

QCR HOLDINGS INC  
Form 10-Q  
May 06, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ending March 31, 2013

☐ 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 (I.R.S. Employer ID Number)  
organization)

3551 7th Street, Moline, Illinois 61265  
(Address of principal executive offices)

(309) 743-7761  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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

Yes ☐ No ☒

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of May 1, 2013, the Registrant had outstanding 4,946,362 shares of common stock, \$1.00 par value per share.

---

## QCR HOLDINGS, INC. AND SUBSIDIARIES

## INDEX

|                                     |                                                                                                                 | Page<br>Number(s) |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------|-------------------|
| <b>Part I FINANCIAL INFORMATION</b> |                                                                                                                 |                   |
| Item 1.                             | Consolidated Financial Statements (Unaudited)                                                                   |                   |
|                                     | Consolidated Balance Sheets<br>As of March 31, 2013 and December 31, 2012                                       | 2                 |
|                                     | Consolidated Statements of Income<br>For the Three Months Ended March 31, 2013 and 2012                         | 3                 |
|                                     | Consolidated Statements of Comprehensive Income<br>For the Three Months Ended March 31, 2013 and 2012           | 4                 |
|                                     | Consolidated Statement of Changes in Stockholders' Equity<br>For the Three Months Ended March 31, 2013 and 2012 | 5                 |
|                                     | Consolidated Statements of Cash Flows<br>For the Three Months Ended March 31, 2013 and 2012                     | 6                 |
|                                     | Notes to the Consolidated Financial Statements                                                                  | 7-25              |
| Item 2.                             | Management's Discussion and Analysis of Financial<br>Condition and<br>Results of Operations                     | 26-52             |
| Item 3.                             | Quantitative and Qualitative Disclosures About Market Risk                                                      | 53-54             |
| Item 4.                             | Controls and Procedures                                                                                         | 55                |
| <b>Part II OTHER INFORMATION</b>    |                                                                                                                 |                   |
| Item 1.                             | Legal Proceedings                                                                                               | 56                |
| Item 1.A.                           | Risk Factors                                                                                                    | 56                |
| Item 2.                             | Unregistered Sales of Equity Securities and Use of Proceeds                                                     | 56                |
| Item 3.                             | Defaults upon Senior Securities                                                                                 | 56                |
| Item 4.                             | Mine Safety Disclosures                                                                                         | 56                |
| Item 5.                             | Other Information                                                                                               | 56                |

|            |          |    |
|------------|----------|----|
| Item 6.    | Exhibits | 57 |
| Signatures |          | 58 |

QCR HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
As of March 31, 2013 and December 31, 2012

|                                                                                                                                                                  | March 31,<br>2013 | December 31,<br>2012 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                    |                   |                      |
| Cash and due from banks                                                                                                                                          | \$33,254,137      | \$61,568,446         |
| Federal funds sold                                                                                                                                               | -                 | 26,560,000           |
| Interest-bearing deposits at financial institutions                                                                                                              | 33,781,655        | 22,359,490           |
| Securities held to maturity, at amortized cost                                                                                                                   | 87,006,209        | 72,079,385           |
| Securities available for sale, at fair value                                                                                                                     | 605,545,374       | 530,159,986          |
| Total securities                                                                                                                                                 | 692,551,583       | 602,239,371          |
| Loans receivable held for sale                                                                                                                                   | 2,260,506         | 4,577,233            |
| Loans/leases receivable held for investment                                                                                                                      | 1,289,535,005     | 1,282,810,406        |
| Gross loans/leases receivable                                                                                                                                    | 1,291,795,511     | 1,287,387,639        |
| Less allowance for estimated losses on loans/leases                                                                                                              | (20,769,462 )     | (19,925,204 )        |
| Net loans/leases receivable                                                                                                                                      | 1,271,026,049     | 1,267,462,435        |
| Premises and equipment, net                                                                                                                                      | 31,453,220        | 31,262,390           |
| Goodwill                                                                                                                                                         | 3,222,688         | 3,222,688            |
| Bank-owned life insurance                                                                                                                                        | 46,059,176        | 45,620,489           |
| Restricted investment securities                                                                                                                                 | 15,297,700        | 15,747,850           |
| Other real estate owned, net                                                                                                                                     | 3,679,419         | 3,954,538            |
| Other assets                                                                                                                                                     | 13,665,025        | 13,732,795           |
| Total assets                                                                                                                                                     | \$2,143,990,652   | \$2,093,730,492      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                      |                   |                      |
| <b>LIABILITIES</b>                                                                                                                                               |                   |                      |
| Deposits:                                                                                                                                                        |                   |                      |
| Noninterest-bearing                                                                                                                                              | \$496,513,304     | \$450,659,723        |
| Interest-bearing                                                                                                                                                 | 923,979,954       | 923,454,377          |
| Total deposits                                                                                                                                                   | 1,420,493,258     | 1,374,114,100        |
| Short-term borrowings                                                                                                                                            | 171,853,471       | 171,082,961          |
| Federal Home Loan Bank advances                                                                                                                                  | 205,350,000       | 202,350,000          |
| Other borrowings                                                                                                                                                 | 138,241,912       | 138,239,762          |
| Junior subordinated debentures                                                                                                                                   | 36,085,000        | 36,085,000           |
| Other liabilities                                                                                                                                                | 29,768,580        | 31,424,848           |
| Total liabilities                                                                                                                                                | 2,001,792,221     | 1,953,296,671        |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                      |                   |                      |
| Preferred stock, \$1 par value; shares authorized 250,000 March 2013 - 54,867 shares issued and outstanding December 2012 - 54,867 shares issued and outstanding | 54,867            | 54,867               |
|                                                                                                                                                                  | 5,057,562         | 5,039,448            |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                                                                                                                                            |                 |                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Common stock, \$1 par value; shares authorized 20,000,000 March 2013 - 5,057,562 shares issued and 4,936,316 outstanding December 2012 - 5,039,448 shares issued and 4,918,202 outstanding |                 |                 |
| Additional paid-in capital                                                                                                                                                                 | 79,041,338      | 78,912,791      |
| Retained earnings                                                                                                                                                                          | 55,780,849      | 53,326,542      |
| Accumulated other comprehensive income                                                                                                                                                     | 3,870,325       | 4,706,683       |
| Less treasury stock, March 2013 and December 2012 - 121,246 common shares, at cost                                                                                                         | (1,606,510 )    | (1,606,510 )    |
| Total stockholders' equity                                                                                                                                                                 | 142,198,431     | 140,433,821     |
| Total liabilities and stockholders' equity                                                                                                                                                 | \$2,143,990,652 | \$2,093,730,492 |

See Notes to Consolidated Financial Statements

QCR HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
Three Months Ended March 31,

|                                                           | 2013          | 2012          |
|-----------------------------------------------------------|---------------|---------------|
| Interest and dividend income:                             |               |               |
| Loans/leases, including fees                              | \$ 15,088,827 | \$ 15,970,837 |
| Securities:                                               |               |               |
| Taxable                                                   | 2,460,449     | 2,805,814     |
| Nontaxable                                                | 802,473       | 395,826       |
| Interest-bearing deposits at financial institutions       | 59,754        | 120,005       |
| Restricted investment securities                          | 125,105       | 81,322        |
| Federal funds sold                                        | 874           | -             |
| Total interest and dividend income                        | 18,537,482    | 19,373,804    |
| Interest expense:                                         |               |               |
| Deposits                                                  | 1,116,791     | 1,715,740     |
| Short-term borrowings                                     | 64,267        | 64,944        |
| Federal Home Loan Bank advances                           | 1,732,812     | 1,864,321     |
| Other borrowings                                          | 1,190,755     | 1,257,393     |
| Junior subordinated debentures                            | 241,540       | 267,953       |
| Total interest expense                                    | 4,346,165     | 5,170,351     |
| Net interest income                                       | 14,191,317    | 14,203,453    |
| Provision for loan/lease losses                           | 1,057,782     | 780,446       |
| Net interest income after provision for loan/lease losses | 13,133,535    | 13,423,007    |
| Noninterest income:                                       |               |               |
| Trust department fees                                     | 1,039,670     | 883,732       |
| Investment advisory and management fees                   | 609,341       | 521,462       |
| Deposit service fees                                      | 907,823       | 904,406       |
| Gains on sales of residential real estate loans           | 291,151       | 291,433       |
| Gains on sales of government guaranteed portions of loans | 845,224       | 107,657       |
| Earnings on bank-owned life insurance                     | 438,687       | 438,402       |
| Credit card issuing fees, net of processing costs         | 49,954        | 127,015       |
| Losses on other real estate owned, net                    | (446,630)     | (189,204)     |
| Other                                                     | 1,468,809     | 871,975       |
| Total noninterest income                                  | 5,204,029     | 3,956,878     |
| Noninterest expense:                                      |               |               |
| Salaries and employee benefits                            | 8,742,683     | 8,124,680     |
| Occupancy and equipment expense                           | 1,428,870     | 1,352,263     |
| Professional and data processing fees                     | 1,140,061     | 1,150,190     |
| FDIC and other insurance                                  | 555,911       | 580,856       |
| Loan/lease expense                                        | 245,091       | 218,734       |
| Advertising and marketing                                 | 264,568       | 276,016       |
| Postage and telephone                                     | 218,691       | 288,240       |
| Stationery and supplies                                   | 110,670       | 142,966       |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                                  |             |             |
|----------------------------------------------------------------------------------|-------------|-------------|
| Bank service charges                                                             | 275,495     | 199,729     |
| Acquisition costs (Note 8)                                                       | 356,578     | -           |
| Other                                                                            | 619,882     | 404,406     |
| Total noninterest expense                                                        | 13,958,500  | 12,738,080  |
| Net income before income taxes                                                   | 4,379,064   | 4,641,805   |
| Federal and state income tax expense                                             | 1,113,920   | 1,238,956   |
| Net income                                                                       | \$3,265,144 | \$3,402,849 |
| Less: Net income attributable to noncontrolling interests                        | -           | 166,031     |
| Net income attributable to QCR Holdings, Inc.                                    | \$3,265,144 | \$3,236,818 |
| Less: Preferred stock dividends                                                  | 810,837     | 938,625     |
| Net income attributable to QCR Holdings, Inc. common stockholders                | 2,454,307   | \$2,298,193 |
| Earnings per common share attributable to QCR Holdings, Inc. common shareholders |             |             |
| Basic                                                                            | \$0.50      | \$0.48      |
| Diluted                                                                          | \$0.49      | \$0.48      |
| Weighted average common shares outstanding                                       | 4,927,591   | 4,800,407   |
| Weighted average common and common equivalent shares outstanding                 | 5,034,342   | 4,833,399   |
| Cash dividends declared per common share                                         | \$-         | \$-         |

See Notes to Consolidated Financial Statements



QCR HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
Three Months Ended March 31,

|                                                                                       | 2013         | 2012         |
|---------------------------------------------------------------------------------------|--------------|--------------|
| Net income                                                                            | \$3,265,144  | \$3,402,849  |
| Other comprehensive loss:                                                             |              |              |
| Unrealized gains (losses) on securities available for sale:                           |              |              |
| Unrealized holding losses arising during the period before tax                        | (1,356,552 ) | (2,460,571 ) |
| Less reclassification adjustment for gains (losses) included in net income before tax | -            | -            |
|                                                                                       | (1,356,552 ) | (2,460,571 ) |
| Tax benefit                                                                           | (520,194 )   | (943,336 )   |
| Other comprehensive loss, net of tax                                                  | (836,358 )   | (1,517,235 ) |
| Comprehensive income attributable to QCR Holdings, Inc.                               | \$2,428,786  | \$1,885,614  |

See Notes to Consolidated Financial Statements

QCR HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)  
Three Months Ended March 31, 2013 and 2012

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

expense

|                                                                                                 |          |             |              |              |             |     |               |               |
|-------------------------------------------------------------------------------------------------|----------|-------------|--------------|--------------|-------------|-----|---------------|---------------|
| Tax benefit of nonqualified stock options exercised                                             | -        | -           | 35,251       | -            | -           | -   | -             | 35,251        |
| Restricted stock awards                                                                         | -        | 16,798      | (16,798 )    | -            | -           | -   | -             | -             |
| Exchange of 16,798 shares of common stock in connection with payroll taxes for restricted stock | -        | (16,798 )   | (289,113 )   | -            | -           | -   | -             | (305,911 )    |
| Balance March 31, 2013                                                                          | \$54,867 | \$5,057,562 | \$79,041,338 | \$55,780,849 | \$3,870,325 | \$- | \$(1,606,510) | \$142,198,431 |

|                                                                                                                              | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Treasury Stock | Total         |
|------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------|----------------------------|-------------------|-----------------------------------------------|--------------------------|----------------|---------------|
| Balance December 31, 2011                                                                                                    | \$65,090        | \$4,879,435  | \$89,702,533               | \$44,585,902      | \$4,754,714                                   | \$2,051,538              | \$(1,606,510)  | \$144,432,702 |
| Net income                                                                                                                   | -               | -            | -                          | 3,236,818         | -                                             | 166,031                  | -              | 3,402,849     |
| Other comprehensive loss, net of tax                                                                                         | -               | -            | -                          | -                 | (1,517,235)                                   | -                        | -              | (1,517,235)   |
| Preferred cash dividends declared                                                                                            | -               | -            | -                          | (938,625 )        | -                                             | -                        | -              | (938,625)     |
| Proceeds from issuance of 7,767 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | -               | 7,767        | 55,566                     | -                 | -                                             | -                        | -              | 63,333        |
| Proceeds from issuance of 276 shares of common stock                                                                         | -               | 276          | 2,374                      | -                 | -                                             | -                        | -              | 2,650         |

as a result of  
stock options  
exercised

Exchange of  
576 shares of  
common stock  
in connection  
with payroll  
taxes for

|                  |   |      |   |        |   |   |   |   |   |        |
|------------------|---|------|---|--------|---|---|---|---|---|--------|
| restricted stock | - | (576 | ) | (2,103 | ) | - | - | - | - | (2,679 |
|------------------|---|------|---|--------|---|---|---|---|---|--------|

Stock

compensation

|         |   |   |  |         |  |  |  |  |  |         |
|---------|---|---|--|---------|--|--|--|--|--|---------|
| expense | - | - |  | 326,245 |  |  |  |  |  | 326,245 |
|---------|---|---|--|---------|--|--|--|--|--|---------|

Restricted

|              |   |        |         |   |   |   |   |   |   |   |
|--------------|---|--------|---------|---|---|---|---|---|---|---|
| stock awards | - | 57,770 | (57,770 | ) | - | - | - | - | - | - |
|--------------|---|--------|---------|---|---|---|---|---|---|---|

Other

adjustments to

noncontrolling

|           |   |   |   |   |   |  |        |   |   |        |
|-----------|---|---|---|---|---|--|--------|---|---|--------|
| interests | - | - | - | - | - |  | (2,066 | ) | - | (2,066 |
|-----------|---|---|---|---|---|--|--------|---|---|--------|

Balance March

|          |          |             |              |              |             |             |               |               |
|----------|----------|-------------|--------------|--------------|-------------|-------------|---------------|---------------|
| 31, 2012 | \$65,090 | \$4,944,672 | \$90,026,845 | \$46,884,095 | \$3,237,479 | \$2,215,503 | \$(1,606,510) | \$145,767,174 |
|----------|----------|-------------|--------------|--------------|-------------|-------------|---------------|---------------|

See Notes to Consolidated Financial Statements.

QCR HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
Three Months Ended March 31,

|                                                                                   | 2013            | 2012            |
|-----------------------------------------------------------------------------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                 |                 |
| Net income                                                                        | \$3,265,144     | \$3,402,849     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                 |
| Depreciation                                                                      | 584,884         | 591,465         |
| Provision for loan/lease losses                                                   | 1,057,782       | 780,446         |
| Stock-based compensation expense                                                  | 293,798         | 326,245         |
| Losses on other real estate owned, net                                            | 446,630         | 189,204         |
| Amortization of premiums on securities, net                                       | 974,045         | 983,617         |
| Loans originated for sale                                                         | (26,928,996 )   | (24,070,517 )   |
| Proceeds on sales of loans                                                        | 30,382,098      | 24,972,257      |
| Gains on sales of residential real estate loans, net                              | (291,151 )      | (291,433 )      |
| Gains on sales of government guaranteed portions of loans, net                    | (845,224 )      | (107,657 )      |
| Increase in cash value of bank-owned life insurance                               | (438,687 )      | (438,402 )      |
| Decrease in other assets                                                          | 587,964         | 565,316         |
| Decrease in other liabilities                                                     | (1,853,653 )    | (1,330,446 )    |
| Net cash provided by operating activities                                         | \$7,234,634     | \$5,572,944     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                 |                 |
| Net decrease in federal funds sold                                                | 26,560,000      | 20,785,000      |
| Net (increase) decrease in interest-bearing deposits at financial institutions    | (11,422,165 )   | 1,262,389       |
| Proceeds from sales of other real estate owned                                    | 15,989          | 209,383         |
| Activity in securities portfolio:                                                 |                 |                 |
| Purchases                                                                         | (187,650,573 )  | (159,077,553 )  |
| Calls, maturities and redemptions                                                 | 82,114,256      | 98,751,724      |
| Paydowns                                                                          | 12,893,508      | 5,720,417       |
| Activity in restricted investment securities:                                     |                 |                 |
| Purchases                                                                         | (1,743,750 )    | (189,400 )      |
| Redemptions                                                                       | 2,193,900       | 334,000         |
| Net increase in loans/leases originated and held for investment                   | (7,125,623 )    | (12,234,648 )   |
| Purchase of premises and equipment                                                | (775,714 )      | (539,900 )      |
| Net cash used in investing activities                                             | \$(84,940,172 ) | \$(44,978,588 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                 |                 |
| Net increase in deposit accounts                                                  | 46,379,158      | 91,291,345      |
| Net increase (decrease) in short-term borrowings                                  | 770,510         | (63,635,950 )   |
| Activity in Federal Home Loan Bank advances:                                      |                 |                 |
| Advances                                                                          | 46,000,000      | 4,000,000       |
| Calls and maturities                                                              | (43,000,000 )   | (5,000,000 )    |
| Net increase in other borrowings                                                  | 2,150           | 2,025           |
| Payment of cash dividends on common and preferred stock                           | (1,002,789 )    | (1,214,611 )    |
| Proceeds from issuance of common stock, net                                       | 242,200         | 65,983          |
| Net cash provided by financing activities                                         | \$49,391,229    | \$25,508,792    |
| Net decrease in cash and due from banks                                           | (28,314,309 )   | (13,896,852 )   |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                                                                                         |              |               |
|-----------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| Cash and due from banks, beginning                                                                                                      | 61,568,446   | 53,136,710    |
| Cash and due from banks, ending                                                                                                         | \$33,254,137 | \$39,239,858  |
| Supplemental disclosure of cash flow information, cash payments for:                                                                    |              |               |
| Interest                                                                                                                                | \$4,472,977  | \$5,141,834   |
| Income/franchise taxes                                                                                                                  | \$717,300    | \$591,000     |
| Supplemental schedule of noncash investing activities:                                                                                  |              |               |
| Change in accumulated other comprehensive income, unrealized losses on securities available for sale, net                               | \$(836,358)  | \$(1,517,235) |
| Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised | \$(424,587)  | \$(2,679)     |
| Transfers of loans to other real estate owned                                                                                           | \$187,500    | \$185,000     |

See Notes to Consolidated Financial Statements

Part I  
Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2013

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, 2012, including QCR Holdings, Inc.'s (the "Company") Form 10-K filed with the Securities and Exchange Commission on March 11, 2013. Accordingly, footnote disclosures, which would substantially duplicate the disclosures contained in the audited consolidated financial statements, have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results of the interim period ended March 31, 2013, are not necessarily indicative of the results expected for the year ending December 31, 2013.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include three state-chartered commercial banks: Quad City Bank & Trust Company ("QCBT"), Cedar Rapids Bank & Trust Company ("CRBT"), and Rockford Bank & Trust Company ("RB&T"). The Company also engages in direct financing lease contracts through its wholly-owned equity investment by QCBT in m2 Lease Funds, LLC ("m2 Lease Funds"). All material intercompany transactions and balances have been eliminated in consolidation.

