QCR HOLDINGS INC
Form 10-Q
November 14, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ending September 30, 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 organization)	(I.R.S. Employer Identification No.)

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 743-7761

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 [X] No [ ]

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

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

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

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 1, 2013, the Registrant had outstanding 5,816,660 shares of common stock, $1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2013 and December 31, 2012

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$58,724,270	$61,568,446
Federal funds sold	48,192,000	26,560,000
Interest-bearing deposits at financial institutions	15,862,796	22,359,490
Securities held to maturity, at amortized cost	131,361,845	72,079,385
Securities available for sale, at fair value	572,337,329	530,159,986
Total securities	703,699,174	602,239,371
Loans receivable held for sale	1,445,900	4,577,233
Loans/leases receivable held for investment	1,537,937,925	1,282,810,406
Gross loans/leases receivable	1,539,383,825	1,287,387,639
Less allowance for estimated losses on loans/leases	(22,062,389)	(19,925,204)
Net loans/leases receivable	1,517,321,436	1,267,462,435
Premises and equipment, net	38,996,016	31,262,390
Goodwill	3,222,688	3,222,688
Core deposit intangible	3,311,073	-
Bank-owned life insurance	51,544,616	45,620,489
Restricted investment securities	15,948,075	15,747,850
Other real estate owned, net	8,495,799	3,954,538
Other assets	20,396,495	13,732,795
Total assets	$2,485,714,438	$2,093,730,492
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$515,364,516	$450,659,723
Interest-bearing	1,226,467,459	923,454,377
Total deposits	1,741,831,975	1,374,114,100
Short-term borrowings	169,259,562	171,082,961
Federal Home Loan Bank advances	205,350,000	202,350,000
Other borrowings	142,646,212	138,239,762
Junior subordinated debentures	40,257,438	36,085,000
Other liabilities	38,415,774	31,424,848

Total liabilities	2,337,760,961	1,953,296,671
STOCKHOLDERS' EQUITY		
Preferred stock, $1 par value; shares authorized 250,000 September 2013 - 54,867 shares issued and outstanding December 2012 - 54,867 shares issued and outstanding	54,867	54,867
Common stock, $1 par value; shares authorized 20,000,000 September 2013 - 5,931,848 shares issued and 5,810,602 outstanding December 2012 - 5,039,448 shares issued and 4,918,202 outstanding	5,931,848	5,039,448
Additional paid-in capital	91,825,249	78,912,791
Retained earnings	61,787,378	53,326,542
Accumulated other comprehensive income (loss)	(10,039,355)	4,706,683
Less treasury stock, September 30, 2013 and December 2012 - 121,246 common shares, at cost	(1,606,510)	(1,606,510)
Total stockholders' equity	$147,953,477	140,433,821
Total liabilities and stockholders' equity	$2,485,714,438	$2,093,730,492

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended September 30,

	2013	2012
Interest and dividend income:		
Loans/leases, including fees	$ 18,262,579	$ 15,804,330
Securities:		
Taxable	2,417,515	2,781,889
Nontaxable	1,090,880	690,466
Interest-bearing deposits at financial institutions	72,808	75,818
Restricted investment securities	143,640	131,967
Federal funds sold	8,821	3,055
Total interest and dividend income	21,996,243	19,487,525
Interest expense:		
Deposits	1,393,745	1,488,749
Short-term borrowings	57,277	60,500
Federal Home Loan Bank advances	1,704,824	1,809,888
Other borrowings	1,201,498	1,238,254
Junior subordinated debentures	328,563	260,616
Total interest expense	4,685,907	4,858,007
Net interest income	17,310,336	14,629,518
Provision for loan/lease losses	1,366,984	1,496,194
Net interest income after provision for loan/lease losses	15,943,352	13,133,324
Noninterest income:		
Trust department fees	1,312,349	914,586
Investment advisory and management fees	634,446	575,711
Deposit service fees	1,228,685	847,343
Gains on sales of residential real estate loans	184,596	424,255
Gains on sales government guaranteed portions of loans	338,338	260,291
Securities gains	416,936	-
Earnings on bank-owned life insurance	466,028	399,925
Credit card issuing fees, net of processing costs	57,538	140,542
Losses on other real estate owned, net	(36,745)	(745,799)
Other	1,332,482	1,300,328
Total noninterest income	5,934,653	4,117,182
Noninterest expense:		
Salaries and employee benefits	9,802,712	8,201,323
Occupancy and equipment expense	1,914,996	1,459,901
Professional and data processing fees	1,902,799	1,065,780

