Consumer	241,614	241,614	102,649	231,724	229	229
	$ 30,545,602	$ 30,657,733	$ 9,035,501	$ 16,120,496	$ 206,803	$ 206,803

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

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Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended September 30, 2018 and 2017, respectively, are presented as follows:

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
Classes of Loans/Leases	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	$ 2,794,748	$ 16,792	$ 16,792	$ 1,301,977	$ 25,816	$ 25,816
CRE Owner-Occupied CRE	288,611	—	—	53,661	6,783	6,783
Commercial Construction, Land Development, and Other Land	—	—	—	—	—	—
Other Non Owner-Occupied CRE	1,009,590	9,189	9,189	1,173,629	—	—
Direct Financing Leases	1,780,494	2,483	2,483	2,820,518	39,759	39,759
Residential Real Estate	665,567	207	207	690,791	—	—
Installment and Other Consumer	115,314	—	—	139,533	—	—
	$ 6,654,324	$ 28,671	$ 28,671	$ 6,180,109	$ 72,358	$ 72,358
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$ 3,401,073	$ 1,916	$ 1,916	$ 5,157,671	$ 53,127	$ 53,127
CRE						

Owner-Occupied CRE	140,495	—	—	155,020	—	—
Commercial Construction, Land Development, and Other Land	5,483,757	—	—	4,345,880	—	—
Other Non Owner-Occupied CRE	3,848,434	8,506	8,506	4,929,960	—	—
Direct Financing Leases	557,572	—	—	893,042	—	—
Residential Real Estate	461,398	2,984	2,984	550,476	5,601	5,601
Installment and Other Consumer	113,122	69	69	48,164	99	99
	$ 14,005,851	$ 13,475	$ 13,475	$ 16,080,213	$ 58,827	$ 58,827
Total Impaired Loans/Leases:						
C&I	$ 6,195,821	$ 18,708	$ 18,708	$ 6,459,648	$ 78,943	$ 78,943
CRE						
Owner-Occupied CRE	429,106	—	—	208,681	6,783	6,783
Commercial Construction, Land Development, and Other Land	5,483,757	—	—	4,345,880	—	—
Other Non Owner-Occupied CRE	4,858,024	17,695	17,695	6,103,589	—	—
Direct Financing Leases	2,338,066	2,483	2,483	3,713,560	39,759	39,759
Residential Real Estate	1,126,965	3,191	3,191	1,241,267	5,601	5,601
Installment and Other Consumer	228,436	69	69	187,697	99	99
	$ 20,660,175	$ 42,146	$ 42,146	$ 22,260,322	$ 131,185	$ 131,185

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, 2017 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	$ 1,634,269	$ 1,644,706	$ —
CRE			
Owner-Occupied CRE	289,261	289,261	—
Commercial Construction, Land Development, and Other Land	—	—	—
Other Non Owner-Occupied CRE	1,171,565	1,171,565	—
Direct Financing Leases	2,944,540	2,944,540	—
Residential Real Estate	943,388	1,018,167	—
Installment and Other Consumer	134,245	134,245	—
	$ 7,117,268	$ 7,202,484	$ —
Impaired Loans/Leases with Specific Allowance Recorded:			
C&I	$ 4,613,940	$ 4,617,879	$ 715,627
CRE			
Owner-Occupied CRE	151,962	151,962	48,462
Commercial Construction, Land Development, and Other Land	4,844,312	4,844,312	1,379,235
Other Non Owner-Occupied CRE	72,163	72,163	1,763
Direct Financing Leases	724,953	724,953	504,469
Residential Real Estate	761,458	761,458	355,167
Installment and Other Consumer	68,109	68,109	38,596
	$ 11,236,897	$ 11,240,836	$ 3,043,319
Total Impaired Loans/Leases:			
C&I	$ 6,248,209	$ 6,262,585	$ 715,627
CRE			
Owner-Occupied CRE	441,222	441,222	48,462
Commercial Construction, Land Development, and Other Land	4,844,312	4,844,312	1,379,235
Other Non Owner-Occupied CRE	1,243,728	1,243,728	1,763
Direct Financing Leases	3,669,492	3,669,492	504,469
Residential Real Estate	1,704,846	1,779,625	355,167
Installment and Other Consumer	202,354	202,354	38,596

$ 18,354,163	$ 18,443,318	$ 3,043,319

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

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 certain C&I loans (equipment financing agreements), 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.