Recent accounting developments: In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-11, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. Both ASU 2011-11 and ASU 2013-01 were effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. Adoption did not have a significant impact on the Company's consolidated financial statements.

In February 2013, FASB issued ASU 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. ASU 2013-02 supersedes and replaces the presentation requirements for reclassifications out of accumulated other comprehensive income ("AOCI") in ASUs 2011-05 and 2011-12, which were adopted by the Company during the current year. The amendments require an entity to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income if the amount reclassified is required to

be reclassified in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required. Adoption did not have a significant impact on the Company's consolidated financial statements.

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



Part I  
Item 1

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

## NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of March 31, 2013 and December 31, 2012 are summarized as follows:

|                                                    | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair<br>Value |
|----------------------------------------------------|-------------------|------------------------------|---------------------------------|---------------|
| <b>March 31, 2013:</b>                             |                   |                              |                                 |               |
| Securities held to maturity:                       |                   |                              |                                 |               |
| Municipal securities                               | \$86,356,209      | \$746,173                    | \$(407,348 )                    | \$86,695,034  |
| Other securities                                   | 650,000           | -                            | -                               | 650,000       |
|                                                    | \$87,006,209      | \$746,173                    | \$(407,348 )                    | \$87,345,034  |
| Securities available for sale:                     |                   |                              |                                 |               |
| U.S. govt. sponsored agency securities             | \$402,488,606     | \$1,769,562                  | \$(418,236 )                    | \$403,839,932 |
| Residential mortgage-backed and related securities | 171,863,065       | 3,381,118                    | (441,951 )                      | 174,802,232   |
| Municipal securities                               | 23,485,794        | 1,543,985                    | (38,738 )                       | 24,991,041    |
| Trust preferred securities                         | 86,200            | 99,120                       | -                               | 185,320       |
| Other securities                                   | 1,365,794         | 366,719                      | (5,664 )                        | 1,726,849     |
|                                                    | \$599,289,459     | \$7,160,504                  | \$(904,589 )                    | \$605,545,374 |
| <b>December 31, 2012:</b>                          |                   |                              |                                 |               |
| Securities held to maturity:                       |                   |                              |                                 |               |
| Municipal securities                               | \$71,429,385      | \$997,969                    | \$(71,648 )                     | \$72,355,706  |
| Other securities                                   | 650,000           | -                            | -                               | 650,000       |
|                                                    | \$72,079,385      | \$997,969                    | \$(71,648 )                     | \$73,005,706  |
| Securities available for sale:                     |                   |                              |                                 |               |
| U.S. govt. sponsored agency securities             | \$336,570,995     | \$2,198,655                  | \$(160,279 )                    | \$338,609,371 |
| Residential mortgage-backed and related securities | 160,035,196       | 3,736,821                    | (170,914 )                      | 163,601,103   |
| Municipal securities                               | 24,508,015        | 1,696,555                    | (18,834 )                       | 26,185,736    |
| Trust preferred securities                         | 86,200            | 53,200                       | -                               | 139,400       |
| Other securities                                   | 1,347,113         | 300,732                      | (23,469 )                       | 1,624,376     |
|                                                    | \$522,547,519     | \$7,985,963                  | \$(373,496 )                    | \$530,159,986 |

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

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

pooled trust preferred securities.

Part I  
Item 1

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

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2013 and December 31, 2012, are summarized as follows:

|                                                    | Less than 12 Months |                         | 12 Months or More |                         | Total          |                         |
|----------------------------------------------------|---------------------|-------------------------|-------------------|-------------------------|----------------|-------------------------|
|                                                    | Fair Value          | Gross Unrealized Losses | Fair Value        | Gross Unrealized Losses | Fair Value     | Gross Unrealized Losses |
| <b>March 31, 2013:</b>                             |                     |                         |                   |                         |                |                         |
| Securities held to maturity:                       |                     |                         |                   |                         |                |                         |
| Municipal securities                               | \$ 25,634,890       | \$ (407,348 )           | \$ -              | \$ -                    | \$ 25,634,890  | \$ (407,348 )           |
| Securities available for sale:                     |                     |                         |                   |                         |                |                         |
| U.S. govt. sponsored agency securities             | \$ 129,197,592      | \$ (418,236 )           | \$ -              | \$ -                    | \$ 129,197,592 | \$ (418,236 )           |
| Residential mortgage-backed and related securities | 46,924,954          | (441,951 )              | -                 | -                       | 46,924,954     | (441,951 )              |
| Municipal securities                               | 2,223,597           | (38,738 )               | -                 | -                       | 2,223,597      | (38,738 )               |
| Other securities                                   | -                   | -                       | 235,625           | (5,664 )                | 235,625        | (5,664 )                |
|                                                    | \$ 178,346,143      | \$ (898,925 )           | \$ 235,625        | \$ (5,664 )             | \$ 178,581,768 | \$ (904,589 )           |
| <b>December 31, 2012:</b>                          |                     |                         |                   |                         |                |                         |
| Securities held to maturity:                       |                     |                         |                   |                         |                |                         |
| Municipal securities                               | \$ 4,282,352        | \$ (71,648 )            | \$ -              | \$ -                    | \$ 4,282,352   | \$ (71,648 )            |
| Securities available for sale:                     |                     |                         |                   |                         |                |                         |
| U.S. govt. sponsored agency securities             | \$ 55,621,718       | \$ (160,279 )           | \$ -              | \$ -                    | \$ 55,621,718  | \$ (160,279 )           |
| Residential mortgage-backed and related securities | 29,324,928          | (170,914 )              | -                 | -                       | 29,324,928     | (170,914 )              |
| Municipal securities                               | 1,039,625           | (18,834 )               | -                 | -                       | 1,039,625      | (18,834 )               |
| Other securities                                   | -                   | -                       | 217,500           | (23,469 )               | 217,500        | (23,469 )               |
|                                                    | \$ 85,986,271       | \$ (350,027 )           | \$ 217,500        | \$ (23,469 )            | \$ 86,203,771  | \$ (373,496 )           |

At March 31, 2013, the investment portfolio included 444 securities. Of this number, 114 securities had current unrealized losses with aggregate depreciation of less than 1% from the total amortized cost basis. Of these 114, only one had unrealized losses for twelve months or more and the amount of the unrealized loss was only \$5,664. All of

the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery. At March 31, 2013 and December 31, 2012, equity securities represented less than 1% of the total portfolio.

The Company did not recognize other-than-temporary impairment on any debt or equity securities for the three months ended March 31, 2013 and 2012.

The Company did not sell any securities during the three months ended March 31, 2013 and 2012.

Part I  
Item 1

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

The amortized cost and fair value of securities as of March 31, 2013 by contractual maturity are shown below. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed and related securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" are excluded from the maturity categories as there is no fixed maturity date for those securities.

|                                                    | Amortized Cost | Fair Value     |
|----------------------------------------------------|----------------|----------------|
| <b>Securities held to maturity:</b>                |                |                |
| Due in one year or less                            | \$ 1,465,502   | \$ 1,465,266   |
| Due after one year through five years              | 13,406,654     | 13,426,853     |
| Due after one year through five years              | 72,134,053     | 72,452,915     |
|                                                    | \$ 87,006,209  | \$ 87,345,034  |
| <b>Securities available for sale:</b>              |                |                |
| Due in one year or less                            | \$ 695,000     | \$ 700,650     |
| Due after one year through five years              | 29,282,063     | 29,712,248     |
| Due after five years                               | 396,083,537    | 398,603,395    |
|                                                    | \$ 426,060,600 | \$ 429,016,293 |
| Residential mortgage-backed and related securities | 171,863,065    | 174,802,232    |
| Other securities                                   | 1,365,794      | 1,726,849      |
|                                                    | \$ 599,289,459 | \$ 605,545,374 |

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 predetermined dates prior to the stated maturity, summarized as follows:

|                                        | Amortized Cost | Fair Value     |
|----------------------------------------|----------------|----------------|
| <b>Securities held to maturity:</b>    |                |                |
| Municipal securities                   | \$ 57,540,331  | \$ 57,327,912  |
| <b>Securities available for sale:</b>  |                |                |
| U.S. govt. sponsored agency securities | 370,595,745    | 371,574,015    |
| Municipal securities                   | 13,494,268     | 14,270,490     |
|                                        | \$ 384,090,013 | \$ 385,844,505 |

Part I  
Item 1

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

## NOTE 3 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of March 31, 2013 and December 31, 2012 is presented as follows:

|                                                           | As of March 31,<br>2013 | As of December 31,<br>2012 |
|-----------------------------------------------------------|-------------------------|----------------------------|
| Commercial and industrial loans                           | \$ 398,122,240          | \$ 394,244,252             |
| Commercial real estate loans                              |                         |                            |
| Owner-occupied commercial real estate                     | 212,301,539             | 204,911,308                |
| Commercial construction, land development, and other land | 46,449,160              | 44,962,381                 |
| Other non owner-occupied commercial real estate           | 339,882,919             | 344,105,550                |
|                                                           | 598,633,618             | 593,979,239                |
| Direct financing leases *                                 | 109,654,314             | 103,685,656                |
| Residential real estate loans **                          | 115,548,209             | 115,581,573                |
| Installment and other consumer loans                      | 66,293,903              | 76,720,514                 |
|                                                           | 1,288,252,284           | 1,284,211,234              |
| Plus deferred loan/lease origination costs, net of fees   | 3,543,227               | 3,176,405                  |
|                                                           | 1,291,795,511           | 1,287,387,639              |
| Less allowance for estimated losses on loans/leases       | (20,769,462 )           | (19,925,204 )              |
|                                                           | \$ 1,271,026,049        | \$ 1,267,462,435           |
| * Direct financing leases:                                |                         |                            |
| Net minimum lease payments to be received                 | \$ 124,469,580          | \$ 117,719,380             |
| Estimated unguaranteed residual values of leased assets   | 1,060,990               | 1,095,848                  |
| Unearned lease/residual income                            | (15,876,256 )           | (15,129,572 )              |
|                                                           | 109,654,314             | 103,685,656                |
| Plus deferred lease origination costs, net of fees        | 4,198,286               | 3,907,140                  |
|                                                           | 113,852,600             | 107,592,796                |
| Less allowance for estimated losses on leases             | (2,296,523 )            | (1,990,395 )               |
|                                                           | \$ 111,556,077          | \$ 105,602,401             |

Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors and management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal. There were no losses related to residual values for the three months ended March 31, 2013 and 2012.

\*\*Includes residential real estate loans held for sale totaling \$2,260,506 and \$4,577,233 as of March 31, 2013, and December 31, 2012, respectively.

Part I  
Item 1

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

The aging of the loan/lease portfolio by classes of loans/leases as of March 31, 2013 and December 31, 2012 is presented as follows:

| Classes of<br>Loans/Leases                                | Current          | As of March 31, 2013   |                        |                                                  |               | Nonaccrual<br>Loans/Leases | Total |
|-----------------------------------------------------------|------------------|------------------------|------------------------|--------------------------------------------------|---------------|----------------------------|-------|
|                                                           |                  | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Accruing<br>Past<br>Due 90<br>Days<br>or<br>More |               |                            |       |
| Commercial and Industrial                                 | \$ 396,879,932   | \$ 182,414             | \$ 89,771              | \$ -                                             | \$ 970,123    | \$ 398,122,240             |       |
| Commercial Real Estate                                    |                  |                        |                        |                                                  |               |                            |       |
| Owner-Occupied Commercial Real Estate                     | 210,645,611      | 1,037,596              | -                      | -                                                | 618,332       | 212,301,539                |       |
| Commercial Construction, Land Development, and Other Land | 43,557,385       | -                      | 337,500                | -                                                | 2,554,275     | 46,449,160                 |       |
| Other Non Owner-Occupied Commercial Real Estate           | 326,644,315      | 1,097,226              | 1,403,803              | -                                                | 10,737,575    | 339,882,919                |       |
| Direct Financing Leases                                   | 107,181,954      | 1,204,354              | 57,070                 | -                                                | 1,210,936     | 109,654,314                |       |
| Residential Real Estate                                   | 113,860,680      | 751,593                | -                      | -                                                | 935,936       | 115,548,209                |       |
| Installment and Other Consumer                            | 64,326,002       | 574,357                | 379,924                | 519                                              | 1,013,101     | 66,293,903                 |       |
|                                                           | \$ 1,263,095,879 | \$ 4,847,540           | \$ 2,268,068           | \$ 519                                           | \$ 18,040,278 | \$ 1,288,252,284           |       |
| As a percentage of total loan/lease portfolio             | 98.05            | % 0.38                 | % 0.18                 | % 0.00                                           | % 1.40        | % 100.00                   |       |

| As of December 31, 2012    |         |                        |                        |                                               |                            |       |
|----------------------------|---------|------------------------|------------------------|-----------------------------------------------|----------------------------|-------|
| Classes of<br>Loans/Leases | Current | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Accruing<br>Past<br>Due 90<br>Days or<br>More | Nonaccrual<br>Loans/Leases | Total |



|                                                           |                  |              |              |            |               |                  |
|-----------------------------------------------------------|------------------|--------------|--------------|------------|---------------|------------------|
| Commercial and Industrial                                 | \$ 388,825,307   | \$ 3,724,506 | \$ 9,940     | \$ 120,000 | \$ 1,564,499  | \$ 394,244,252   |
| Commercial Real Estate                                    |                  |              |              |            |               |                  |
| Owner-Occupied Commercial Real Estate                     | 204,141,070      | 142,993      | -            | -          | 627,245       | 204,911,308      |
| Commercial Construction, Land Development, and Other Land | 42,180,819       | -            | -            | -          | 2,781,562     | 44,962,381       |
| Other Non Owner-Occupied Commercial Real Estate           | 332,644,532      | 86,986       | 1,111,856    | -          | 10,262,176    | 344,105,550      |
| Direct Financing Leases                                   | 101,635,084      | 877,210      | 174,560      | -          | 998,802       | 103,685,656      |
| Residential Real Estate                                   | 111,993,859      | 2,254,730    | 283,466      | -          | 1,049,518     | 115,581,573      |
| Installment and Other Consumer                            | 75,711,203       | 301,025      | 20,112       | 39,481     | 648,693       | 76,720,514       |
|                                                           | \$ 1,257,131,874 | \$ 7,387,450 | \$ 1,599,934 | \$ 159,481 | \$ 17,932,495 | \$ 1,284,211,234 |
| As a percentage of total loan/lease portfolio             | 97.89            | % 0.58       | % 0.12       | % 0.01     | % 1.40        | % 100.00         |

Part I  
Item 1

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

Nonperforming loans/leases by classes of loans/leases as of March 31, 2013 and December 31, 2012 is presented as follows:

| As of March 31, 2013                                      |                                   |                           |                                         |                                  |                                                |   |
|-----------------------------------------------------------|-----------------------------------|---------------------------|-----------------------------------------|----------------------------------|------------------------------------------------|---|
| Classes of Loans/Leases                                   | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases * | Troubled Debt Restructurings - Accruing | Total Nonperforming Loans/Leases | Percentage of Total Nonperforming Loans/Leases |   |
| Commercial and Industrial Commercial Real Estate          | \$ -                              | \$ 970,123                | \$ 900,924                              | \$ 1,871,047                     | 9.49                                           | % |
| Owner-Occupied Commercial Real Estate                     | -                                 | 618,332                   | 47,958                                  | 666,290                          | 3.38                                           | % |
| Commercial Construction, Land Development, and Other Land | -                                 | 2,554,275                 | 337,500                                 | 2,891,775                        | 14.66                                          | % |
| Other Non Owner-Occupied Commercial Real Estate           | -                                 | 10,737,575                | 284,433                                 | 11,022,008                       | 55.89                                          | % |
| Direct Financing Leases                                   | -                                 | 1,210,936                 | -                                       | 1,210,936                        | 6.14                                           | % |
| Residential Real Estate                                   | -                                 | 935,936                   | -                                       | 935,936                          | 4.75                                           | % |
| Installment and Other Consumer                            | 519                               | 1,013,101                 | 110,982                                 | 1,124,602                        | 5.70                                           | % |
|                                                           | \$ 519                            | \$ 18,040,278             | \$ 1,681,797                            | \$ 19,722,594                    | 100.00                                         | % |

\*Nonaccrual loans/leases includes \$6,425,305 of troubled debt restructurings, including \$170,027 in commercial and industrial loans, \$5,782,572 in commercial real estate loans, \$228,178 in residential real estate loans, and \$244,528 in installment loans.

| As of December 31, 2012                          |                                   |                            |                                         |                                  |                                                |   |
|--------------------------------------------------|-----------------------------------|----------------------------|-----------------------------------------|----------------------------------|------------------------------------------------|---|
| Classes of Loans/Leases                          | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases ** | Troubled Debt Restructurings - Accruing | Total Nonperforming Loans/Leases | Percentage of Total Nonperforming Loans/Leases |   |
| Commercial and Industrial Commercial Real Estate | \$ 120,000                        | \$ 1,564,499               | \$ 184,084                              | \$ 1,868,583                     | 7.36                                           | % |
| Owner-Occupied Commercial Real Estate            | -                                 | 627,245                    | -                                       | 627,245                          | 2.47                                           | % |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                 |            |               |              |               |        |   |
|-----------------------------------------------------------------|------------|---------------|--------------|---------------|--------|---|
| Commercial Construction,<br>Land Development, and Other<br>Land | -          | 2,781,562     | 1,016,023    | 3,797,585     | 14.96  | % |
| Other Non Owner-Occupied<br>Commercial Real Estate              | -          | 10,262,176    | 5,820,765    | 16,082,941    | 63.34  | % |
| Direct Financing Leases                                         | -          | 998,802       | -            | 998,802       | 3.93   | % |
| Residential Real Estate                                         | -          | 1,049,518     | 167,739      | 1,217,257     | 4.79   | % |
| Installment and Other<br>Consumer                               | 39,481     | 648,693       | 110,982      | 799,156       | 3.15   | % |
|                                                                 | \$ 159,481 | \$ 17,932,495 | \$ 7,299,593 | \$ 25,391,569 | 100.00 | % |

\*\*Nonaccrual loans/leases includes \$5,658,781 of troubled debt restructurings, including \$99,804 in commercial and industrial loans, \$5,173,589 in commercial real estate loans, \$64,722 in residential real estate loans, and \$320,666 in installment loans.