FDIC and other insurance	712,954	599,422
Loan/lease expense	396,477	273,166
Advertising and marketing	406,085	437,130
Postage and telephone	276,580	190,868
Stationery and supplies	143,226	139,592
Bank service charges	306,539	211,378
Acquisition and data conversion costs	388,663	-
Other	776,237	452,957
Total noninterest expense	17,027,268	13,031,517
Net income before income taxes	4,850,737	4,218,989
Federal and state income tax expense	1,038,793	1,034,479
Net income	$3,811,944	$3,184,510
Less: Net income attributable to noncontrolling interests	-	127,177
Net income attributable to QCR Holdings, Inc.	$3,811,944	$3,057,333
Less: Preferred stock dividends	810,837	810,837
Net income attributable to QCR Holdings, Inc. common stockholders	$3,001,107	$2,246,496
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	$0.52	$0.45
Diluted	$0.51	$0.44
Weighted average common shares outstanding	5,806,019	4,978,699
Weighted average common and common equivalent shares outstanding	5,915,279	5,080,288
Cash dividends declared per common share	$-	$-

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Nine Months Ended September 30,

	2013	2012
Interest and dividend income:		
Loans/leases, including fees	$49,721,011	$47,748,276
Securities:		
Taxable	7,507,796	8,353,482
Nontaxable	2,837,453	1,624,577
Interest-bearing deposits at financial institutions	194,286	288,400
Restricted investment securities	399,896	378,067
Federal funds sold	12,684	3,055
Total interest and dividend income	60,673,126	58,395,857
Interest expense:		
Deposits	3,687,391	4,834,006
Short-term borrowings	224,979	202,731
Federal Home Loan Bank advances	5,164,258	5,503,329
Other borrowings	3,555,146	3,719,730
Junior subordinated debentures	831,647	787,597
Total interest expense	13,463,421	15,047,393
Net interest income	47,209,705	43,348,464
Provision for loan/lease losses	3,944,903	3,325,109
Net interest income after provision for loan/lease losses	43,264,802	40,023,355
Noninterest income:		
Trust department fees	3,549,200	2,650,552
Investment advisory and management fees	1,938,881	1,776,499
Deposit service fees	3,190,731	2,626,822
Gains on sales of residential real estate loans	722,368	987,021
Gains on sales government guaranteed portions of loans	1,949,300	978,936
Securities gains	433,396	104,600
Earnings on bank-owned life insurance	1,328,598	1,196,987
Bargain purchase gain on Community National Acquisition	1,841,385	-
Credit card issuing fees, net of processing costs	192,509	409,730
Losses on other real estate owned, net	(566,714)	(1,324,468)
Other	3,507,784	2,734,890
Total noninterest income	18,087,438	12,141,569
Noninterest expense:		
Salaries and employee benefits	27,731,628	24,581,642
Occupancy and equipment expense	4,930,707	4,177,076

Professional and data processing fees	4,481,613	3,342,847
FDIC and other insurance	1,896,255	1,756,493
Loan/lease expense	893,436	755,066
Advertising and marketing	1,082,694	1,057,246
Postage and telephone	752,882	716,050
Stationery and supplies	404,614	417,769
Bank service charges	866,379	609,599
Acquisition and data conversion costs	1,177,567	-
Other-than-temporary impairment losses on securities	-	62,400
Other	2,002,342	1,402,492
Total noninterest expense	46,220,117	38,878,680
Net income before income taxes	15,132,123	13,286,244
Federal and state income tax expense	4,009,804	3,425,506
Net income	$11,122,319	$9,860,738
Less: Net income attributable to noncontrolling interests	-	494,431
Net income attributable to QCR Holdings, Inc.	$11,122,319	$9,366,307
Less: Preferred stock dividends	2,432,512	2,685,248
Net income attributable to QCR Holdings, Inc. common stockholders	$8,689,807	$6,681,059
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	$1.62	$1.37
Diluted	$1.59	$1.35
Weighted average common shares outstanding	5,375,557	4,871,626
Weighted average common and common equivalent shares outstanding	5,482,298	4,938,514
Cash dividends declared per common share	$0.04	$0.04