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For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of September 30, 2018 and December 31, 2017:

As of September 30, 2018

Internally Assigned Risk Rating	C&I	CRE Owner-Occupied CRE	CRE Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total	
Pass (Ratings 1 through 5)	$ 1,236,971,045	$ 438,799,404	$ 216,655,705	$ 1,021,710,298	$ 2,914,136,452	96.85	%
Special Mention (Rating 6)	28,051,461	6,972,157	3,850,042	10,356,053	49,229,713	1.64	%
Substandard (Rating 7)	16,693,746	3,284,564	3,789,512	21,908,455	45,676,277	1.51	%
Doubtful (Rating 8)	2,921	—	—	—	2,921	—	%
	$ 1,281,719,173	$ 449,056,125	$ 224,295,259	$ 1,053,974,806	$ 3,009,045,363	100.00	%

As of September 30, 2018

Delinquency Status *	C&I	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total	
Performing	$ 98,150,050	$ 124,621,386	$ 307,737,383	$ 99,943,478	$ 630,452,297	99.28	%
Nonperforming	673,301	2,130,397	1,550,152	247,993	4,601,843	0.72	%
	$ 98,823,351	$ 126,751,783	$ 309,287,535	$ 100,191,471	$ 635,054,140	100.00	%

As of December 31, 2017

CRE

Non Owner-Occupied

Internally Assigned Risk Rating	C&I	Owner-Occupied CRE	Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total	
Pass (Ratings 1 through 5)	$ 1,031,963,703	$ 318,293,608	$ 179,142,839	$ 767,119,909	$ 2,296,520,059	96.85	%
Special Mention (Rating 6)	10,944,924	8,230,060	1,780,000	10,068,870	31,023,854	1.31	%
Substandard (Rating 7)	24,578,731	6,218,809	5,479,565	7,158,221	43,435,326	1.83	%
Doubtful (Rating 8)	270,559	—	—	—	270,559	0.01	%
	$ 1,067,757,917	$ 332,742,477	$ 186,402,404	$ 784,347,000	$ 2,371,249,799	100.00	%

	As of December 31, 2017						
Delinquency Status *	C&I	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total	
Performing	$ 65,847,177	$ 137,778,740	$ 256,935,447	$ 118,333,529	$ 578,894,893	98.88	%
Nonperforming	911,220	3,669,492	1,710,818	277,270	6,568,800	1.12	%
	$ 66,758,397	$ 141,448,232	$ 258,646,265	$ 118,610,799	$ 585,463,693	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.

As of September 30, 2018 and December 31, 2017, TDRs totaled $7,276,337 and $9,394,967, 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 nine months ended September 30, 2018 and 2017. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial

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charge-offs at the time of the restructuring. No loans were restructured during the three months ended September 30, 2018.

	For the three months ended September 30, 2018				For the three months ended September 30, 2017		
Loans/Leases	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modificatio Recorded Investment
ION - Payment							
	1	$ 273,717	$ 273,717	$ 273,717	4	$ 620,452	$ 620,452
upied CRE	2	980,899	980,899	60,000	—	—	—
ncing Leases	2	44,374	44,374	—	4	416,597	416,597
	5	$ 1,298,990	$ 1,298,990	$ 333,717	8	$ 1,037,049	$ 1,037,04
ION - f Maturity							
upied CRE	2	$ 2,975,703	$ 2,975,703	$ 815,703	—	$ —	$ —
Real Estate	1	35,287	35,287	—	—	—	—
	3	$ 3,010,990	$ 3,010,990	$ 815,703	—	$ —	$ —
	8	$ 4,309,980	$ 4,309,980	$ 1,149,420	8	$ 1,037,049	$ 1,037,04