Part I  
Item 1

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

Changes in the allowance for estimated losses on loans/leases by portfolio segment for the three months ended March 31, 2013 and 2012, respectively, are presented as follows:

## Three Months Ended March 31, 2013

|                                                            | Commercial<br>and<br>Industrial | Commercial<br>Real<br>Estate | Direct<br>Financing<br>Leases | Residential<br>Real<br>Estate | Installment<br>and<br>Other<br>Consumer | Total         |
|------------------------------------------------------------|---------------------------------|------------------------------|-------------------------------|-------------------------------|-----------------------------------------|---------------|
| Balance, beginning                                         | \$ 4,531,545                    | \$ 11,069,502                | \$ 1,990,395                  | \$ 1,070,328                  | \$ 1,263,434                            | \$ 19,925,204 |
| Provisions charged<br>to expense                           | (87,807 )                       | 1,114,294                    | 378,623                       | 8,899                         | (356,227 )                              | 1,057,782     |
| Loans/leases<br>charged off                                | (215 )                          | -                            | (73,049 )                     | (112,891 )                    | (116,612 )                              | (302,767 )    |
| Recoveries on<br>loans/leases<br>previously charged<br>off | 22,741                          | 5,157                        | 554                           | -                             | 60,791                                  | 89,243        |
| Balance, ending                                            | \$ 4,466,264                    | \$ 12,188,953                | \$ 2,296,523                  | \$ 966,336                    | \$ 851,386                              | \$ 20,769,462 |

## Three Months Ended March 31, 2012

|                                                            | Commercial<br>and<br>Industrial | Commercial<br>Real<br>Estate | Direct<br>Financing<br>Leases | Residential<br>Real<br>Estate | Installment<br>and<br>Other<br>Consumer | Total         |
|------------------------------------------------------------|---------------------------------|------------------------------|-------------------------------|-------------------------------|-----------------------------------------|---------------|
| Balance, beginning                                         | \$ 4,878,006                    | \$ 10,596,958                | \$ 1,339,496                  | \$ 704,946                    | \$ 1,269,856                            | \$ 18,789,262 |
| Provisions charged<br>to expense                           | (90,900 )                       | 257,864                      | 315,446                       | 262,968                       | 35,068                                  | 780,446       |
| Loans/leases<br>charged off                                | (376,408 )                      | -                            | (315,721 )                    | (4,757 )                      | (127,866 )                              | (824,752 )    |
| Recoveries on<br>loans/leases<br>previously charged<br>off | 174,769                         | 620                          | 27,307                        | -                             | 58,992                                  | 261,688       |
| Balance, ending                                            | \$ 4,585,467                    | \$ 10,855,442                | \$ 1,366,528                  | \$ 963,157                    | \$ 1,236,050                            | \$ 19,006,644 |

The allowance for estimated losses on loans/leases by impairment evaluation and by portfolio segment as of March 31, 2013 and December 31, 2012 is presented as follows:

As of March 31, 2013

Total

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                                                      | Commercial<br>and Industrial |   | Commercial<br>Real<br>Estate |   | Direct<br>Financing<br>Leases |   | Residential<br>Real<br>Estate |   | Installment<br>and<br>Other<br>Consumer |   |                  |   |
|------------------------------------------------------------------------------------------------------|------------------------------|---|------------------------------|---|-------------------------------|---|-------------------------------|---|-----------------------------------------|---|------------------|---|
| Allowance<br>for<br>loans/leases<br>individually<br>evaluated for<br>impairment                      | \$ 498,260                   |   | \$ 3,507,839                 |   | \$ 325,294                    |   | \$ 95,232                     |   | \$ 117,131                              |   | \$ 4,543,756     |   |
| Allowance<br>for<br>loans/leases<br>collectively<br>evaluated for<br>impairment                      | 3,968,004                    |   | 8,681,114                    |   | 1,971,229                     |   | 871,104                       |   | 734,255                                 |   | 16,225,706       |   |
|                                                                                                      | \$ 4,466,264                 |   | \$ 12,188,953                |   | \$ 2,296,523                  |   | \$ 966,336                    |   | \$ 851,386                              |   | \$ 20,769,462    |   |
|                                                                                                      |                              |   |                              |   |                               |   |                               |   |                                         |   |                  |   |
| Loans/leases<br>individually<br>evaluated for<br>impairment                                          | \$ 614,021                   |   | \$ 14,460,687                |   | \$ 1,210,936                  |   | \$ 935,936                    |   | \$ 1,124,082                            |   | \$ 18,345,662    |   |
| Loans/leases<br>collectively<br>evaluated for<br>impairment                                          | 397,508,219                  |   | 584,172,931                  |   | 108,443,378                   |   | 114,612,273                   |   | 65,169,821                              |   | 1,269,906,622    |   |
|                                                                                                      | \$ 398,122,240               |   | \$ 598,633,618               |   | \$ 109,654,314                |   | \$ 115,548,209                |   | \$ 66,293,903                           |   | \$ 1,288,252,284 |   |
|                                                                                                      |                              |   |                              |   |                               |   |                               |   |                                         |   |                  |   |
| Allowance<br>as a<br>percentage<br>of<br>loans/leases<br>individually<br>evaluated for<br>impairment | 81.15                        | % | 24.26                        | % | 26.86                         | % | 10.18                         | % | 10.42                                   | % | 24.77            | % |
| Allowance<br>as a<br>percentage<br>of<br>loans/leases<br>collectively<br>evaluated for<br>impairment | 1.00                         | % | 1.49                         | % | 1.82                          | % | 0.76                          | % | 1.13                                    | % | 1.28             | % |
|                                                                                                      | 1.12                         | % | 2.04                         | % | 2.09                          | % | 0.84                          | % | 1.28                                    | % | 1.61             | % |

As of December 31, 2012

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                                                      | Commercial<br>and Industrial | Commercial<br>Real<br>Estate | Direct<br>Financing<br>Leases | Residential<br>Real<br>Estate | Installment<br>and<br>Other<br>Consumer | Total            |
|------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|-----------------------------------------|------------------|
| Allowance<br>for<br>loans/leases<br>individually<br>evaluated for<br>impairment                      | \$ 280,170                   | \$4,005,042                  | \$ 125,000                    | \$ 105,565                    | \$ 71,992                               | \$4,587,769      |
| Allowance<br>for<br>loans/leases<br>collectively<br>evaluated for<br>impairment                      | 4,251,375                    | 7,064,460                    | 1,865,395                     | 964,763                       | 1,191,442                               | 15,337,435       |
|                                                                                                      | \$4,531,545                  | \$ 11,069,502                | \$ 1,990,395                  | \$ 1,070,328                  | \$ 1,263,434                            | \$ 19,925,204    |
| Loans/leases<br>individually<br>evaluated for<br>impairment                                          | \$ 1,006,952                 | \$20,383,846                 | \$998,802                     | \$ 1,217,256                  | \$687,355                               | \$24,294,211     |
| Loans/leases<br>collectively<br>evaluated for<br>impairment                                          | 393,237,300                  | 573,595,393                  | 102,686,854                   | 114,364,317                   | 76,033,159                              | 1,259,917,023    |
|                                                                                                      | \$ 394,244,252               | \$593,979,239                | \$ 103,685,656                | \$ 115,581,573                | \$ 76,720,514                           | \$ 1,284,211,234 |
| Allowance<br>as a<br>percentage<br>of<br>loans/leases<br>individually<br>evaluated for<br>impairment | 27.82                        | % 19.65                      | % 12.51                       | % 8.67                        | % 10.47                                 | % 18.88          |
| Allowance<br>as a<br>percentage<br>of<br>loans/leases<br>collectively<br>evaluated for<br>impairment | 1.08                         | % 1.23                       | % 1.82                        | % 0.84                        | % 1.57                                  | % 1.22           |
|                                                                                                      | 1.15                         | % 1.86                       | % 1.92                        | % 0.93                        | % 1.65                                  | % 1.55           |

Part I  
Item 1

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

Information for impaired loans/leases is presented in the tables below. The recorded investment represents customer balances net of any partial charge-offs recognized on the loan/lease. The unpaid principal balance represents the recorded balance outstanding on the loan/lease prior to any partial charge-offs.

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended March 31, 2013 is 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 |
|-------------------------------------------------------------------|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|-------------------------------------------------------|
| <b>Impaired Loans/Leases with No Specific Allowance Recorded:</b> |                     |                          |                   |                             |                            |                                                       |
| Commercial and Industrial                                         | \$ 402,621          | \$ 775,004               | \$ -              | \$ 767,929                  | \$ 1,924                   | \$ 1,924                                              |
| <b>Commercial Real Estate</b>                                     |                     |                          |                   |                             |                            |                                                       |
| Owner-Occupied Commercial Real Estate                             | 498,946             | 498,946                  | -                 | 507,451                     | -                          | -                                                     |
| Commercial Construction, Land Development, and Other Land         | -                   | -                        | -                 | -                           | -                          | -                                                     |
| Other Non Owner-Occupied Commercial Real Estate                   | 47,958              | 47,958                   | -                 | 3,198,617                   | 40,116                     | 40,116                                                |
| Direct Financing Leases                                           | 789,346             | 789,346                  | -                 | 831,677                     | -                          | -                                                     |
| Residential Real Estate                                           | 630,324             | 630,324                  | -                 | 810,583                     | -                          | -                                                     |
| Installment and Other Consumer                                    | 196,615             | 196,615                  | -                 | 187,590                     | 2,093                      | 2,093                                                 |
|                                                                   | \$ 2,565,810        | \$ 2,938,193             | \$ -              | \$ 6,303,847                | \$ 44,133                  | \$ 44,133                                             |
| <b>Impaired Loans/Leases with Specific Allowance Recorded:</b>    |                     |                          |                   |                             |                            |                                                       |
| Commercial and Industrial                                         | \$ 211,400          | \$ 264,334               | \$ 498,260        | \$ 216,133                  | \$ -                       | \$ -                                                  |
| <b>Commercial Real Estate</b>                                     |                     |                          |                   |                             |                            |                                                       |
| Owner-Occupied Commercial Real Estate                             | -                   | -                        | -                 | -                           | -                          | -                                                     |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                    |               |               |              |               |          |          |
|--------------------------------------------------------------------|---------------|---------------|--------------|---------------|----------|----------|
| Commercial<br>Construction, Land<br>Development, and<br>Other Land | 3,929,839     | 3,929,839     | 1,154,155    | 3,933,530     | 2,703    | 2,703    |
| Other Non<br>Owner-Occupied<br>Commercial Real Estate              | 9,983,944     | 10,236,903    | 2,353,684    | 10,046,487    | 4,501    | 4,501    |
| Direct Financing Leases                                            | 421,590       | 421,590       | 325,294      | 273,192       | -        | -        |
| Residential Real Estate                                            | 305,612       | 305,612       | 95,232       | 308,841       | -        | -        |
| Installment and Other<br>Consumer                                  | 927,467       | 927,467       | 117,131      | 629,810       | 333      | 333      |
|                                                                    | \$ 15,779,852 | \$ 16,085,745 | \$ 4,543,756 | \$ 15,407,993 | \$ 7,537 | \$ 7,537 |

|                                                                    |               |               |              |               |           |           |
|--------------------------------------------------------------------|---------------|---------------|--------------|---------------|-----------|-----------|
| Total Impaired<br>Loans/Leases:                                    |               |               |              |               |           |           |
| Commercial and<br>Industrial                                       | \$ 614,021    | \$ 1,039,338  | \$ 498,260   | \$ 984,062    | \$ 1,924  | \$ 1,924  |
| Commercial Real Estate<br>Owner-Occupied<br>Commercial Real Estate | 498,946       | 498,946       | -            | 507,451       | -         | -         |
| Commercial<br>Construction, Land<br>Development, and<br>Other Land | 3,929,839     | 3,929,839     | 1,154,155    | 3,933,530     | 2,703     | 2,703     |
| Other Non<br>Owner-Occupied<br>Commercial Real Estate              | 10,031,902    | 10,284,861    | 2,353,684    | 13,245,104    | 44,617    | 44,617    |
| Direct Financing Leases                                            | 1,210,936     | 1,210,936     | 325,294      | 1,104,869     | -         | -         |
| Residential Real Estate                                            | 935,936       | 935,936       | 95,232       | 1,119,424     | -         | -         |
| Installment and Other<br>Consumer                                  | 1,124,082     | 1,124,082     | 117,131      | 817,400       | 2,426     | 2,426     |
|                                                                    | \$ 18,345,662 | \$ 19,023,938 | \$ 4,543,756 | \$ 21,711,840 | \$ 51,670 | \$ 51,670 |

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



Part I  
Item 1

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

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended March 31, 2012 is 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 |
|-------------------------------------------------------------------|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|-------------------------------------------------------|
| <b>Impaired Loans/Leases with No Specific Allowance Recorded:</b> |                     |                          |                   |                             |                            |                                                       |
| Commercial and Industrial                                         | \$ 358,028          | \$ 1,005,019             | \$ -              | \$ 396,127                  | \$ -                       | \$ -                                                  |
| <b>Commercial Real Estate</b>                                     |                     |                          |                   |                             |                            |                                                       |
| Owner-Occupied Commercial Real Estate                             | 581,747             | 581,747                  | -                 | 637,245                     | -                          | -                                                     |
| Commercial Construction, Land Development, and Other Land         | 337,500             | 337,500                  | -                 | 112,500                     | 2,168                      | 2,168                                                 |
| Other Non Owner-Occupied Commercial Real Estate                   | 3,735,092           | 3,735,092                | -                 | 4,367,673                   | 894                        | 894                                                   |
| Direct Financing Leases                                           | 602,456             | 602,456                  | -                 | 922,197                     | -                          | -                                                     |
| Residential Real Estate                                           | 676,244             | 676,244                  | -                 | 815,292                     | 1,673                      | 1,673                                                 |
| Installment and Other Consumer                                    | 951,431             | 951,431                  | -                 | 950,111                     | 23                         | 23                                                    |
|                                                                   | \$ 7,242,498        | \$ 7,889,489             | \$ -              | \$ 8,201,145                | \$ 4,758                   | \$ 4,758                                              |
| <b>Impaired Loans/Leases with Specific Allowance Recorded:</b>    |                     |                          |                   |                             |                            |                                                       |
| Commercial and Industrial                                         | \$ 1,441,155        | \$ 1,791,155             | \$ 371,974        | \$ 1,648,384                | \$ 1,980                   | \$ 1,980                                              |
| <b>Commercial Real Estate</b>                                     |                     |                          |                   |                             |                            |                                                       |
| Owner-Occupied Commercial Real Estate                             | 199,427             | 199,427                  | 30,279            | 199,427                     | -                          | -                                                     |
| Commercial Construction, Land Development, and Other Land         | 7,941,358           | 7,941,358                | 2,166,666         | 7,891,719                   | -                          | -                                                     |

|                                                       |               |               |              |               |           |           |
|-------------------------------------------------------|---------------|---------------|--------------|---------------|-----------|-----------|
| Other Non<br>Owner-Occupied<br>Commercial Real Estate | 11,451,204    | 11,951,204    | 1,627,176    | 11,496,658    | 67,551    | 67,551    |
| Direct Financing Leases                               | 118,275       | 118,275       | 35,000       | 91,501        | -         | -         |
| Residential Real Estate                               | 467,007       | 467,007       | 155,102      | 383,095       | -         | -         |
| Installment and Other<br>Consumer                     | 19,911        | 19,911        | 19,911       | 20,021        | -         | -         |
|                                                       | \$ 21,638,337 | \$ 22,488,337 | \$ 4,406,108 | \$ 21,730,805 | \$ 69,531 | \$ 69,531 |

|                                                                    |               |               |              |               |           |           |
|--------------------------------------------------------------------|---------------|---------------|--------------|---------------|-----------|-----------|
| Total Impaired<br>Loans/Leases:                                    |               |               |              |               |           |           |
| Commercial and<br>Industrial                                       | \$ 1,799,183  | \$ 2,796,174  | \$ 371,974   | \$ 2,044,511  | \$ 1,980  | \$ 1,980  |
| Commercial Real Estate<br>Owner-Occupied<br>Commercial Real Estate | 781,174       | 781,174       | 30,279       | 836,672       | -         | -         |
| Commercial<br>Construction, Land<br>Development, and<br>Other Land | 8,278,858     | 8,278,858     | 2,166,666    | 8,004,219     | 2,168     | 2,168     |
| Other Non<br>Owner-Occupied<br>Commercial Real Estate              | 15,186,296    | 15,686,296    | 1,627,176    | 15,864,331    | 68,445    | 68,445    |
| Direct Financing Leases                                            | 720,731       | 720,731       | 35,000       | 1,013,698     | -         | -         |
| Residential Real Estate                                            | 1,143,251     | 1,143,251     | 155,102      | 1,198,387     | 1,673     | 1,673     |
| Installment and Other<br>Consumer                                  | 971,342       | 971,342       | 19,911       | 970,132       | 23        | 23        |
|                                                                    | \$ 28,880,835 | \$ 30,377,826 | \$ 4,406,108 | \$ 29,931,950 | \$ 74,289 | \$ 74,289 |