	For the nine months ended September 30, 2018				For the nine months ended September		
Classes of Loans/Leases	Number of Loans/Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans/Leases	Pre-Modification Recorded Investment	Pos Mo Rec Inv
CONCESSION - Significant Payment Delay							
C&I	1	$ 273,717	$ 273,717	$ 273,717	7	$ 801,650	$ 8

Other Non Owner-Occupied CRE	2	980,899	980,899	60,000	—	—	-
Real Estate	1	46,320	46,320	—	—	—	-
Direct Financing Leases	4	91,898	91,898	—	27	1,889,000	1
	8	$ 1,392,834	$ 1,392,834	$ 333,717	34	$ 2,690,650	$ 2
CONCESSION - Extension of Maturity							
Other Non Owner-Occupied CRE	2	$ 2,975,703	$ 2,975,703	$ 815,703	—	$ —	$ -
Residential Real Estate	1	35,287	35,287	—	—	—	-
Direct Financing Leases	—	—	—	—	2	104,382	1
	3	$ 3,010,990	$ 3,010,990	$ 815,703	2	$ 104,382	$ 1
TOTAL	11	$ 4,403,824	$ 4,403,824	$ 1,149,420	36	$ 2,795,032	$ 2

Of the loans restructured during the nine months ended September 30, 2018, four with a post-modification recorded balance of $1,300,424 were on nonaccrual. Of the loans restructured during the nine moths ended September 30, 2017, three with a post-modification recorded balance of $1,384,680 were on nonaccrual. For the three and nine months ended September 30, 2018, two of the Company's TDRs redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status. These TDRs related to customers whose loans were restructured in the third quarter of 2018 with pre-modification balances totaling $774 thousand.

For the three and nine months ended September 30, 2017, four of the Company's TDRs redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status. Two of these TDRs were related to the one customer whose loans were restructured in the second quarter of 2017 with pre-modification balances totaling $112 thousand and the other two TDRs related to another customer whose loans were restructured in the fourth quarter of 2016 with pre-modification balances totaling $195 thousand.

Not included in the table above, the Company had 8 TDRs that were restructured and charged off in 2018, totaling $577,377. The Company had 2 TDRs that were restructured and charged off in 2017, totaling $65,623.

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NOTE 5 – DERIVATIVES

The Company uses interest rate swap and cap instruments to manage interest rate risk related to the variability of interest payments due to changes in interest rates. The Company entered into interest rate caps on June 5, 2014 to hedge against the risk of rising interest rates on short-term liabilities. The short-term liabilities consist of $30.0 million of 1-month FHLB advances, and the benchmark rate hedged is 1-month LIBOR. The interest rate caps are designated as a cash flow hedge in accordance with ASC 815. An initial premium of $2.1 million was paid upfront for the two caps. The details of the interest rate caps are as follows:

Hedged Instrument	Effective Date	Maturity Date	Balance Sheet Location	Notional Amount	1-Month LIBOR Strike Rate	Fair Value as of September 30, 2018	Fair Value as of December 31, 2017
1-month FHLB Advance	6/3/2014	6/5/2019	Other Assets	$ 15,000,000	1.00%	$ 164,214	$ 190,085
1-month FHLB Advance	6/5/2014	6/5/2021	Other Assets	15,000,000	1.50%	539,253	316,615
				$ 30,000,000		$ 703,467	$ 506,700

On June 21, 2018, the Company entered into interest rate swaps to hedge against the risk of rising rates on its variable rate trust preferred securities. The floating rate trust preferred securities are tied to 3-month LIBOR, and the interest rate swaps utilize 3-month LIBOR, so the hedge is effective. The interest rate swaps are designated as a cash flow hedge in accordance with ASC 815. The details of the interest rate swaps are as follows:

Hedged Instrument	Effective Date	Maturity Date	Balance Sheet Location	Notional Amount	Receive Rate	Pay Rate	Fair Value as of September 30, 2018
QCR Holdings Statutory Trust II	9/30/2018	9/30/2028	Other Liabilities	$ 10,000,000	5.19%	5.85%	$ 54,280
QCR Holdings Statutory Trust III	9/30/2018	9/30/2028	Other Liabilities	8,000,000	5.19%	5.85%	43,424
QCR Holdings Statutory Trust V	7/7/2018	7/7/2028	Other Liabilities	10,000,000	3.90%	4.54%	52,884
	9/20/2018	9/20/2028		3,000,000	4.49%	5.17%	15,703

Community National Statutory Trust II			Other Liabilities				
Community National Statutory Trust III	9/15//2018	9/15/2028	Other Liabilities	3,500,000	4.09%	4.75%	17,956
Guaranty Bankshares Statutory Trust I	9/15/2018	9/15/2028	Other Liabilities	4,500,000	4.09%	4.75%	23,086
				$ 39,000,000	4.58%	5.24%	$ 207,333

Changes in fair values of derivatives designated as cash flow hedges are recorded in OCI to the extent the hedge is effective, and reclassified to earnings as the hedged transaction (interest payments on debt) impact earnings.

The caps and swaps are valued by the transaction counterparty on a monthly basis and corroborated by a third party annually.

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NOTE 6 - EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	$ 8,808,835	$ 7,853,935	$ 29,804,181	$ 25,804,917
Basic EPS	$ 0.56	$ 0.60	$ 2.06	$ 1.96
Diluted EPS	$ 0.55	$ 0.58	$ 2.02	$ 1.91
Weighted average common shares outstanding	15,625,123	13,151,350	14,477,783	13,151,672
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	297,201	356,605	308,994	357,894
Weighted average common and common equivalent shares outstanding	15,922,324	13,507,955	14,786,777	13,509,566

The increase in weighted average common shares outstanding when comparing the three and nine months ended September 30, 2018 to September 30, 2017 was primarily due to the common stock issuance as a result of the merger with Springfield Banshares as discussed in Note 2 of the Consolidated Financial Statements, and in connection with the acquisition of Guaranty Bank.

NOTE 7 – 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.

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Assets and liabilities measured at fair value on a recurring basis comprise the following at September 30, 2018 and December 31, 2017:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018:				
Securities AFS:				
U.S. govt. sponsored agency securities	$ 36,491,749	$ —	$ 36,491,749	$ —
Residential mortgage-backed and related securities	155,732,596	—	155,732,596	—
Municipal securities	58,904,207	—	58,904,207	—
Other securities	4,194,890	—	4,194,890	—
Interest rate caps	703,467	—	703,467	—
Interest rate swaps - assets	7,045,220	—	7,045,220	—
Total assets measured at fair value	$ 263,072,129	$ —	$ 263,072,129	$ —
Interest rate swaps - liabilities	$ 6,837,887	$ —	$ 6,837,887	$ —
Total liabilities measured at fair value	$ 6,837,887	$ —	$ 6,837,887	$ —
December 31, 2017:				
Securities AFS:				
U.S. govt. sponsored agency securities	$ 38,096,534	$ —	$ 38,096,534	$ —
Residential mortgage-backed and related securities	163,301,304	—	163,301,304	—
Municipal securities	66,625,496	—	66,625,496	—
Other securities	4,884,573	1,028	4,883,545	—
Interest rate caps	506,700	—	506,700	—
Interest rate swaps - assets	4,397,238	—	4,397,238	—
Total assets measured at fair value	$ 277,811,845	$ 1,028	$ 277,810,817	$ —
Interest rate swaps - liabilities	$ 4,397,238	$ —	$ 4,397,238	$ —
Total liabilities measured at fair value	$ 4,397,238	$ —	$ 4,397,238	$ —

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the three and nine months ended September 30, 2018 or 2017.