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

Part I  
Item 1

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

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2012 is presented as follows:

| Classes of Loans/Leases                                           | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|-------------------------------------------------------------------|------------------------|--------------------------------|----------------------|
| <b>Impaired Loans/Leases with No Specific Allowance Recorded:</b> |                        |                                |                      |
| Commercial and Industrial                                         | \$ 438,355             | \$ 1,203,710                   | \$ -                 |
| Commercial Real Estate                                            |                        |                                |                      |
| Owner-Occupied Commercial Real Estate                             | 503,321                | 503,321                        | -                    |
| Commercial Construction, Land Development, and Other Land         | 678,523                | 678,523                        | -                    |
| Other Non Owner-Occupied Commercial Real Estate                   | 495,702                | 495,702                        | -                    |
| Direct Financing Leases                                           | 777,645                | 777,645                        | -                    |
| Residential Real Estate                                           | 944,211                | 1,127,242                      | -                    |
| Installment and Other Consumer                                    | 534,368                | 534,368                        | -                    |
|                                                                   | \$ 4,372,125           | \$ 5,320,511                   | \$ -                 |
| <b>Impaired Loans/Leases with Specific Allowance Recorded:</b>    |                        |                                |                      |
| Commercial and Industrial                                         | \$ 568,597             | \$ 590,849                     | \$ 280,170           |
| Commercial Real Estate                                            |                        |                                |                      |
| Owner-Occupied Commercial Real Estate                             | -                      | -                              | -                    |
| Commercial Construction, Land Development, and Other Land         | 3,967,583              | 3,967,583                      | 1,105,795            |
| Other Non Owner-Occupied Commercial Real Estate                   | 14,738,717             | 14,991,676                     | 2,899,247            |
| Direct Financing Leases                                           | 221,157                | 221,157                        | 125,000              |
| Residential Real Estate                                           | 273,045                | 273,045                        | 105,565              |
| Installment and Other Consumer                                    | 152,987                | 152,987                        | 71,992               |
|                                                                   | \$ 19,922,086          | \$ 20,197,297                  | \$ 4,587,769         |
| <b>Total Impaired Loans/Leases:</b>                               |                        |                                |                      |
| Commercial and Industrial                                         | \$ 1,006,952           | \$ 1,794,559                   | \$ 280,170           |
| Commercial Real Estate                                            |                        |                                |                      |
| Owner-Occupied Commercial Real Estate                             | 503,321                | 503,321                        | -                    |
| Commercial Construction, Land Development, and Other Land         | 4,646,106              | 4,646,106                      | 1,105,795            |
| Other Non Owner-Occupied Commercial Real Estate                   | 15,234,419             | 15,487,378                     | 2,899,247            |
| Direct Financing Leases                                           | 998,802                | 998,802                        | 125,000              |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                |               |               |              |
|--------------------------------|---------------|---------------|--------------|
| Residential Real Estate        | 1,217,256     | 1,400,287     | 105,565      |
| Installment and Other Consumer | 687,355       | 687,355       | 71,992       |
|                                | \$ 24,294,211 | \$ 25,517,808 | \$ 4,587,769 |

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

Part I  
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of March 31, 2013 and December 31, 2012:

| Internally Assigned Risk Rating | As of March 31, 2013      |                                       |                                                                                          |                              | Total         |
|---------------------------------|---------------------------|---------------------------------------|------------------------------------------------------------------------------------------|------------------------------|---------------|
|                                 | Commercial and Industrial | Owner-Occupied Commercial Real Estate | Commercial Real Estate Non Owner-Occupied Construction, Land Development, and Other Land | Other Commercial Real Estate |               |
| Pass (Ratings 1 through 5)      | \$374,705,482             | \$203,077,969                         | \$37,563,441                                                                             | \$303,600,297                | \$918,947,189 |
| Special Mention (Rating 6)      | 10,752,887                | 4,276,925                             | 3,536,555                                                                                | 9,043,854                    | 27,610,221    |
| Substandard (Rating 7)          | 12,663,871                | 4,946,645                             | 5,349,164                                                                                | 27,238,768                   | 50,198,448    |
| Doubtful (Rating 8)             | -                         | -                                     | -                                                                                        | -                            | -             |
|                                 | \$398,122,240             | \$212,301,539                         | \$46,449,160                                                                             | \$339,882,919                | \$996,755,858 |

| Delinquency Status * | As of March 31, 2013    |                         |                                | Total          |
|----------------------|-------------------------|-------------------------|--------------------------------|----------------|
|                      | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer |                |
| Performing           | \$ 108,443,378          | \$ 114,612,273          | \$ 65,169,301                  | \$ 288,224,952 |
| Nonperforming        | 1,210,936               | 935,936                 | 1,124,602                      | 3,271,474      |
|                      | \$ 109,654,314          | \$ 115,548,209          | \$ 66,293,903                  | \$ 291,496,426 |

| Internally Assigned Risk Rating | As of December 31, 2012   |                                       |                                                                           |                              | Total |
|---------------------------------|---------------------------|---------------------------------------|---------------------------------------------------------------------------|------------------------------|-------|
|                                 | Commercial and Industrial | Owner-Occupied Commercial Real Estate | Commercial Real Estate Non Owner-Occupied Construction, Land Development, | Other Commercial Real Estate |       |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

and Other  
Land

|                            |               |               |              |               |               |
|----------------------------|---------------|---------------|--------------|---------------|---------------|
| Pass (Ratings 1 through 5) | \$371,856,380 | \$195,567,523 | \$38,125,793 | \$312,370,393 | \$917,920,089 |
| Special Mention (Rating 6) | 8,008,866     | 5,488,602     | 1,238,152    | 7,319,902     | 22,055,522    |
| Substandard (Rating 7)     | 14,379,006    | 3,855,183     | 5,598,436    | 24,415,255    | 48,247,880    |
| Doubtful (Rating 8)        | -             | -             | -            | -             | -             |
|                            | \$394,244,252 | \$204,911,308 | \$44,962,381 | \$344,105,550 | \$988,223,491 |

| Delinquency Status * | As of December 31, 2012    |                            |                                   |    | Total       |
|----------------------|----------------------------|----------------------------|-----------------------------------|----|-------------|
|                      | Direct Financing<br>Leases | Residential Real<br>Estate | Installment and<br>Other Consumer |    |             |
| Performing           | \$ 102,686,854             | \$ 114,364,316             | \$ 75,921,358                     | \$ | 292,972,528 |
| Nonperforming        | 998,802                    | 1,217,257                  | 799,156                           |    | 3,015,215   |
|                      | \$ 103,685,656             | \$ 115,581,573             | \$ 76,720,514                     | \$ | 295,987,743 |

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

Part I  
Item 1

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

As of March 31, 2013 and December 31, 2012, troubled debt restructurings totaled \$8,107,102 and \$12,958,374, respectively.

For each class of financing receivable, the following presents the number and recorded investment of troubled debt restructurings, by type of concession, that were restructured during the three months ended March 31, 2013 and 2012. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring.

| Classes of<br>Loans/Leases    | For the three months ended March 31, 2013 |                                            |                                             |                       | For the three months ended March 31, 2012 |                                            |                                             |                       |
|-------------------------------|-------------------------------------------|--------------------------------------------|---------------------------------------------|-----------------------|-------------------------------------------|--------------------------------------------|---------------------------------------------|-----------------------|
|                               | Number<br>of<br>Loans/<br>Leases          | Pre-Modification<br>Recorded<br>Investment | Post-Modification<br>Recorded<br>Investment | Specific<br>Allowance | Number<br>of<br>Loans/<br>Leases          | Pre-Modification<br>Recorded<br>Investment | Post-Modification<br>Recorded<br>Investment | Specific<br>Allowance |
| <b>CONCESSION -</b>           |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Significant payment</b>    |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>delay</b>                  |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Owner-Occupied</b>         |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Commercial Real</b>        |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Estate</b>                 |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
|                               | 1                                         | \$ 47,958                                  | \$ 47,958                                   | \$ -                  | -                                         | \$ -                                       | \$ -                                        | \$ -                  |
| <b>Commercial</b>             |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Constructuion, Land</b>    |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Development, and</b>       |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Other Land</b>             |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
|                               | -                                         | -                                          | -                                           | -                     | 2                                         | \$ 200,000                                 | \$ 200,000                                  | \$ 144,000            |
|                               | 1                                         | \$ 47,958                                  | \$ 47,958                                   | \$ -                  | 2                                         | \$ 200,000                                 | \$ 200,000                                  | \$ 144,000            |
| <b>CONCESSION -</b>           |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Extension of</b>           |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>maturity</b>               |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Commercial and</b>         |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Industrial</b>             |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
|                               | 3                                         | \$ 809,494                                 | \$ 809,494                                  | \$ 188,700            | -                                         | \$ -                                       | \$ -                                        | \$ -                  |
|                               | 3                                         | \$ 809,494                                 | \$ 809,494                                  | \$ 188,700            | -                                         | \$ -                                       | \$ -                                        | \$ -                  |
| <b>CONCESSION -</b>           |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Interest rate adjusted</b> |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>below market</b>           |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Commercial</b>             |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Constructuion, Land</b>    |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Development, and</b>       |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Other Land</b>             |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
|                               | -                                         | \$ -                                       | \$ -                                        | \$ -                  | 1                                         | \$ 337,500                                 | \$ 337,500                                  | \$ -                  |
| <b>Residential Real</b>       |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
| <b>Estate</b>                 |                                           |                                            |                                             |                       |                                           |                                            |                                             |                       |
|                               | -                                         | -                                          | -                                           | -                     | 1                                         | 167,739                                    | 167,739                                     | -                     |
|                               | -                                         | -                                          | -                                           | -                     | 1                                         | 16,043                                     | 16,043                                      | -                     |

|                                   |   |            |            |            |   |            |            |            |
|-----------------------------------|---|------------|------------|------------|---|------------|------------|------------|
| Installment and<br>Other Consumer | - | \$ -       | \$ -       | \$ -       | 3 | \$ 521,282 | \$ 521,282 | \$ -       |
| TOTAL                             | 4 | \$ 857,452 | \$ 857,452 | \$ 188,700 | 5 | \$ 721,282 | \$ 721,282 | \$ 144,000 |

Of the troubled debt restructurings reported above, two with post-modification recorded investments totaling \$86,426 were on nonaccrual as of March 31, 2013, and two with post-modification recorded investments totaling \$200,000 were on nonaccrual as of March 31, 2012.

For the three months ended March 31, 2013 and 2012, none of the Company's troubled debt restructurings had redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.



Part I  
Item 1

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

## NOTE 4 - EARNINGS PER SHARE

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

|                                                                                                                   | Three months ended<br>March 31, |              |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|
|                                                                                                                   | 2013                            | 2012         |
| Net income                                                                                                        | \$ 3,265,144                    | \$ 3,402,849 |
| Less: Net income attributable to noncontrolling interests                                                         | -                               | 166,031      |
| Net income attributable to QCR Holdings, Inc.                                                                     | \$ 3,265,144                    | \$ 3,236,818 |
| Less: Preferred stock dividends                                                                                   | 810,837                         | 938,625      |
| Net income attributable to QCR Holdings, Inc. common stockholders                                                 | \$ 2,454,307                    | \$ 2,298,193 |
| Earnings per common share attributable to QCR Holdings, Inc. common stockholders                                  |                                 |              |
| Basic                                                                                                             | \$ 0.50                         | \$ 0.48      |
| Diluted                                                                                                           | \$ 0.49                         | \$ 0.48      |
| Weighted average common shares outstanding                                                                        | 4,927,591                       | 4,800,407    |
| Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan | 106,751                         | 32,992       |
| Weighted average common and common equivalent shares outstanding                                                  | 5,034,342                       | 4,833,399    |

## NOTE 5 – 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 which are the three subsidiary banks wholly-owned by the Company: QCBT, CRBT, and RB&T. Each of these secondary segments offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

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

Part I  
Item 1

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

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.

Selected financial information on the Company's business segments is presented as follows for the three months ended March 31, 2013 and 2012.

|                                                           | Commercial Banking        |                              |                          |                      |                |                              |                       |
|-----------------------------------------------------------|---------------------------|------------------------------|--------------------------|----------------------|----------------|------------------------------|-----------------------|
|                                                           | Quad City<br>Bank & Trust | Cedar Rapids<br>Bank & Trust | Rockford<br>Bank & Trust | Wealth<br>Management | All Other      | Intercompany<br>Eliminations | Consolidated<br>Total |
| Three<br>Months<br>Ended<br>March 31,<br>2013             |                           |                              |                          |                      |                |                              |                       |
| Total<br>revenue                                          | \$ 12,055,661             | \$ 6,928,351                 | \$ 3,184,059             | \$ 1,649,011         | \$ 4,732,570   | \$ (4,808,141 )              | \$ 23,741,511         |
| Net interest<br>income                                    | \$ 8,391,538              | \$ 3,844,882                 | \$ 2,305,077             | \$ -                 | \$ (350,180 )  | \$ -                         | \$ 14,191,317         |
| Net income<br>attributable<br>to QCR<br>Holdings,<br>Inc. | \$ 2,497,025              | \$ 1,720,811                 | \$ 96,242                | \$ 213,007           | \$ 3,265,144   | \$ (4,527,085 )              | \$ 3,265,144          |
| Total assets                                              | \$ 1,223,662,809          | \$ 598,842,406               | \$ 322,544,243           | \$ -                 | \$ 199,591,558 | \$ (200,650,364 )            | \$ 2,143,990,652      |
| Provision<br>for<br>loan/lease<br>losses                  | \$ 357,782                | \$ 300,000                   | \$ 400,000               | \$ -                 | \$ -           | \$ -                         | \$ 1,057,782          |
| Goodwill                                                  | \$ 3,222,688              | \$ -                         | \$ -                     | \$ -                 | \$ -           | \$ -                         | \$ 3,222,688          |

|                                                   |               |              |              |              |               |                 |               |
|---------------------------------------------------|---------------|--------------|--------------|--------------|---------------|-----------------|---------------|
| Three<br>Months<br>Ended<br>March 31,<br>2012     |               |              |              |              |               |                 |               |
| Total<br>revenue                                  | \$ 12,265,033 | \$ 6,586,149 | \$ 3,120,795 | \$ 1,405,194 | \$ 4,611,992  | \$ (4,658,481 ) | \$ 23,330,682 |
| Net interest<br>income                            | \$ 8,389,042  | \$ 3,767,999 | \$ 2,432,706 | \$ -         | \$ (356,376 ) | \$ (29,918 )    | \$ 14,203,453 |
| Net income<br>attributable<br>to QCR<br>Holdings, | \$ 2,689,685  | \$ 1,267,266 | \$ 393,475   | \$ 159,883   | \$ 3,296,363  | \$ (4,569,854 ) | \$ 3,236,818  |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Inc.

|              |                  |                |                |      |                |                  |                  |
|--------------|------------------|----------------|----------------|------|----------------|------------------|------------------|
| Total assets | \$ 1,114,376,297 | \$ 566,158,474 | \$ 312,595,782 | \$ - | \$ 198,977,794 | \$ (199,110,154) | \$ 1,992,998,193 |
|--------------|------------------|----------------|----------------|------|----------------|------------------|------------------|

Provision

for

loan/lease

|        |            |            |           |      |      |      |            |
|--------|------------|------------|-----------|------|------|------|------------|
| losses | \$ 395,446 | \$ 350,000 | \$ 35,000 | \$ - | \$ - | \$ - | \$ 780,446 |
|--------|------------|------------|-----------|------|------|------|------------|

|          |              |      |      |      |      |      |              |
|----------|--------------|------|------|------|------|------|--------------|
| Goodwill | \$ 3,222,688 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,222,688 |
|----------|--------------|------|------|------|------|------|--------------|

21

---

Part I  
Item 1

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

## NOTE 6 – FAIR VALUE

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

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

Assets measured at fair value on a recurring basis comprise the following at March 31, 2013 and December 31, 2012:

|                                                    |               | Fair Value Measurements at Reporting Date Using                               |                                                           |                                                    |
|----------------------------------------------------|---------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                    |               | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                                                    | Fair Value    |                                                                               |                                                           |                                                    |
| March 31, 2013:                                    |               |                                                                               |                                                           |                                                    |
| Securities available for sale:                     |               |                                                                               |                                                           |                                                    |
| U.S. govt. sponsored agency securities             | \$403,839,932 | \$-                                                                           | \$403,839,932                                             | \$-                                                |
| Residential mortgage-backed and related securities | 174,802,232   | -                                                                             | 174,802,232                                               | -                                                  |
| Municipal securities                               | 24,991,041    | -                                                                             | 24,991,041                                                | -                                                  |
| Trust preferred securities                         | 185,320       | -                                                                             | 185,320                                                   | -                                                  |
| Other securities                                   | 1,726,849     | 255,370                                                                       | 1,471,479                                                 | -                                                  |
|                                                    | \$605,545,374 | \$255,370                                                                     | \$605,290,004                                             | \$-                                                |
| December 31, 2012:                                 |               |                                                                               |                                                           |                                                    |
| Securities available for sale:                     |               |                                                                               |                                                           |                                                    |
| U.S. govt. sponsored agency securities             | \$338,609,371 | \$-                                                                           | \$338,609,371                                             | \$-                                                |
| Residential mortgage-backed and related securities | 163,601,103   | -                                                                             | 163,601,103                                               | -                                                  |
| Municipal securities                               | 26,185,736    | -                                                                             | 26,185,736                                                | -                                                  |
| Trust preferred securities                         | 139,400       | -                                                                             | 139,400                                                   | -                                                  |
| Other securities                                   | 1,624,376     | 234,453                                                                       | 1,389,923                                                 | -                                                  |
|                                                    | \$530,159,986 | \$234,453                                                                     | \$529,925,533                                             | \$-                                                |

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the three months ended March 31, 2013 and 2012.

Part I  
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

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 March 31, 2013 and December 31, 2012:

|                         | Fair Value   | Fair Value Measurements at Reporting Date Using |         |              |
|-------------------------|--------------|-------------------------------------------------|---------|--------------|
|                         |              | Level 1                                         | Level 2 | Level 3      |
| March 31, 2013:         |              |                                                 |         |              |
| Impaired loans/leases   | \$12,569,814 | \$-                                             | \$-     | \$12,569,814 |
| Other real estate owned | 3,973,773    | -                                               | -       | 3,973,773    |
|                         | \$16,543,587 | \$-                                             | \$-     | \$16,543,587 |
| December 31, 2012:      |              |                                                 |         |              |
| Impaired loans/leases   | \$18,054,234 | \$-                                             | \$-     | \$18,054,234 |
| Other real estate owned | 4,270,901    | -                                               | -       | 4,270,901    |
|                         | \$22,325,135 | \$-                                             | \$-     | \$22,325,135 |

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 may be 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.