The securities AFS 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).

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 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10 K for the year ended December 31, 2017. 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).

Interest rate swaps are also used for the purpose of hedging interest rate risk on junior subordinated debt. 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).

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

Assets measured at fair value on a non-recurring basis comprise the following at September 30, 2018 and December 31, 2017:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
September 30, 2018:				
Impaired loans/leases	$ 13,400,072	$ —	$ —	$ 13,400,072
OREO	13,180,082	—	—	13,180,082
	$ 26,580,154	$ —	$ —	$ 26,580,154
December 31, 2017:				
Impaired loans/leases	$ 8,972,337	$ —	$ —	$ 8,972,337
OREO	14,642,973	—	—	14,642,973
	$ 23,615,310	$ —	$ —	$ 23,615,310

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 September 30, 2018	Fair Value December 31, 2017	Valuation Technique	Unobservable Input	Range		
Impaired loans/leases	$ 13,400,072	$ 8,972,337	Appraisal of collateral	Appraisal adjustments	(10.00)%	to	(30.00)%
OREO	13,180,082	14,642,973	Appraisal of collateral	Appraisal adjustments	0.00 %	to	(35.00)%

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 or liabilities measured at fair value during the three and nine months ended September 30, 2018 and 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

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

	Fair Value Hierarchy Level	As of September 30, 2018		As of December 31, 2017	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	$ 73,406,657	$ 73,406,657	$ 75,721,663	$ 75,721,663
Federal funds sold	Level 2	33,070,000	33,070,000	30,197,000	30,197,000
Interest-bearing deposits at financial institutions	Level 2	96,590,367	96,590,367	55,765,012	55,765,012
Investment securities:					
HTM	Level 2	395,421,195	392,621,219	379,474,205	379,749,804
AFS	See Previous Table	255,323,442	255,323,442	272,907,907	272,907,907
Loans/leases receivable, net	Level 3	12,407,474	13,400,072	8,307,719	8,972,337
Loans/leases receivable, net	Level 2	3,597,901,436	3,527,043,000	2,921,821,953	2,892,963,000
Interest rate caps	Level 2	703,467	703,467	506,700	506,700
Interest rate swaps - assets	Level 2	7,045,220	7,045,220	4,397,238	4,397,238
Deposits:					
Nonmaturity deposits	Level 2	2,917,002,466	2,917,002,466	2,670,583,178	2,670,583,178
Time deposits	Level 2	871,274,455	863,227,000	596,071,878	591,772,000
Short-term borrowings	Level 2	12,929,499	12,929,499	13,993,122	13,993,122
FHLB advances	Level 2	359,128,925	358,357,000	192,000,000	192,115,000
Other borrowings	Level 2	73,950,426	74,600,000	66,000,000	66,520,000
Junior subordinated debentures	Level 2	37,626,070	29,946,263	37,486,487	29,253,624
Interest rate swaps - liabilities	Level 2	6,837,887	6,837,887	4,397,238	4,397,238

NOTE 8 – 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 five subsidiary banks wholly owned by the Company: QCBT, CRBT, CSB, RB&T and SFC Bank. 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 five 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.

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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 nine months ended September 30, 2018 and 2017.