Other real estate owned 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 a 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.

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

There have been no changes in valuation techniques used for any assets measured at fair value during the three months ended March 31, 2013 and 2012.



Part I  
Item 1

## 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<br>Hierarchy<br>Level | As of March 31, 2013 |                         | As of December 31, 2012 |                         |
|--------------------------------------------------------|----------------------------------|----------------------|-------------------------|-------------------------|-------------------------|
|                                                        |                                  | Carrying<br>Value    | Estimated<br>Fair Value | Carrying<br>Value       | Estimated<br>Fair Value |
| Cash and due from banks                                | Level 1                          | \$33,254,137         | \$33,254,137            | \$61,568,446            | \$61,568,446            |
| Federal funds sold                                     | Level 2                          | -                    | -                       | 26,560,000              | 26,560,000              |
| Interest-bearing deposits at<br>financial institutions | Level 2                          | 33,781,655           | 33,781,655              | 22,359,490              | 22,359,490              |
| Investment securities:                                 |                                  |                      |                         |                         |                         |
| Held to maturity                                       | Level 3                          | 87,006,209           | 87,345,034              | 72,079,385              | 73,005,706              |
|                                                        | See Previous                     |                      |                         |                         |                         |
| Available for sale                                     | Table                            | 605,545,374          | 605,545,374             | 530,159,986             | 530,159,986             |
| Loans/leases receivable, net                           | Level 3                          | 11,638,717           | 12,569,814              | 16,716,883              | 18,054,234              |
| Loans/leases receivable, net                           | Level 2                          | 1,259,387,332        | 1,269,628,186           | 1,250,745,552           | 1,262,090,766           |
| Deposits:                                              |                                  |                      |                         |                         |                         |
| Nonmaturity deposits                                   | Level 2                          | 1,083,387,164        | 1,083,387,164           | 1,039,572,326           | 1,039,572,326           |
| Time deposits                                          | Level 2                          | 337,106,094          | 339,550,000             | 334,541,774             | 337,343,000             |
| Short-term borrowings                                  | Level 2                          | 171,853,471          | 171,853,471             | 171,082,961             | 171,082,961             |
| Federal Home Loan Bank<br>advances                     | Level 2                          | 205,350,000          | 222,673,000             | 202,350,000             | 220,815,000             |
| Other borrowings                                       | Level 2                          | 138,241,912          | 149,671,000             | 138,239,762             | 154,101,000             |
| Junior subordinated<br>debentures                      | Level 2                          | 36,085,000           | 18,862,000              | 36,085,000              | 18,786,000              |

The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. For certain financial assets and liabilities, carrying value approximates fair value due to the nature of the financial instrument. These instruments include: cash and due from banks, federal funds sold, interest-bearing deposits at financial institutions, non-maturity deposits, and short-term borrowings. The Company used the following methods and assumptions in estimating the fair value of the following instruments:

Securities held to maturity: The fair values are estimated using pricing models that consider certain observable market data, however, as most of the securities have limited or no trading activity and are not rated, the fair value is partially dependent upon unobservable inputs.

Loans/leases receivable: The fair values for all types of loans/leases are estimated using discounted cash flow analyses, using interest rates currently being offered for loans/leases with similar terms to borrowers with similar credit quality. The fair value of loans held for sale is based on quoted market prices of similar loans sold in the secondary market.

Deposits: The fair values disclosed for demand deposits equal their carrying amounts, which represent the amount payable on demand. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregate expected monthly maturities on time deposits.

FHLB advances and junior subordinated debentures: The fair value of these instruments is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Other borrowings: The fair value for the wholesale repurchase agreements and fixed rate other borrowings is estimated using rates currently available for debt with similar terms and remaining maturities. The fair value for variable rate other borrowings is equal to its carrying value.

Commitments to extend credit: The fair value of these commitments is not material.

Part I  
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 7 – SALE OF CREDIT CARD LOAN RECEIVABLES AND CREDIT CARD ISSUING OPERATIONS AT QCBT

On January 31, 2013, QCBT entered into an agreement to sell its credit card loan receivables totaling \$10,179,318. This transaction closed on February 15, 2013 and resulted in a pre-tax gain of \$495,405. As part of the agreement, QCBT also agreed to sell its credit card issuing operations to the purchaser. The gain recognized on this transaction was \$355,268. QCBT incurred pre-tax expenses related to these transactions of \$257,476 for the three months ended March 31, 2013, resulting in a net pre-tax gain on the transactions of \$593,197.

NOTE 8 – ACQUISITION OF COMMUNITY NATIONAL BANCORPORATION AND COMMUNITY NATIONAL BANK

On February 13, 2013, the Company signed a definitive agreement to acquire Community National Bancorporation (“Community National”) and Community National Bank (“CNB”). Community National is a bank holding company providing bank and bank related services through its wholly-owned bank subsidiary, CNB. CNB is a commercial bank headquartered in Waterloo, Iowa and serves Waterloo, Cedar Falls, and Mason City, Iowa and Austin, Minnesota. As a de novo bank, CNB commenced its operations in 1997. As of December 31, 2012, Community National had total assets of \$287.7 million, net loans receivable of \$205.2 million, deposits of \$247.8 million, and stockholders’ equity of \$19.3 million.

The Company intends to acquire 100% of Community National’s outstanding common stock for aggregate consideration consisting of approximately 70% QCR Holdings common stock and 30% cash. The Company has received approval for the transaction from banking regulators, and the transaction is expected to close on or about May 13, 2013, subject to approval by Community National shareholders and the completion of certain customary closing conditions.

Part I  
Item 2

MANAGEMENT DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

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

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

- QCBT commenced operations in 1994 and provides full-service commercial and consumer banking, and trust and asset management services, to the Quad City area and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and Moline, Illinois. QCBT also provides leasing services through its wholly-owned subsidiary, m2 Lease Funds, located in Brookfield, Wisconsin. In addition, QCBT owns 100% of Quad City Investment Advisors, LLC, which is an investment management and advisory company.
- CRBT commenced operations in 2001 and provides full-service commercial and consumer banking, and trust and asset management services, to Cedar Rapids, Iowa and adjacent communities through its main office located on First Avenue in downtown Cedar Rapids, Iowa and its branch facility located on Council Street in northern Cedar Rapids. Previously, CRBT had provided residential real estate mortgage lending services through its 50%-owned joint venture, Cedar Rapids Mortgage Company. During the first quarter of 2013, CRBT and the partner mutually terminated the joint venture. CRBT continues to provide residential real estate mortgage lending services through its consumer banking division.
- RB&T commenced operations in January 2005 and provides full-service commercial and consumer banking, and trust and asset management services, to Rockford, Illinois and adjacent communities through its main office located in downtown Rockford and its branch facility on Guilford Road at Alpine Road in Rockford.

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

## OVERVIEW

The Company recognized net income and net income attributable to QCR Holdings, Inc. of \$3.3 million for the quarter ended March 31, 2013. After preferred stock dividends of \$811 thousand, the Company reported net income attributable to common stockholders of \$2.5 million, or diluted earnings per common share of \$0.49. By comparison, for the first quarter of 2012, the Company recognized net income of \$3.4 million and net income attributable to QCR Holdings, Inc. of \$3.2 million, which excludes the net income attributable to noncontrolling interests of \$166 thousand. After preferred stock dividends of \$939 thousand, the Company reported net income attributable to common stockholders of \$2.3 million, or diluted earnings per common share of \$0.48.

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

|                                                                   | March 31,<br>2013 | For the three months ended<br>December 31,<br>2012 | March 31,<br>2012 |
|-------------------------------------------------------------------|-------------------|----------------------------------------------------|-------------------|
| Net income                                                        | \$ 3,265,144      | \$ 3,245,502                                       | \$ 3,402,849      |
| Less: Net income (loss) attributable to noncontrolling interests  | -                 | (5,958 )                                           | 166,031           |
| Net income attributable to QCR Holdings, Inc.                     | \$ 3,265,144      | \$ 3,251,460                                       | \$ 3,236,818      |
| Less: Preferred stock dividends                                   | 810,837           | 810,838                                            | 938,625           |
| Net income attributable to QCR Holdings, Inc. common stockholders | \$ 2,454,307      | \$ 2,440,622                                       | \$ 2,298,193      |
| Diluted earnings per common share                                 | \$ 0.49           | \$ 0.49                                            | \$ 0.48           |
| Weighted average common and common equivalent shares outstanding  | 5,034,342         | 4,983,939                                          | 4,833,399         |

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

|                                 | March 31,<br>2013 | For the three months ended<br>December 31,<br>2012 | March 31,<br>2012 |
|---------------------------------|-------------------|----------------------------------------------------|-------------------|
| Net interest income             | \$ 14,191,317     | \$ 14,300,796                                      | \$ 14,203,453     |
| Provision for loan/lease losses | (1,057,782 )      | (1,045,658 )                                       | (780,446 )        |
| Noninterest income              | 5,204,029         | 4,479,726                                          | 3,956,878         |
| Noninterest expense             | (13,958,500)      | (13,380,267)                                       | (12,738,080)      |
| Federal and state income tax    | (1,113,920 )      | (1,109,095 )                                       | (1,238,956 )      |
| Net income                      | \$ 3,265,144      | \$ 3,245,502                                       | \$ 3,402,849      |

Noninterest income and noninterest expenses were both elevated from the fourth quarter of 2012 to the first quarter of 2013. The increases were partly the result of nonrecurring items, as follows:

- In the first quarter of 2013, QCBT sold its credit card loan portfolio and issuing operations for a pre-tax gain on sales totaling \$850 thousand. The Company incurred \$257 thousand of pre-tax expenses related to the transactions during the first quarter of 2013 resulting in a net pre-tax gain on sales of \$593 thousand.
- As a result of the planned acquisition of Community National (see Note 8 to the Consolidated Financial Statements), the Company incurred \$357 thousand of pre-tax costs related to the acquisition in the first quarter of 2013.

Part I  
Item 2

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

NET INTEREST INCOME

Net interest income, on a tax equivalent basis, increased \$186 thousand, or 1%, to \$14.8 million for the quarter ended March 31, 2013, from \$14.6 million for the same period of 2012. The slight increase in net interest income was driven primarily by reduced interest expense. This was the result of continued reductions in the cost of deposits as well as growth in noninterest bearing deposits, which funded the earning asset growth and allowed the level of interest-bearing funding to remain relatively flat. Interest income, on a tax equivalent basis, fell \$638 thousand, or 3%, as the continued decline in yields more than offset the growth in loans and securities.

A comparison of yields, spread and margin from the first quarter of 2013 to the first quarter of 2012 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 33 basis points.
- The average cost of interest-bearing liabilities decreased 22 basis points.
- The net interest spread declined 11 basis points from 2.79% to 2.68%.
- The net interest margin declined 10 basis points from 3.12% to 3.02%.

The Company's management closely monitors and manages net interest margin. From a profitability standpoint, an important challenge for the Company's subsidiary banks and leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing and other balance sheet management strategies. As an example, during the first quarter of 2013, QCBT modified \$50.0 million of fixed rate wholesale structured repurchase agreements ("structured repos") with a weighted average interest rate of 3.21% and a weighted average maturity of February 2016 into new fixed rate structured repos with a weighted average interest rate of 2.65% and a weighted average maturity of May 2020. This modification serves to reduce interest expense and improve net interest margin, and minimizes the exposure to rising rates through duration extension of fixed rate liabilities.

Over the past several years, the Company's management has emphasized improving its funding mix by reducing its reliance on wholesale funding, which tends to be at a higher cost than deposits. In addition, with deposit growth continuing to outpace loan growth, the Company's management has focused on growing and diversifying its securities portfolio.

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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

|                                                           | For the three months ended March 31, |                                       |                                                       |                    |                                       |                             |
|-----------------------------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------------------------|--------------------|---------------------------------------|-----------------------------|
|                                                           | Average<br>Balance                   | 2013<br>Interest<br>Earned<br>or Paid | Average<br>Yield or<br>Cost<br>(dollars in thousands) | Average<br>Balance | 2012<br>Interest<br>Earned<br>or Paid | Average<br>Yield or<br>Cost |
| <b>ASSETS</b>                                             |                                      |                                       |                                                       |                    |                                       |                             |
| Interest earning assets:                                  |                                      |                                       |                                                       |                    |                                       |                             |
| Federal funds sold                                        | \$ 2,349                             | \$ 1                                  | 0.17 %                                                | \$ -               | \$ -                                  | 0.00 %                      |
| Interest-bearing<br>deposits at financial<br>institutions | 37,834                               | 60                                    | 0.64 %                                                | 84,367             | 120                                   | 0.57 %                      |
| Investment securities<br>(1)                              | 648,638                              | 3,656                                 | 2.29 %                                                | 576,530            | 3,391                                 | 2.37 %                      |
| Restricted investment<br>securities                       | 15,415                               | 125                                   | 3.29 %                                                | 15,280             | 81                                    | 2.13 %                      |
| Gross loans/leases<br>receivable (1) (2) (3)              | 1,279,040                            | 15,251                                | 4.84 %                                                | 1,198,047          | 16,139                                | 5.42 %                      |
| Total interest earning<br>assets (1)                      | \$ 1,983,276                         | \$ 19,093                             | 3.90 %                                                | \$ 1,874,224       | \$ 19,731                             | 4.23 %                      |
| Noninterest-earning<br>assets:                            |                                      |                                       |                                                       |                    |                                       |                             |
| Cash and due from<br>banks                                | \$ 39,908                            |                                       |                                                       | \$ 41,021          |                                       |                             |
| Premises and<br>equipment                                 | 31,202                               |                                       |                                                       | 31,670             |                                       |                             |
| Less allowance for<br>estimated losses on<br>loans/leases | (20,224 )                            |                                       |                                                       | (18,911 )          |                                       |                             |
| Other                                                     | 75,850                               |                                       |                                                       | 76,738             |                                       |                             |
| Total assets                                              | \$ 2,110,012                         |                                       |                                                       | \$ 2,004,742       |                                       |                             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>               |                                      |                                       |                                                       |                    |                                       |                             |
| Interest-bearing<br>liabilities:                          |                                      |                                       |                                                       |                    |                                       |                             |
| Interest-bearing<br>deposits                              | \$ 562,905                           | \$ 409                                | 0.29 %                                                | \$ 541,236         | \$ 744                                | 0.55 %                      |



Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                                                                                  |              |           |      |   |              |           |      |   |
|----------------------------------------------------------------------------------|--------------|-----------|------|---|--------------|-----------|------|---|
| Time deposits                                                                    | 333,696      | 708       | 0.86 | % | 345,800      | 972       | 1.13 | % |
| Short-term borrowings                                                            | 175,706      | 64        | 0.15 | % | 178,981      | 65        | 0.15 | % |
| Federal Home Loan                                                                |              |           |      |   |              |           |      |   |
| Bank advances                                                                    | 202,618      | 1,733     | 3.47 | % | 206,137      | 1,864     | 3.64 | % |
| Junior subordinated                                                              |              |           |      |   |              |           |      |   |
| debentures                                                                       | 36,085       | 241       | 2.71 | % | 36,085       | 268       | 2.99 | % |
| Other borrowings                                                                 | 138,210      | 1,191     | 3.49 | % | 135,898      | 1,257     | 3.72 | % |
| Total interest-bearing liabilities                                               | \$ 1,449,220 | \$ 4,346  | 1.22 | % | \$ 1,444,137 | \$ 5,170  | 1.44 | % |
| Noninterest-bearing demand deposits                                              | \$ 487,264   |           |      |   | \$ 390,021   |           |      |   |
| Other noninterest-bearing liabilities                                            | 32,345       |           |      |   | 26,761       |           |      |   |
| Total liabilities                                                                | \$ 1,968,829 |           |      |   | \$ 1,860,919 |           |      |   |
| Stockholders' equity                                                             | 141,183      |           |      |   | 143,823      |           |      |   |
| Total liabilities and stockholders' equity                                       | \$ 2,110,012 |           |      |   | \$ 2,004,742 |           |      |   |
| Net interest income (1)                                                          |              | \$ 14,747 |      |   |              | \$ 14,561 |      |   |
| Net interest spread (1)                                                          |              |           | 2.68 | % |              |           | 2.79 | % |
| Net interest margin (1)                                                          |              |           | 3.02 | % |              |           | 3.12 | % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 136.85       | %         |      |   | 129.78       | %         |      |   |

(1) Interest earned and yields on nontaxable investment securities and nontaxable loans are determined on a tax equivalent basis using a 34% tax rate for each period presented.

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

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

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continuedAnalysis of Changes of Interest Income/Interest Expense  
For the three months ended March 31, 2013 and 2012

|                                                     | Inc./(Dec.)<br>from<br>Prior Period | Components<br>of Change (1)<br>Rate<br>2013 vs. 2012<br>(dollars in thousands) | Volume  |
|-----------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------|---------|
| <b>INTEREST INCOME</b>                              |                                     |                                                                                |         |
| Federal funds sold                                  | \$1                                 | \$-                                                                            | \$1     |
| Interest-bearing deposits at financial institutions | (60 )                               | 87                                                                             | (147 )  |
| Investment securities (2)                           | 265                                 | (668 )                                                                         | 933     |
| Restricted investment securities                    | 44                                  | 43                                                                             | 1       |
| Gross loans/leases receivable (2) (3) (4)           | (888 )                              | (5,932 )                                                                       | 5,044   |
| Total change in interest income (2)                 | \$(638 )                            | \$(6,470 )                                                                     | \$5,832 |
| <b>INTEREST EXPENSE</b>                             |                                     |                                                                                |         |
| Interest-bearing deposits                           | \$(335 )                            | \$(530 )                                                                       | \$195   |
| Time deposits                                       | (264 )                              | (230 )                                                                         | (34 )   |
| Short-term borrowings                               | (1 )                                | 3                                                                              | (4 )    |
| Federal Home Loan Bank advances                     | (131 )                              | (96 )                                                                          | (35 )   |
| Junior subordinated debentures                      | (27 )                               | (27 )                                                                          | -       |
| Other borrowings                                    | (66 )                               | (186 )                                                                         | 120     |
| Total change in interest expense                    | \$(824 )                            | \$(1,066 )                                                                     | \$242   |
| Total change in net interest income (2)             | \$186                               | \$(5,404 )                                                                     | \$5,590 |

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

(2) Interest earned and yields on nontaxable investment securities and nontaxable loans are determined on a tax equivalent basis using a 34% tax rate for each period presented.