ercial Banking	CRBT	CSB	RB&T	SFC Bank	Wealth Management	All other	Interco Elimin
21,929	$ 16,799,795	$ 8,888,955	$ 5,244,856	$ 7,360,191	$ 3,255,241	$ 12,475,438	$ (12,
18,192	10,832,532	7,101,066	3,414,760	5,700,566	—	(958,624)	4,99
086	452,742	20,000	4,849,000	475,000	—	—	—
7,397	4,868,765	2,533,392	(2,519,016)	2,197,448	768,095	8,600,144	(12,
2,688	14,979,984	9,888,225	—	45,527,529	—	—	—
	3,313,000	4,852,300	—	7,971,614	—	—	—
9,327,112	1,354,294,043	734,535,978	484,059,163	623,519,770	—	554,345,558	(537
71,842	$ 10,892,025	$ 7,678,006	$ 4,534,768	$ —	$ 2,689,853	$ 10,028,660	$ (7,0
54,970	7,903,483	6,379,111	3,245,346	—	—	(636,562)	—
0,436	200,000	574,000	172,000	—	—	—	—
9,158	3,130,319	1,669,209	726,926	—	539,091	7,853,935	(9,9
2,688	—	9,888,225	—	—	—	—	—
	1,122,263	5,566,350	—	—	—	—	—
5,251,244	1,007,062,151	631,963,143	445,098,530	—	—	395,697,820	(385
12,373	$ 49,301,104	$ 25,458,573	$ 15,362,717	$ 7,360,191	$ 9,560,319	$ 38,031,924	$ (38,
28,528	32,149,435	20,579,523	10,281,763	5,700,566	—	(2,543,909)	4,99
3,988	1,682,312	816,602	5,288,500	475,000	—	—	—
96,167	14,190,335	6,560,327	(964,098)	2,197,448	2,335,871	29,520,347	(37,
2,688	14,979,984	9,888,225	—	45,527,529	—	—	—
	3,313,000	4,852,300	—	7,971,614	—	—	—
9,327,112	1,354,294,043	734,535,978	484,059,163	623,519,770	—	554,345,558	(537

17,823	$ 31,428,339	$ 23,981,019	$ 12,723,998	$ —	$ 7,952,495	$ 30,086,617	$ (27,
31,270	22,107,955	20,326,439	9,308,932	—	—	(1,852,668)	—
4,538	750,000	2,209,000	631,000	—	—	—	—
57,941	8,893,461	5,484,383	2,406,337	—	1,554,618	25,804,917	(29,
2,688	—	9,888,225	—	—	—	—	—
	1,122,263	5,566,350	—	—	—	—	—
5,251,244	1,007,062,151	631,963,143	445,098,530	—	—	395,697,820	(385

NOTE 9 – 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 September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017 are presented in the following table (dollars in thousands). As of September 30, 2018 and December 31, 2017, each of the subsidiary banks met the requirements to be “well capitalized”.

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Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – continued

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	For Capital Adequacy Purposes With Capital Conservation Buffer* Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Rat
mber 30, 2018:								
any:								
risk-based l	$ 449,655	10.87 %	$ 330,798	>	8.00 %	$ 408,329	>	9.875 %	$ 413,497	>	10.0
risk-based l	406,578	9.83 %	248,098	>	6.00	325,629	>	7.875	330,798	>	8.0
leverage	406,578	8.87 %	183,278	>	4.00	183,278	>	4.000	229,098	>	5.0
non equity Tier	368,952	8.92 %	186,074	>	4.50	263,605	>	6.375	268,773	>	6.5
City Bank &								
risk-based l	$ 160,806	11.72 %	$ 109,744	>	8.00 %	$ 135,466	>	9.875 %	$ 137,180	>	10.0
risk-based l	147,532	10.75 %	82,308	>	6.00	108,029	>	7.875	109,744	>	8.0
leverage	147,532	9.32 %	63,297	>	4.00	63,297	>	4.000	79,121	>	5.0
non equity Tier	147,532	10.75 %	61,731	>	4.50	87,452	>	6.375	89,167	>	6.5
Rapids Bank st:								
risk-based l	$ 145,066	11.79 %	$ 98,462	>	8.00 %	$ 121,540	>	9.875 %	$ 123,078	>	10.0
risk-based l	131,839	10.71 %	73,847	>	6.00	96,924	>	7.875	98,462	>	8.0
leverage	131,839	9.83 %	53,659	>	4.00	53,659	>	4.000	67,074	>	5.0
non equity Tier	131,839	10.71 %	55,385	>	4.50	78,462	>	6.375	80,001	>	6.5
nunity State								
risk-based l	$ 72,601	11.43 %	$ 50,801	>	8.00 %	$ 62,708	>	9.875 %	$ 63,501	>	10.0
risk-based l	67,149	10.57 %	38,101	>	6.00	50,007	>	7.875	50,801	>	8.0
leverage	67,149	9.62 %	27,918	>	4.00	27,918	>	4.000	34,898	>	5.0
	67,149	10.57 %	28,576	>	4.50	40,482	>	6.375	41,276	>	6.5