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

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



Part I  
Item 2

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

CRITICAL ACCOUNTING POLICIES

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

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for estimated losses on loans/leases. The Company's allowance for estimated losses on loans/leases methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for estimated losses on loans/leases that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans/leases, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest, and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. Management may report a materially different amount for the provision for loan/lease losses in the statement of operations to change the allowance for estimated losses on loans/leases if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion in the section entitled "Financial Condition" of this Management's Discussion and Analysis that discusses the allowance for estimated losses on loans/leases. Although management believes the level of the allowance as of March 31, 2013 is adequate to absorb losses inherent in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

The Company's assessment of other-than-temporary impairment of its available-for-sale securities portfolio is another critical accounting policy as a result of the level of judgment required by management. Available-for-sale securities are evaluated to determine whether declines in fair value below their cost are other-than-temporary. In estimating other-than-temporary impairment losses, management considers a number of factors including, but not limited to, (1) the length of time and extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions, and (4) the intent of the Company to not sell the security prior to recovery and whether it is not more-likely-than-not that the Company will be required to sell the security prior to recovery. The discussion regarding the Company's assessment of other-than-temporary impairment should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein.

Part I  
Item 2

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

RESULTS OF OPERATIONS

INTEREST INCOME

Interest income declined \$836 thousand, or 4%, comparing the first quarter of 2013 to the same period of 2012. The effect of declines in loan and securities yields more than offset the growth in loans and securities. Specifically, over the year, the average balance for loans/leases grew \$81.0 million, or 7%, while yields declined 58 basis points. For securities over the year, the average balance increased \$72.1 million, or 13%, while yields fell 8 basis points. As deposit growth continues to outpace loan growth, the Company has focused on growing and diversifying its securities portfolio, including increasing its portfolio of agency-sponsored mortgage-backed securities as well as municipal securities. Of the latter, all are located in the Midwest with strong underwriting conducted before investment.

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

INTEREST EXPENSE

Interest expense for the first quarter of 2013 declined \$824 thousand, or 16%, from the first quarter of 2012. The Company continued to grow noninterest bearing deposits (average balances grew \$97.2 million, or 25%, from the first quarter of 2012 to the same period of 2013), which has provided management increased flexibility to decrease pricing on its interest-bearing deposits. The Company has been successful in decreasing the cost of borrowings, which has also contributed to the decline in interest expense. Management has placed a strong focus on reducing the reliance on wholesale funding as it tends to be higher cost than deposits. In recent years, the majority of maturing wholesale funds have not been replaced, or, to a lesser extent, have been replaced at significantly reduced cost.

Management continues to consider strategies to accelerate the reduction of the reliance on wholesale funding and continue the shift in mix to a funding base consisting of a higher percentage of core deposits, including noninterest-bearing deposits.

PROVISION FOR LOAN/LEASE LOSSES

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

The Company's provision for loan/lease losses totaled \$1.1 million for the first quarter of 2013, flat from the prior quarter, and an increase of \$278 thousand from the first quarter of 2012. With the provision of \$1.1 million more than offsetting the net charge-offs totaling \$214 thousand (only 2 basis points of average loans/leases during the current quarter), the Company's allowance for loan/lease losses grew to \$20.8 million at March 31, 2013. With modest loan/lease growth during the first quarter of 2013, the Company's allowance for loan/lease losses to total loans/leases increased to 1.61% at March 31, 2013 from 1.55% at December 31, 2012, and increased from 1.57% at March 31, 2012.

A more detailed discussion of the Company's allowance for estimated losses on loans/leases can be found in the "Financial Condition" section of this report.

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

## NONINTEREST INCOME

The following table sets forth the various categories of noninterest income for the three months ended March 31, 2013 and 2012.

|                                                           | Three Months Ended |                   |             |          |   |
|-----------------------------------------------------------|--------------------|-------------------|-------------|----------|---|
|                                                           | March 31,<br>2013  | March 31,<br>2012 | \$ Change   | % Change |   |
| Trust department fees                                     | \$1,039,670        | \$883,732         | \$155,938   | 17.6     | % |
| Investment advisory and management fees                   | 609,341            | 521,462           | 87,879      | 16.9     |   |
| Deposit service fees                                      | 907,823            | 904,406           | 3,417       | 0.4      |   |
| Gains on sales of residential real estate loans           | 291,151            | 291,433           | (282)       | (0.1)    | ) |
| Gains on sales of government guaranteed portions of loans | 845,224            | 107,657           | 737,567     | 685.1    |   |
| Earnings on bank-owned life insurance                     | 438,687            | 438,402           | 285         | 0.1      |   |
| Credit card fees, net of processing costs                 | 49,954             | 127,015           | (77,061)    | (60.7)   | ) |
| Subtotal                                                  | \$4,181,850        | \$3,274,107       | \$907,743   | 27.7     |   |
| Losses on other real estate owned, net                    | (446,630)          | (189,204)         | (257,426)   | 136.1    | ) |
| Other                                                     | 1,468,809          | 871,975           | 596,834     | 68.4     |   |
| Total noninterest income                                  | \$5,204,029        | \$3,956,878       | \$1,247,151 | 31.5     | % |

Trust department fees continue to be a significant contributor to noninterest income. Trust department fees grew 18% from the first quarter of 2012 to the first quarter of 2013. The majority of the trust department fees are determined based on the value of the investments within the managed trusts. As markets have experienced volatility with the national economy's recovery from recession, the Company's fee income has experienced similar volatility and fluctuation. In recent years, the Company has been successful in expanding its customer base, which has helped to drive the recent increases in fee income.

In recent years, the Company has placed a stronger emphasis on growing its investment advisory and management services. Part of this initiative has been to restructure the Company's Wealth Management Division to allow for more efficient delivery of products and services through selective additions of talent as well as the leverage of and collaboration among existing resources (including the aforementioned trust department). Fee income for investment advisory and management services grew 17% comparing the first quarter of 2013 to the same period of 2012. Similar to trust department fees, these fees are largely determined based on the value of the investments managed. Continued expansion of the customer base has helped drive the recent increases in fee income.

As management focuses on growing fee income, expanding market share in trust and investment advisory services will continue to be a primary strategic focus.

Deposit service fees were up slightly from the first quarter of 2012 to the first quarter of 2013. Deposit service fees have generally expanded over the past several years. The Company has placed an emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits. With this shift in mix, the Company

has increased the number of demand deposit accounts, which tend to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to further focus on growing deposit service fees. Management periodically evaluates fee levels and fully understands the importance of this recurring source of fee income. In particular, the Company has recently evaluated the level of fee reduction and compensating balances for the noninterest-bearing correspondent bank deposits and restructured the program to minimize the reduction of fees effective in 2013.



Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Gains on sales of residential real estate loans were flat comparing the first quarter of 2013 to the first quarter of 2012. With the sustained historically low interest rate environment, refinancing activity has slowed as most of the Company's existing and prospective customers have already executed a refinancing. In addition, based on historical experience, the first quarter is generally a slower time for residential real estate lending activity.

In recent years, the Company elevated its focus on small business lending by taking advantage of programs offered by the Small Business Administration ("SBA") and the United State Department of Agriculture ("USDA"). The Company's portfolio of government guaranteed loans has grown as a direct result of the Company's strong expertise in SBA and USDA lending. In some cases, it is more beneficial for the Company to sell the government guaranteed portions of the loans on the secondary market for a premium rather than retain the loans in the Company's portfolio. Sales activity for government guaranteed portions of loans tends to fluctuate depending on the demand for small business loans that fit the criteria for the government guarantee. Further, some of the transactions can be large and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can be large. Lastly, a strategy for improved pricing is packaging loans together for sale. From time to time, the Company may execute on this strategy, which may delay the gains on sales of some loans to achieve better pricing. Despite the fluctuation, the Company will continue to focus on growing small business lending and selling the government guaranteed portion as it continues to be beneficial.

During the first quarter of 2013, the Company wrote down one existing individual other real estate owned ("OREO") property by \$463 thousand as a result of a further decline in appraised value. Management continues to proactively manage its OREO portfolio in an effort to sell timely at minimal loss.

The following table sets forth the various categories of other noninterest income for the three months ended March 31, 2013 and 2012.

|                                                 | Three Months Ended |                   |           |          |   |
|-------------------------------------------------|--------------------|-------------------|-----------|----------|---|
|                                                 | March 31,<br>2013  | March 31,<br>2012 | \$ Change | % Change |   |
| Gain on sale of credit card portfolio           | \$495,405          | \$-               | \$495,405 | 100.0    | % |
| Gain on sale of credit card issuing operations  | 355,268            | -                 | 355,268   | 100.0    |   |
| Debit card fees                                 | 229,900            | 237,800           | (7,900)   | (3.3)    | ) |
| Fees on interest rate swaps on commercial loans | 6,720              | 206,640           | (199,920) | (96.7)   | ) |
| Miscellaneous                                   | 381,516            | 427,535           | (46,019)  | (10.8)   | ) |
| Other noninterest income                        | \$1,468,809        | \$871,975         | \$596,834 | 68.4     | % |

During the first quarter of 2013, QCBT sold its credit card loan portfolio for a pre-tax gain on sale of \$495 thousand. In addition, QCBT sold its credit card issuing operations to the same purchaser for a pre-tax gain on sale of \$355 thousand. The latter was the primary reason for the decline in the credit card fees, net of processing costs, during the first quarter of 2013.

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

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

## NONINTEREST EXPENSE

The following table sets forth the various categories of noninterest expense for the three months ended March 31, 2013 and 2012.

|                                       | Three Months Ended |                   |             |          |   |
|---------------------------------------|--------------------|-------------------|-------------|----------|---|
|                                       | March 31,<br>2013  | March 31,<br>2012 | \$ Change   | % Change |   |
| Salaries and employee benefits        | \$8,742,683        | \$8,124,680       | \$618,003   | 7.6      | % |
| Occupancy and equipment expense       | 1,428,870          | 1,352,263         | 76,607      | 5.7      |   |
| Professional and data processing fees | 1,140,061          | 1,150,190         | (10,129)    | (0.9)    | ) |
| FDIC and other insurance              | 555,911            | 580,856           | (24,945)    | (4.3)    | ) |
| Loan/lease expense                    | 245,091            | 218,734           | 26,357      | 12.0     |   |
| Advertising and marketing             | 264,568            | 276,016           | (11,448)    | (4.1)    | ) |
| Postage and telephone                 | 218,691            | 288,240           | (69,549)    | (24.1)   | ) |
| Stationery and supplies               | 110,670            | 142,966           | (32,296)    | (22.6)   | ) |
| Bank service charges                  | 275,495            | 199,729           | 75,766      | 37.9     |   |
| Subtotal                              | \$12,982,040       | \$12,333,674      | \$648,366   | 5.3      |   |
| Acquisition costs                     | 356,578            | -                 | 356,578     | 100.0    |   |
| Other                                 | 619,882            | 404,406           | 215,476     | 53.3     |   |
| Total noninterest expense             | \$13,958,500       | \$12,738,080      | \$1,220,420 | 9.6      | % |

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

Salaries and employee benefits, which is the largest component of noninterest expense, increased from the first quarter of 2012 to the first quarter of 2013 by 8%. This increase is largely the result of:

- Customary annual salary and benefits increases for the majority of the Company's employee base in 2013.
- Continued increases in health insurance-related employee benefits for the majority of the Company's employee base.
- Targeted talent additions in early 2012. Specifically, the Company added four business development officers (three in the Wealth Management Division and one in the Correspondent Banking Division) in an effort to continue to grow market share.

Occupancy and equipment expense increased from the prior year with the purchases of additional technology for enhanced customer service and for improved fraud detection and prevention systems. In addition, the largest branch of RB&T was renovated to allow for existing and future expansion.

FDIC and other insurance expense has generally fallen over the past several years. FDIC insurance premiums are calculated using a variety of factors, including, but not limited to, balance sheet levels, funding mix, and regulatory compliance. The subsidiary banks have been successful in managing these factors and driving down FDIC insurance

cost. In addition, the FDIC modified the calculation for premiums effective during the second quarter of 2011. The modification was favorable for the Company's subsidiary banks.

Part I  
Item 2

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

Loan/lease expense increased 12% comparing the first quarter of 2013 to the first quarter of 2012. Despite the increase this quarter, loan/lease expense has generally declined over the past several quarters as the Company has been successful in resolving several nonperforming loans that had previously incurred significant recurring costs. Generally, loan/lease expense has a direct relationship with the level of nonperforming loans/leases.

Bank service charges, which include costs incurred to provide services to QCBT's correspondent banking customer portfolio, have increased over the past several quarters. The increase is due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio over the past year.

On February 13, 2013, the Company signed a definitive agreement to acquire Community National and CNB. See Note 8 to the Consolidated Financial Statements for further discussion of the acquisition. For the quarter ended March 31, 2013, the Company incurred pre-tax acquisition costs totaling \$357 thousand. In accordance with generally accepted accounting principles, the Company expensed these costs as incurred. With the closing expected during the second quarter of 2013, management expects to incur further acquisition costs.

In conjunction with the sales of QCBT's credit card loan portfolio and issuing operations, the Company incurred pre-tax expenses related to those transactions totaling \$257 thousand (\$143 thousand in other noninterest expenses and \$114 thousand of professional fees) for the three months ended March 31, 2013.

INCOME TAXES

The provision for income taxes totaled \$1.1 million, or an effective tax rate of 25%, for the first quarter of 2013 compared to \$1.2 million, or an effective tax rate of 27%, for the same quarter in 2012. The decrease in effective tax rate is the result of the proportion of taxable to nontaxable income. The Company's growth in nontaxable income (primarily related to the Company more than doubling its tax exempt municipal securities portfolio over the past year) comparing the first quarter of 2013 to the first quarter of 2012 more than offsets the impact of the growth in taxable income.

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

## FINANCIAL CONDITION

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

|                                                         | March 31, 2013 |     |   | As of<br>December 31, 2012 |     |   | March 31, 2012 |     |   |
|---------------------------------------------------------|----------------|-----|---|----------------------------|-----|---|----------------|-----|---|
|                                                         |                |     |   |                            |     |   |                |     |   |
|                                                         |                |     |   | (dollars in thousands)     |     |   |                |     |   |
|                                                         | Amount         | %   |   | Amount                     | %   |   | Amount         | %   |   |
| Cash, federal funds sold, and interest-bearing deposits | \$ 67,036      | 3   | % | \$ 110,488                 | 5   | % | \$ 64,728      | 3   | % |
| Securities                                              | 692,552        | 32  | % | 602,239                    | 29  | % | 616,391        | 31  | % |
| Net loans/leases                                        | 1,271,026      | 59  | % | 1,267,462                  | 61  | % | 1,192,723      | 60  | % |
| Other assets                                            | 113,377        | 6   | % | 113,541                    | 5   | % | 119,156        | 6   | % |
| Total assets                                            | \$ 2,143,991   | 100 | % | \$ 2,093,730               | 100 | % | \$ 1,992,998   | 100 | % |
| Total deposits                                          | \$ 1,420,493   | 66  | % | \$ 1,374,114               | 66  | % | \$ 1,296,749   | 65  | % |
| Total borrowings                                        | 551,531        | 26  | % | 547,758                    | 26  | % | 525,970        | 26  | % |
| Other liabilities                                       | 29,769         | 1   | % | 31,424                     | 1   | % | 24,512         | 1   | % |
| Total stockholders' equity                              | 142,198        | 7   | % | 140,434                    | 7   | % | 145,767        | 7   | % |
| Total liabilities and stockholders' equity              | \$ 2,143,991   | 100 | % | \$ 2,093,730               | 100 | % | \$ 1,992,998   | 100 | % |

During the first quarter of 2013, the Company's total assets grew \$50.3 million, or 2%, to a total of \$2.14 billion. With modest loan/lease growth, the Company's securities portfolio grew \$90.3 million, or 15%, funded primarily by deposit growth (\$46.4 million) and utilization of excess liquidity as the Company's cash and federal funds sold positions declined (\$43.5 million). The majority of the deposit growth continues to be in noninterest bearing deposits, which now comprise 35% of the Company's total deposits.

The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on asset-liability position and maximizing return. With the strong growth in deposits more than offsetting the pace of loan growth over the past several years, the Company has grown and diversified its securities portfolio, including increasing the portfolio of agency-sponsored mortgage-backed securities as well as more than tripling the portfolio of municipal securities. Of the latter, the large majority are located in or near the Company's existing markets and require a thorough underwriting process before investment. As the portfolio has grown over recent years, management has elevated its focus on maximizing return while minimizing credit and interest rate risk. Additionally, management will continue to diversify the portfolio with further growth strictly dictated by the pace of growth in deposits and loans. Ideally, management expects to fund future loan growth partially with cash flow from the securities portfolio (calls and maturities of government sponsored agencies and/or paydowns on residential mortgage-backed securities).



Part I  
Item 2

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

Following is a breakdown of the Company's securities portfolio by type, the percentage of unrealized gains to amortized cost on the total portfolio, and the portfolio duration:

|                                                    | March 31, 2013         |       | As of<br>December 31, 2012 |            |       |  | March 31, 2012 |       |  |
|----------------------------------------------------|------------------------|-------|----------------------------|------------|-------|--|----------------|-------|--|
|                                                    | Amount                 | %     |                            | Amount     | %     |  | Amount         | %     |  |
|                                                    | (dollars in thousands) |       |                            |            |       |  |                |       |  |
| U.S. govt. sponsored agency securities             | \$ 403,840             | 58 %  |                            | \$ 338,609 | 57 %  |  | \$ 432,169     | 70 %  |  |
| Residential mortgage-backed and related securities | 174,802                | 25 %  |                            | 163,601    | 27 %  |  | 128,533        | 21 %  |  |
| Municipal securities                               | 111,347                | 17 %  |                            | 97,615     | 16 %  |  | 53,813         | 9 %   |  |
| Other securities                                   | 2,563                  | 0 %   |                            | 2,414      | 0 %   |  | 1,876          | 0 %   |  |
|                                                    | \$ 692,552             | 100 % |                            | \$ 602,239 | 100 % |  | \$ 616,391     | 100 % |  |
| As a % of Total Assets                             | 32.30                  | %     |                            | 28.76      | %     |  | 30.93          | %     |  |
| Net Unrealized Gains as a % of Amortized Cost      | 0.96                   | %     |                            | 1.38       | %     |  | 0.27           | %     |  |
| Duration (in years)                                | 2.9                    |       |                            | 2.8        |       |  | 2.5            |       |  |

The Company has not invested in commercial mortgage-backed securities or pooled trust preferred securities.

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



Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Total loans/leases grew modestly during the first quarter of 2013; however, excluding the impact of the sale of QCBT's \$10.2 million credit card loan portfolio, the net growth exceeded 1%. Over the past year, total loans/leases have grown \$79.2 million, or 7%. Over the past several quarters, the Company has been successful in shifting the mix of its commercial loan portfolio by adding more commercial and industrial loans, owner-occupied commercial real estate loans, and leases and fewer non owner-occupied commercial real estate and construction loans. The mix of the loan/lease types within the Company's loan/lease portfolio is presented in the following table.

|                                                         | March 31, 2013 |     |   | As of<br>December 31, 2012 |     |   | March 31, 2012 |     |   |
|---------------------------------------------------------|----------------|-----|---|----------------------------|-----|---|----------------|-----|---|
|                                                         | Amount         |     | % | Amount                     |     | % | Amount         |     | % |
| (dollars in thousands)                                  |                |     |   |                            |     |   |                |     |   |
| Commercial and industrial loans                         | \$ 398,122     | 31  | % | \$ 394,244                 | 31  | % | \$ 352,749     | 29  | % |
| Commercial real estate loans                            | 598,634        | 46  | % | 593,979                    | 46  | % | 580,946        | 48  | % |
| Direct financing leases                                 | 109,654        | 9   | % | 103,686                    | 8   | % | 96,314         | 8   | % |
| Residential real estate loans                           | 115,548        | 9   | % | 115,582                    | 9   | % | 103,528        | 9   | % |
| Installment and other consumer loans                    | 66,294         | 5   | % | 76,720                     | 6   | % | 75,546         | 6   | % |
| Total loans/leases                                      | \$ 1,288,252   | 100 | % | \$ 1,284,211               | 100 | % | \$ 1,209,083   | 100 | % |
| Plus deferred loan/lease origination costs, net of fees | 3,543          |     |   | 3,176                      |     |   | 2,647          |     |   |
| Less allowance for estimated losses on loans/leases     | (20,769 )      |     |   | (19,925 )                  |     |   | (19,007 )      |     |   |
| Net loans/leases                                        | \$ 1,271,026   |     |   | \$ 1,267,462               |     |   | \$ 1,192,723   |     |   |

Regarding the Company's levels of qualified small business lending as defined by the U.S. Department of the Treasury ("Treasury" as part of the Company's participation in the Small Business Lending Fund ("SBLF")), see the discussion later in this section of the Management's Discussion and Analysis.

As commercial real estate loans are the largest portfolio segment, management places a strong emphasis on monitoring the composition of the Company's commercial real estate loan portfolio. Management tracks the level of owner-occupied commercial real estate loans versus non owner-occupied loans. Owner-occupied loans are generally considered to have less risk. As of March 31, 2013 and December 31, 2012, approximately 35% and 34%,

respectively, of the commercial real estate loan portfolio was owner-occupied. The Company's commercial real estate portfolio grew \$4.7 million, or less than 1%, over the first three months of 2013. Further, there was a favorable shift in mix as owner-occupied loans grew \$7.4 million, or 4%, while non owner-occupied loans (including commercial construction and land development) declined \$2.7 million, or 1%.

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Following is a listing of significant industries within the Company's commercial real estate loan portfolio as of March 31, 2013 and December 31, 2012:

|                                     | As of March 31,<br>2013 |     |   | As of December 31,<br>2012 |     |   |
|-------------------------------------|-------------------------|-----|---|----------------------------|-----|---|
|                                     | Amount                  | %   |   | Amount                     | %   |   |
| (dollars in thousands)              |                         |     |   |                            |     |   |
| Lessors of Nonresidential Buildings | \$ 179,370              | 30  | % | \$ 178,060                 | 30  | % |
| Lessors of Residential Buildings    | 60,672                  | 10  | % | 61,460                     | 10  | % |
| Land Subdivision                    | 29,620                  | 5   | % | 28,854                     | 5   | % |
| New Car Dealers                     | 25,951                  | 4   | % | 27,079                     | 5   | % |
| Hotels                              | 24,046                  | 4   | % | 26,710                     | 4   | % |
| Other *                             | 278,975                 | 47  | % | 271,816                    | 46  | % |
| Total Commercial Real Estate Loans  | \$ 598,634              | 100 | % | \$ 593,979                 | 100 | % |

\* "Other" consists of all other industries. None of these had concentrations greater than \$15 million, or 2.5% of total commercial real estate loans.

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

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

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

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

Part I  
Item 2

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

Changes in the allowance for estimated losses on loans/leases for the three months ended March 31, 2013 and 2012 are presented as follows:

|                                                   | Three Months Ended     |                   |
|---------------------------------------------------|------------------------|-------------------|
|                                                   | March 31,<br>2013      | March 31,<br>2012 |
|                                                   | (dollars in thousands) |                   |
| Balance, beginning                                | \$ 19,925              | \$ 18,789         |
| Provisions charged to expense                     | 1,058                  | 780               |
| Loans/leases charged off                          | (303 )                 | (825 )            |
| Recoveries on loans/leases previously charged off | 89                     | 262               |
| Balance, ending                                   | \$ 20,769              | \$ 19,006         |

The allowance for estimated losses on loans/leases was \$20.8 million at March 31, 2013 compared to \$19.9 million at December 31, 2012 and \$19.0 million at March 31, 2012. The allowance for estimated losses on loans/leases was determined based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, past loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, governmental guarantees and other factors that, in management's judgment, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on a number of factors, including the increase/decrease in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed monthly with specific detailed reviews completed on all loans risk-rated worse than "fair quality" and carrying aggregate exposure in excess of \$100 thousand. The adequacy of the allowance for estimated losses on loans/leases is monitored by the loan review staff and reported to management and the board of directors.

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

| Internally Assigned Risk Rating * | As of                  |                      |                |
|-----------------------------------|------------------------|----------------------|----------------|
|                                   | March 31, 2013         | December 31,<br>2012 | March 31, 2012 |
|                                   | (dollars in thousands) |                      |                |
| Special Mention (Rating 6)        | \$ 27,610              | \$ 22,056            | \$ 21,075      |
| Substandard (Rating 7)            | 50,198                 | 48,248               | 60,815         |
| Doubtful (Rating 8)               | -                      | -                    | -              |
|                                   | \$ 77,808              | \$ 70,304            | \$ 81,890      |
| Criticized Loans **               | \$ 77,808              | \$ 70,304            | \$ 81,890      |
| Classified Loans ***              | \$ 50,198              | \$ 48,248            | \$ 60,815      |

\* Amounts above include the government guaranteed portion, if any. For the calculation of allowance for estimated losses on loans/leases, the Company assigns internal risk ratings of Pass (Rating 2) for the government guaranteed portion.

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

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

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Despite the modest increase in criticized and classified loans during the first quarter of 2013, the general declining trend in criticized and classified loans over the past several years has translated to a reduction in nonperforming loans/leases and that trend continued during the first quarter of 2013 as nonperforming loans/leases fell \$5.7 million, or 22%. Furthermore, nonperforming loans/leases have declined \$27.6 million, or 58%, from their peak at September 30, 2010. As a direct result, the Company's ratio of allowance to nonperforming loans/leases has strengthened considerably as shown below. The following table summarizes the trend in allowance as a percentage of gross loans/leases and as a percentage of nonperforming loans/leases as of March 31, 2013, December 31, 2012, and March 31, 2012.

|                                          | March 31, 2013 |   | As of<br>December 31,<br>2012 |   | March 31, 2012 |   |
|------------------------------------------|----------------|---|-------------------------------|---|----------------|---|
| Allowance / Gross Loans/Leases           | 1.61           | % | 1.55                          | % | 1.57           | % |
| Allowance / Nonperforming Loans/Leases * | 105.30         | % | 78.47                         | % | 62.11          | % |

\*Nonperforming loan/leases consist of nonaccrual loans/leases, accruing loans/leases past due 90 days or more, and accruing troubled debt restructurings.

Although management believes that the allowance for estimated losses on loans/leases at March 31, 2013 was at a level adequate to absorb losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require further increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks and leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

See Note 3 to the Consolidated Financial Statements for additional information regarding the Company's allowance for estimated losses on loans/leases.

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The table below presents the amounts of nonperforming assets.

|                                                                      | As of March<br>31,<br>2013 | As of<br>December 31,<br>2012 | As of March<br>31,<br>2012 | As of<br>December 31,<br>2011 |
|----------------------------------------------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| (dollars in thousands)                                               |                            |                               |                            |                               |
| Nonaccrual loans/leases (1) (2)                                      | \$18,040                   | \$17,932                      | \$19,013                   | \$18,995                      |
| Accruing loans/leases past due 90 days or more                       | 1                          | 159                           | 721                        | 1,111                         |
| Troubled debt restructurings - accruing                              | 1,682                      | 7,300                         | 10,868                     | 11,904                        |
| Other real estate owned                                              | 3,679                      | 3,955                         | 8,172                      | 8,386                         |
| Other repossessed assets                                             | 282                        | 212                           | 125                        | 109                           |
|                                                                      | \$23,684                   | \$29,558                      | \$38,899                   | \$40,505                      |
| Nonperforming loans/leases to total loans/leases                     | 1.53                       | % 1.97                        | % 2.53                     | % 2.67                        |
| Nonperforming assets to total loans/leases plus repossessed property | 1.83                       | % 2.29                        | % 3.19                     | % 3.35                        |
| Nonperforming assets to total assets                                 | 1.10                       | % 1.41                        | % 1.95                     | % 2.06                        |
| Texas ratio (3)                                                      | 14.65                      | % 18.68                       | % 24.34                    | % 25.58                       |

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

(2) Includes troubled debt restructurings of \$6.4 million at March 31, 2013, \$5.7 million at December 31, 2012, \$8.8 million at March 31, 2012, and \$8.6 million at December 31, 2011.

(3) Texas Ratio = Nonperforming Assets (excluding Other Repossessed Assets) / Tangible Equity plus Allowance for Estimated Losses on Loans/Leases. Texas Ratio is a non-GAAP financial measure. Management included this ratio as this is considered by many investors and analysts to be a metric with which to analyze and evaluate asset quality. Other companies may calculate this ratio differently.

The large majority of the nonperforming assets consist of nonaccrual loans/leases, accruing troubled debt restructurings ("TDRs"), and OREO. For nonaccrual loans/leases and accruing TDRs, management has thoroughly reviewed these loans/leases and has provided specific allowances as appropriate. OREO is carried at the lower of carrying amount or fair value less costs to sell.

Nonperforming assets at March 31, 2013 were \$23.7 million, which is a decline of \$5.9 million, or 20%, from December 31, 2012. Further, nonperforming assets have declined \$35.7 million, or 60%, from their peak position of \$59.4 million at September 30, 2010. Accruing TDRs fell \$5.6 million, or 77%, during the first quarter of 2013 as several loans restructured at market rates in prior years sustained performance under the restructured terms and were thus removed from TDR status.

Deposits grew \$46.4 million, or 3%, during the first quarter of 2013. The table below presents the composition of the Company's deposit portfolio.

|                        | March 31, 2013 |       | As of<br>December 31, 2012 |       |  | March 31, 2012 |       |  |
|------------------------|----------------|-------|----------------------------|-------|--|----------------|-------|--|
|                        |                |       | (dollars in thousands)     |       |  |                |       |  |
|                        | Amount         | %     | Amount                     | %     |  | Amount         | %     |  |
| Noninterest bearing    |                |       |                            |       |  |                |       |  |
| demand deposits        | \$ 496,513     | 35 %  | \$ 450,660                 | 33 %  |  | \$ 385,806     | 30 %  |  |
| Interest bearing       |                |       |                            |       |  |                |       |  |
| demand deposits        | 586,874        | 41 %  | 587,201                    | 43 %  |  | 561,048        | 43 %  |  |
| Time deposits          | 297,768        | 21 %  | 290,933                    | 21 %  |  | 297,737        | 23 %  |  |
| Brokered time deposits | 39,338         | 3 %   | 45,320                     | 3 %   |  | 52,157         | 4 %   |  |
|                        | \$ 1,420,493   | 100 % | \$ 1,374,114               | 100 % |  | \$ 1,296,748   | 100 % |  |

The Company has been successful in growing its noninterest bearing deposit portfolio over the past few years and this continued in the first quarter of 2013 with an increase of \$45.9 million, or 10%. Most of this growth continues to be derived from QCBT's correspondent banking business. The continued strength of the noninterest bearing deposit portfolio has provided flexibility to manage down deposit pricing and reduce reliance on higher cost wholesale funds, which has helped drive down the Company's interest expense.



Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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

|                                                | March 31,<br>2013 | As of<br>December 31,<br>2012 | March 31,<br>2012 |
|------------------------------------------------|-------------------|-------------------------------|-------------------|
| (dollars in thousands)                         |                   |                               |                   |
| Overnight repurchase agreements with customers | \$ 141,674        | \$ 104,943                    | \$ 107,910        |
| Federal funds purchased                        | 30,180            | 66,140                        | 41,990            |
|                                                | \$ 171,854        | \$ 171,083                    | \$ 149,900        |

As a result of their memberships in either the Federal Home Loan Bank ("FHLB") of Des Moines or Chicago, the subsidiary banks have the ability to borrow funds for short or long-term purposes under a variety of programs. FHLB advances are utilized for loan matching as a hedge against the possibility of rising interest rates, and when these advances provide a less costly or more readily available source of funds than customer deposits. FHLB advances increased slightly by \$3.0 million, or 1%, during the first quarter of 2013. During the first quarter of 2013, CRBT and RB&T had some short-term funding needs and borrowed via short-term FHLB advances, as the cost was less than federal funds purchased.

Other borrowings consist largely of structured repos which are utilized as an alternative funding source to FHLB advances and customer deposits. The table below presents the composition of the Company's other borrowings.

|                             | March 31,<br>2013 | As of<br>December 31,<br>2012 | March 31,<br>2012 |
|-----------------------------|-------------------|-------------------------------|-------------------|
| (dollars in thousands)      |                   |                               |                   |
| Structured repos            | \$ 130,000        | \$ 130,000                    | \$ 130,000        |
| 364-day revolving note      | 5,600             | 5,600                         | 3,600             |
| Series A subordinated notes | 2,642             | 2,640                         | 2,635             |
|                             | \$ 138,242        | \$ 138,240                    | \$ 136,235        |

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

It is management's intention to continue to reduce the reliance on wholesale funding, including FHLB advances, structured repos, and brokered time deposits. Replacement of this funding with core deposits helps to reduce interest expense as the wholesale funding tends to be higher funding cost. The table below presents the maturity schedule including weighted average cost for the Company's combined wholesale funding portfolio.

| Maturity:                | March 31, 2013                |                                                           |   | December 31, 2012 |                                                     |   |
|--------------------------|-------------------------------|-----------------------------------------------------------|---|-------------------|-----------------------------------------------------|---|
|                          | Amount Due                    | Weighted<br>Average<br>Interest Rate<br>at<br>Quarter-End |   | Amount Due        | Weighted<br>Average<br>Interest Rate<br>at Year-End |   |
| Year ending December 31: | (dollar amounts in thousands) |                                                           |   |                   |                                                     |   |
| 2013                     | \$ 31,500                     | 0.86                                                      | % | \$ 34,508         | 1.29                                                | % |
| 2014                     | 39,170                        | 2.88                                                      |   | 39,170            | 2.88                                                |   |
| 2015                     | 36,000                        | 2.22                                                      |   | 66,000            | 2.59                                                |   |
| 2016                     | 66,018                        | 3.80                                                      |   | 85,992            | 3.72                                                |   |
| 2017                     | 46,000                        | 3.70                                                      |   | 46,000            | 3.70                                                |   |
| Thereafter               | 156,000                       | 3.34                                                      |   | 106,000           | 3.66                                                |   |
| Total Wholesale Funding  | \$ 374,688                    | 3.10                                                      |   | \$ 377,670        | 3.20                                                |   |

Importantly, a large portion of the above FHLB advances and structured repos have puttable options which allow the lender (FHLB or counterparty), at its discretion, to terminate the borrowing and require the subsidiary banks to repay at predetermined dates prior to the stated maturity.

As previously discussed, during the first quarter of 2013, QCBT modified \$50.0 million of fixed rate structured repos with a weighted average interest rate of 3.21% and a weighted average maturity of February 2016 into new fixed rate structured repos with a weighted average interest rate of 2.65% and a weighted average maturity of May 2020. This modification serves to reduce interest expense and improve net interest margin, and minimize the exposure to rising rates through duration extension of fixed rate liabilities.

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The table below presents the composition of the Company's stockholders' equity, including the common and preferred equity components.

|                                                 | March 31, 2013 |       | As of<br>December 31, 2012 |       |  |  | March 31, 2012 |       |
|-------------------------------------------------|----------------|-------|----------------------------|-------|--|--|----------------|-------|
|                                                 | Amount         | %     | Amount                     | %     |  |  | Amount         | %     |
| (dollars in thousands)                          |                |       |                            |       |  |  |                |       |
| Common stock                                    | \$ 5,058       |       | \$ 5,039                   |       |  |  | \$ 4,945       |       |
| Additional paid in capital - common             | 25,932         |       | 25,804                     |       |  |  | 26,705         |       |
| Retained earnings                               | 55,781         |       | 53,327                     |       |  |  | 46,884         |       |
| Accumulated other comprehensive income          | 3,870          |       | 4,707                      |       |  |  | 3,237          |       |
| Noncontrolling interests                        | -              |       | -                          |       |  |  | 2,216          |       |
| Less: Treasury stock                            | (1,606 )       |       | (1,606 )                   |       |  |  | (1,606 )       |       |
| Total common stockholders' equity               | 89,035         | 63 %  | 87,271                     | 62 %  |  |  | 82,381         | 57 %  |
| Preferred stock                                 | 55             |       | 55                         |       |  |  | 65             |       |
| Additional paid in capital - preferred          | 53,108         |       | 53,108                     |       |  |  | 63,321         |       |
| Total preferred stockholders' equity            | 53,163         | 37 %  | 53,163                     | 38 %  |  |  | 63,386         | 43 %  |
| Total stockholders' equity                      | \$ 142,198     | 100 % | \$ 140,434                 | 100 % |  |  | \$ 145,767     | 100 % |
| Tangible common equity* / total tangible assets | 4.01 %         |       | 4.02 %                     |       |  |  | 3.86 %         |       |

\*Tangible common equity is defined as total common stockholders' equity excluding equity of noncontrolling interests and excluding goodwill and other intangibles. This ratio is a non-GAAP financial measure. Management included this ratio as it is considered by many investors and analysts to be a metric with which to analyze and evaluate the equity composition. Other companies may calculate this ratio differently.