non equity Tier								
ord Bank &								
risk-based								
l	$ 45,314	10.19 %	$ 35,583	> 8.00 %	$ 43,923	> 9.875 %	$ 44,479	> 10.0
risk-based								
l	39,692	8.92 %	26,688	> 6.00	35,027	> 7.875	35,583	> 8.0
leverage	39,692	8.20 %	19,365	> 4.00	19,365	> 4.000	24,207	> 5.0
non equity Tier								
	39,692	8.92 %	20,016	> 4.50	28,356	> 6.375	28,912	> 6.5
gfield First								
nunity Bank:								
risk-based								
l	$ 54,108	11.64 %	$ 37,196	> 8.00 %	$ 45,914	> 9.875 %	$ 46,495	> 10.0
risk-based								
l	48,870	10.51 %	27,897	> 6.00	36,615	> 7.875	37,196	> 8.0
leverage	48,870	9.31 %	20,988	> 4.00	20,988	> 4.000	26,235	> 5.0
non equity Tier								
	48,870	10.51 %	20,923	> 4.50	29,640	> 6.375	30,222	> 6.5

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	For Capital Adequacy Purposes With Capital Conservation Buffer* Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Rat
nber 31, 2017:								
any:								
risk-based								
l	$ 383,282	11.15 %	$ 275,090	> 8.00 %	$ 318,073	> 9.25 %	$ 343,862	> 10.0
risk-based								
l	348,530	10.14 %	206,317	> 6.00	249,300	> 7.25	275,090	> 8.0
leverage	348,530	8.98 %	155,256	> 4.00	155,256	> 4.00	194,070	> 5.0
non equity Tier								
	313,012	9.10 %	154,738	> 4.50	197,721	> 5.75	223,510	> 6.5
City Bank &								
risk-based								
l	$ 160,112	12.35 %	$ 103,711	> 8.00 %	$ 119,916	> 9.25 %	$ 129,639	> 10.0
risk-based								
l	147,472	11.38 %	77,783	> 6.00	93,988	> 7.25	103,711	> 8.0
leverage	147,472	9.52 %	61,985	> 4.00	61,985	> 4.00	77,481	> 5.0
non equity Tier								
	147,472	11.38 %	58,337	> 4.50	74,542	> 5.75	84,265	> 6.5
Rapids Bank								
st:								
risk-based								
l	$ 138,492	11.88 %	$ 93,272	> 8.00 %	$ 107,846	> 9.25 %	$ 116,590	> 10.0

risk-based l	126,601	10.86	%	69,954	>	6.00		84,528	>	7.25		93,272	>	8.0
leverage	126,601	11.68	%	43,348	>	4.00		43,348	>	4.00		54,185	>	5.0
non equity Tier	126,601	10.86	%	52,465	>	4.50		67,039	>	5.75		75,783	>	6.5
nunity State														
risk-based l	$ 66,271	11.71	%	$ 45,293	>	8.00	%	$ 52,370	>	9.25	%	$ 56,616	>	10.0
risk-based l	61,941	10.94	%	33,970	>	6.00		41,047	>	7.25		45,293	>	8.0
leverage	61,941	9.77	%	25,354	>	4.00		25,354	>	4.00		31,693	>	5.0
non equity Tier	61,941	10.94	%	25,477	>	4.50		32,554	>	5.75		36,801	>	6.5
ford Bank &														