Stockholders' equity increased \$1.8 million, or 1%, during the first quarter of 2013. Net income of \$3.3 million grew retained earnings; however, this was partially offset by the declaration of preferred stock dividends totaling \$811 thousand (\$438 thousand for Series E Preferred Stock, as defined below, and \$373 thousand for Series F Preferred

Stock, as defined below). Also, the available for sale portion of the securities portfolio experienced a decline in fair value for the first three months of 2013 totaling \$837 thousand, net of tax, as a result of increases in certain market interest rates.

The following table presents the details of the preferred stock issued and outstanding as of March 31, 2013.

|                                                                  | Date Issued    | Aggregate<br>Purchase Price | Stated<br>Dividend<br>Rate | Annual<br>Dividend |
|------------------------------------------------------------------|----------------|-----------------------------|----------------------------|--------------------|
| Series E Non-Cumulative Convertible<br>Perpetual Preferred Stock | June 2010      | \$25,000,000                | 7.00                       | % \$1,750,000      |
| Series F Non-Cumulative Perpetual<br>Preferred Stock             | September 2011 | 29,867,000                  | 5.00                       | % 1,493,350        |
|                                                                  |                | \$54,867,000                |                            | \$3,243,350        |

The Series E Non-Cumulative Convertible Perpetual Preferred Stock ( the “Series E Preferred Stock”) is perpetually convertible by the holder into shares of common stock at a per share conversion price of \$12.15, subject to anti-dilution adjustments upon the occurrence of certain events. In addition, the Company can exercise a conversion option on or after the third anniversary of the issuance date (June 30, 2013) at the same \$12.15 conversion price if the Company’s common stock price equals or exceeds \$17.22 for at least 20 trading days in a period of 30 consecutive trading days.

Part I  
Item 2

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

Regarding the Series F Non-Cumulative Perpetual Preferred Stock (the "Series F Preferred Stock"), non-cumulative dividends are payable quarterly, and the dividend rate is based on changes in the level of "Qualified Small Business Lending" or "QSBL" by the Company's wholly owned bank subsidiaries, QCBT, CRBT and RB&T. Based upon the change in the banks' level of QSBL over the baseline level (as defined by the SBLF, the baseline is the average of QSBL for the last two quarters of 2009 and the first two quarters of 2010), the dividend rate for the first 10 calendar quarters may be adjusted to between 1% and 5%. For the 11th calendar quarter through 4.5 years after issuance, the dividend rate will be fixed at between 1% and 5%, based upon the increase in QSBL from the baseline level to the level as of the end of the ninth dividend period (i.e. as of September 30, 2013), or will be fixed at 7% if there is no increase or there is a decrease in QSBL during such period. In addition, beginning on April 1, 2014 and ending on April 1, 2016, if there is no increase or there is a decrease in QSBL from the baseline level to the level as of the end of the ninth dividend period (i.e. as of September 30, 2013), because of the Company's participation in the Treasury Capital Purchase Program, the Company will be subject to an additional lending incentive fee of 2% per year, or 9% dividend rate. After 4.5 years from issuance, regardless of QSBL growth over the baseline, the dividend rate will increase to 9%.

As of March 31, 2013, the Company reported its QSBL in accordance with SBLF guidelines and calculated a net decline from the baseline of \$66.2 million, or 14%. The decline is primarily the result of the following:

- The Company's strategic introduction into SBA and USDA lending in 2010. The government guaranteed portion of these loans (typically 50% to 85% of the total amount outstanding) is not eligible as QSBL per SBLF guidelines.
- Based on the size of the Company and its legal lending limit, the majority of commercial loan growth over the past several years has been to businesses whose revenues exceeded the limits defined as QSBL per SBLF guidelines.
- The Company had a strong small business loan portfolio as of the baseline, which coupled with the residual impact of the economic downturn and the increased competition for small business loans (as many competitor lenders shifted their focus from construction and non-owner occupied commercial real estate lending to small business lending), resulted in originations being outpaced by payments and maturities in the second half of 2010 and all of 2011.

The Company continues to support the lending needs of small businesses, although some of this support may be ineligible as QSBL per SBLF guidelines. Regardless of eligibility, the Company will continue to focus strongly on small business lending.

On June 29, 2012, the Company redeemed 10,223 shares of Series F Preferred Stock from the Treasury for an aggregate redemption amount of \$10.2 million plus unpaid dividends to the date of redemption of \$125 thousand. The remaining Series F Preferred Stock may be redeemed at any time at the option of the Company, subject to approval of the Company's primary federal banking regulator. All redemptions must be in amounts equal to the lesser of at least 25% of the number of originally issued shares, or 100% of the then-outstanding shares.

Part I  
Item 2

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers' credit needs. The Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which totaled \$67.0 million at March 31, 2013, and averaged \$98.6 million during 2012 and \$128.0 million during 2011. The Company's on balance sheet liquidity position can fluctuate based on short-term activity in deposits and loans. During the first quarter of 2013, the Company invested some of its excess liquidity as its overall liquidity position (both on and off balance sheet liquidity) had strengthened.

The subsidiary banks have a variety of sources of short-term liquidity available to them, including federal funds purchased from correspondent banks, FHLB advances, structured repos, brokered time deposits, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities available for sale, and loan/lease participations or sales. The Company also generates liquidity from the regular principal payments and prepayments made on its loan/lease portfolio, and on the regular monthly payments on its residential mortgage-backed securities portfolio. At March 31, 2013, the subsidiary banks had 31 lines of credit totaling \$304.5 million, of which \$45.5 million was secured and \$259.0 million was unsecured. At March 31, 2013, all of the credit was available. At December 31, 2012, the subsidiary banks had 31 lines of credit totaling \$311.7 million, of which \$52.7 million was secured and \$259.0 million was unsecured. At December 31, 2012, \$271.7 million was available as \$40.0 million was utilized for short-term borrowing needs at QCBT. The Company has emphasized growing the number and amount of lines of credit in an effort to strengthen this contingent source of liquidity. Additionally, the Company has a single \$20.0 million secured revolving credit note with a maturity of June 27, 2013. As of March 31, 2013, the Company had \$14.4 million available as the note carried an outstanding balance of \$5.6 million.

Investing activities used cash of \$84.9 million during the first quarter of 2013 compared to \$45.0 million for the same period of 2012. Proceeds from calls, maturities, and paydowns of securities were \$82.1 million for the first quarter of 2013 compared to \$98.8 million for the same period of 2012. Purchases of securities used cash of \$187.7 million for the first quarter of 2013 compared to \$159.1 million for the same period of 2012. The net increase in loans/leases used cash of \$7.1 million for the first quarter of 2013 compared to \$12.2 million for the same period of 2012.

Financing activities provided cash of \$49.4 million for the first quarter of 2013 compared to \$25.5 million for same period of 2012. Net increases in deposits totaled \$46.4 million for the first quarter of 2013 compared to \$91.3 million for the same period of 2012. During the first quarter of 2012, the Company's short-term borrowings decreased \$63.6 million.

Total cash provided by operating activities was \$7.2 million for the first quarter of 2013 compared to \$5.6 million for the same period of 2012.



Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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

The following table presents the details of the trust preferred securities issued and outstanding as of March 31, 2013.

| Name                             | Date Issued   | Amount Issued | Interest Rate            | Interest Rate<br>as of<br>3/31/2013 |   | Interest Rate<br>as of<br>12/31/2012 |   |
|----------------------------------|---------------|---------------|--------------------------|-------------------------------------|---|--------------------------------------|---|
| QCR Holdings Statutory Trust II  | February 2004 | \$12,372,000  | 2.85% over 3-month LIBOR | 3.16                                | % | 3.21                                 | % |
| QCR Holdings Statutory Trust III | February 2004 | 8,248,000     | 2.85% over 3-month LIBOR | 3.16                                | % | 3.21                                 | % |
| QCR Holdings Statutory Trust IV  | May 2005      | 5,155,000     | 1.80% over 3-month LIBOR | 2.10                                | % | 2.14                                 | % |
| QCR Holdings Statutory Trust V   | February 2006 | 10,310,000    | 1.55% over 3-month LIBOR | 1.85                                | % | 1.89                                 | % |
|                                  |               |               | Weighted Average         |                                     |   |                                      |   |
|                                  |               | \$36,085,000  | Rate                     | 2.63                                | % | 2.68                                 | % |

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 classifications 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 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 March 31, 2013 and December 31, 2012, that the Company and the subsidiary banks met all capital adequacy requirements to which they were subject.



Part I  
Item 2

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

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 and Tier 1 leverage ratios as set forth in the following tables. The Company and the subsidiary banks’ actual capital amounts and ratios as of March 31, 2013 and December 31, 2012 are also presented in the following table (dollars in thousands). As of March 31, 2013 and December 31, 2012, the subsidiary banks met the requirements to be “well capitalized”.

|                            | Actual     |         | For Capital Adequacy Purposes |         |         |    | To Be Well Capitalized Under Prompt Corrective Action Provisions |          |
|----------------------------|------------|---------|-------------------------------|---------|---------|----|------------------------------------------------------------------|----------|
|                            | Amount     | Ratio   |                               | Amount  | Ratio   |    | Amount                                                           | Ratio    |
| As of March 31, 2013:      |            |         |                               |         |         |    |                                                                  |          |
| Company:                   |            |         |                               |         |         |    |                                                                  |          |
| Total risk-based capital   | \$ 191,244 | 13.04 % | \$                            | 117,296 | > 8.0 % |    | N/A                                                              | N/A      |
| Tier 1 risk-based capital  | 170,080    | 11.60 % |                               | 58,648  | > 4.0   |    | N/A                                                              | N/A      |
| Leverage ratio             | 170,080    | 8.07 %  |                               | 84,271  | > 4.0   |    | N/A                                                              | N/A      |
| Quad City Bank & Trust:    |            |         |                               |         |         |    |                                                                  |          |
| Total risk-based capital   | \$ 99,820  | 12.63 % | \$                            | 63,250  | > 8.0 % | \$ | 79,063                                                           | >10.00 % |
| Tier 1 risk-based capital  | 91,297     | 11.55 % |                               | 31,625  | > 4.0   |    | 47,438                                                           | >6.00 %  |
| Leverage ratio             | 91,297     | 7.57 %  |                               | 48,239  | > 4.0   |    | 60,298                                                           | >5.00 %  |
| Cedar Rapids Bank & Trust: |            |         |                               |         |         |    |                                                                  |          |
| Total risk-based capital   | \$ 56,444  | 13.18 % | \$                            | 34,265  | > 8.0 % | \$ | 42,831                                                           | >10.00 % |
| Tier 1 risk-based capital  | 51,060     | 11.92 % |                               | 17,132  | > 4.0   |    | 25,699                                                           | >6.00 %  |
| Leverage ratio             | 51,060     | 8.60 %  |                               | 23,745  | > 4.0   |    | 29,681                                                           | >5.00 %  |
| Rockford Bank & Trust:     |            |         |                               |         |         |    |                                                                  |          |
| Total risk-based capital   | \$ 37,162  | 15.05 % | \$                            | 19,754  | > 8.0 % | \$ | 24,692                                                           | >10.00 % |
| Tier 1 risk-based capital  | 34,059     | 13.79 % |                               | 9,877   | > 4.0   |    | 14,815                                                           | >6.00 %  |
| Leverage ratio             | 34,059     | 10.85 % |                               | 12,555  | > 4.0   |    | 15,694                                                           | >5.00 %  |

Part I  
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

|                            | Actual     |         | For Capital Adequacy Purposes |         | To Be Well Capitalized Under Prompt Corrective Action Provisions |          |
|----------------------------|------------|---------|-------------------------------|---------|------------------------------------------------------------------|----------|
|                            | Amount     | Ratio   | Amount                        | Ratio   | Amount                                                           | Ratio    |
| As of December 31, 2012:   |            |         |                               |         |                                                                  |          |
| Company:                   |            |         |                               |         |                                                                  |          |
| Total risk-based capital   | \$ 188,841 | 12.71 % | \$ 118,878                    | > 8.0 % | N/A                                                              | N/A      |
| Tier 1 risk-based capital  | 167,475    | 11.27 % | 59,439                        | > 4.0 % | N/A                                                              | N/A      |
| Tier 1 leverage            | 167,475    | 8.13 %  | 82,357                        | > 4.0 % | N/A                                                              | N/A      |
| Quad City Bank & Trust:    |            |         |                               |         |                                                                  |          |
| Total risk-based capital   | \$ 98,789  | 12.12 % | \$ 65,218                     | > 8.0 % | \$ 81,522                                                        | >10.00 % |
| Tier 1 risk-based capital  | 90,533     | 11.11 % | 32,609                        | > 4.0   | 48,913                                                           | >6.00 %  |
| Tier 1 leverage            | 90,533     | 7.74 %  | 46,784                        | > 4.0   | 58,480                                                           | >5.00 %  |
| Cedar Rapids Bank & Trust: |            |         |                               |         |                                                                  |          |
| Total risk-based capital   | \$ 55,736  | 12.87 % | \$ 34,652                     | > 8.0 % | \$ 43,315                                                        | >10.00 % |
| Tier 1 risk-based capital  | 50,297     | 11.61 % | 17,326                        | > 4.0   | 25,989                                                           | >6.00 %  |
| Tier 1 leverage            | 50,297     | 8.49 %  | 23,685                        | > 4.0   | 29,606                                                           | >5.00 %  |
| Rockford Bank & Trust:     |            |         |                               |         |                                                                  |          |
| Total risk-based capital   | \$ 36,894  | 15.33 % | \$ 19,255                     | > 8.0 % | \$ 24,609                                                        | >10.00 % |
| Tier 1 risk-based capital  | 33,870     | 14.07 % | 9,628                         | > 4.0   | 14,441                                                           | >6.00 %  |
| Tier 1 leverage            | 33,870     | 11.13 % | 12,177                        | > 4.0   | 15,221                                                           | >5.00 %  |

In June 2012, the federal bank regulatory agencies issued joint proposed rules that would implement an international capital accord called “Basel III,” developed by the Basel Committee on Banking Supervision, a committee of central banks and bank supervisors. The proposed rules would apply to all depository organizations in the United States and most of their parent companies and would increase minimum capital ratios, add a new minimum common equity ratio, add a new capital conservation buffer, include unrealized gains and losses on available-for-sale securities as Tier 1 Capital, and would change the risk-weightings of certain assets for the purposes of calculating certain capital ratios. The proposed changes, if implemented, would be phased in from 2013 through 2019. The comment period with respect to the proposed rules expired on October 22, 2012. Various banking associations, industry groups, individual financial institutions (including the Company) provided comments on the proposed rules to the regulators. On November 9, 2012, the federal bank regulatory agencies announced that the implementation of the proposed rules under Basel III in the United States was indefinitely delayed. It is unclear when the final rules will be adopted and what changes, if any, may be made to the proposed rules. Management continues to assess the effect of the proposed rules on the Company and the subsidiary banks’ capital positions and will monitor development regarding the proposed rules.

Part I  
Item 2

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

Part I  
Item 3

QUANTITATIVE AND QUALITATIVE DISCUSSION ABOUT MARKET RISK

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

In an attempt to manage the Company's exposure to changes in interest rates, management monitors the Company's interest rate risk. Each subsidiary bank has an asset/liability management committee of the board of directors that meets quarterly to review the bank's interest rate risk position and profitability, and to make or recommend adjustments for consideration by the full board of each bank. Internal asset/liability management teams consisting of members of the subsidiary banks' management meet weekly to manage the mix of assets and liabilities to maximize earnings and liquidity and minimize interest rate and other risks. Management also reviews the subsidiary banks' securities portfolios, formulates investment strategies, and oversees the timing and implementation of transactions to assure attainment of the board's objectives in the most effective manner. Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

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

One method used to quantify interest rate risk is a short-term earnings at risk summary, which is a detailed and dynamic simulation model used to quantify the estimated exposure of net interest income to sustained interest rate changes. This simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest sensitive assets and liabilities reflected on the Company's consolidated balance sheet. This sensitivity analysis demonstrates net interest income exposure annually over a five-year horizon, assuming no balance sheet growth and various interest rate scenarios including no change in rates; 200, 300, 400, and 500 basis point upward shifts; and a 100 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date. The model assumes parallel and pro rata shifts in interest rates over a twelve-month period for the 200 basis point upward shift and 100 basis point downward shift. For the 300 basis point upward shift, the model assumes an instantaneous and parallel upward shift in rates. For the 400 basis point upward shift, the model assumes a parallel and pro rata shift in interest rates over a twenty-four month period. For the 500 basis point upward shift, the model assumes a flattening and pro rata shift in interest rates over a twelve-month period where the short-end of the yield curve shifts upward greater than the long-end of the yield curve. The asset/liability management committee of the board of directors has established policy limits of a 10% decline in net interest income for the 200 and the newly added 300 basis point upward shifts and the 100 basis point downward shift.



Part I  
Item 3

QUANTITATIVE AND QUALITATIVE DISCUSSION ABOUT MARKET RISK

Application of the simulation model analysis at the most recent quarter-end available is presented in the following table. Please note the simulation model analysis as of March 31, 2013 is not yet available.

| INTEREST RATE SCENARIO         | NET INTEREST INCOME EXPOSURE in YEAR 1 |   |                      |   |                         |   |
|--------------------------------|----------------------------------------|---|----------------------|---|-------------------------|---|
|                                | As of December 31, 2012                |   | As of March 31, 2012 |   | As of December 31, 2011 |   |
| 100 basis point downward shift | -1.5                                   | % | -1.6                 | % | -1.5                    | % |
| 200 basis point upward shift   | -0.9                                   | % | -4.1                 | % | -3.1                    | % |
| 300 basis point upward shock   | 0.8                                    | % | -6.8                 | % | -4.2                    | % |

The simulation is within the board-established policy limit of a 10% decline in net interest income for all three scenarios.

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

Part I  
Item 4

CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of March 31, 2013. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports filed and submitted under the Exchange Act was recorded, processed, summarized and reported as and when required.

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

Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

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

Item  
1.A. Risk Factors

There have been no material changes in the risk factors applicable to the Company from those disclosed in Part I, Item 1.A. "Risk Factors," in the Company's 2012 Annual Report on Form 10-K. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

Not applicable

Item 5 Other Information

None



Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION - continued

Item 6 Exhibits

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

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

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

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

101\* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012; (ii) Consolidated Statements of Income for the three months ended March 31, 2013 and March 31, 2012; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and March 31, 2012; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2013 and March 31, 2012; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and March 31, 2012; and (vi) Notes to Consolidated Financial Statements.

\* As provided in Rule 406T of Regulation S-T, this information shall not be deemed "filed" for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, or otherwise subject to liability under those sections.

SIGNATURES

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

QCR HOLDINGS, INC.

(Registrant)

Date May 6, 2013

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

Date May 6, 2013

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