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

Three and Nine Months Ended September 30,

	Three Months Ended September 30,	
	2013	2012
Net income	$3,811,944	$3,184,510
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(800,796)	2,660,251
Less reclassification adjustment for gains included in net income before tax	416,936	-
	(1,217,732)	2,660,251
Tax expense (benefit)	(399,541)	1,016,673
Other comprehensive income (loss), net of tax	(818,191)	1,643,578
Comprehensive income attributable to QCR Holdings, Inc.	$2,993,753	$4,828,088

	Nine Months Ended September 30,	
	2013	2012
Net income	$11,122,319	$9,860,738
Other comprehensive icnome (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(23,395,367)	2,313,706
Less reclassification adjustment for gains included in net income before tax	433,396	104,600
	(23,828,763)	2,209,106
Tax expense (benefit)	(9,082,725)	841,718
Other comprehensive income (loss), net of tax	(14,746,038)	1,367,388
Comprehensive income (loss) attributable to QCR Holdings, Inc.	$(3,623,719)	$11,228,126

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30, 2013 and 2012

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Treasury Stock	Total
Balance December 31, 2012	**$54,867**	**$5,039,448**	**$78,912,791**	**$53,326,542**	**$4,706,683**	**$-**	**$(1,606,510)**	**$140,433,82**
Net income	-	-	-	3,265,144	-	-	-	3,265,144
Other comprehensive loss, net of tax	-	-	-	-	(836,358)	-	-	(836,358
Preferred cash dividends declared	-	-	-	(810,837)	-	-	-	(810,837
Proceeds from issuance of 5,884 shares of common stock as a result of stock purchasedunder the Employee Stock Purchase Plan	-	5,884	63,487	-	-	-	-	69,371
Proceeds from issuance of 19,278 shares of common stock as a result of stock options exercised	-	19,278	153,550	-	-	-	-	172,828
Exchange of 7,048 shares of common stock in connection with stock options exercised	-	(7,048)	(111,628)	-	-	-	-	(118,676
Stock compensation expense	-	-	293,798					293,798
Tax benefit of nonqualified stock options exercised	-	-	35,251	-	-	-	-	35,251
Restricted stock awards	-	16,798	(16,798)	-	-	-	-	-
Exchange of 19,547 shares of common stock in connection with restricted stock vested,	-	(16,798)	(289,113)	-	-	-	-	(305,911

net								
Balance March 31, 2013	**$54,867**	**$5,057,562**	**$79,041,338**	**$55,780,849**	**$3,870,325**	**$-**	**$(1,606,510)**	**$142,198,43**
Net income	-	-	-	4,045,231	-	-	-	4,045,231
Other comprehensive loss, net of tax	-	-	-	-	(13,091,489)	-	-	(13,091,48
Common cash dividends declared, $0.04 per share	-	-	-	(228,971)	-	-	-	(228,971
Preferred cash dividends declared	-	-	-	(810,838)	-	-	-	(810,838
Issuance of 834,715 shares of common stock as a result of the acquisition of Community NationalBancorporation, net	-	834,715	12,181,894	-	-	-	-	13,016,609
Proceeds from issuance of 9,560 shares of common stock as a result of stock purchasedunder the Employee Stock Purchase Plan	-	9,560	104,221	-	-	-	-	113,781
Proceeds from issuance of 3,769 shares of common stock as a result of stock options exercised	-	3,769	33,070	-	-	-	-	36,839
Stock compensation expense	-	-	162,123					162,123
Tax benefit of nonqualified stock options exercised	-	-	4,197	-	-	-	-	4,197
Restricted stock awards	-	12,707	(12,707)	-	-	-	-	-
Balance June 30, 2013	**$54,867**	**$5,918,313**	**$91,514,136**	**$58,786,271**	**$(9,221,164)**	**$-**	**$(1,606,510)**	**$145,445,91**
Net income	-	-	-	3,811,944	-	-	-	3,811,944
Other comprehensive loss, net of tax	-	-	-	-	(818,191)	-	-	(818,191
Preferred cash dividends declared	-	-	-	(810,837)	-	-	-	(810,837
Proceeds from issuance of 5,973 shares ofcommon stock as a result of stock purchasedunder the Employee Stock Purchase Plan	-	5,973	65,116	-	-	-	-	71,089
Proceeds from issuance of 7,230 shares of common stock as a result of stock options	-	7,230	76,718	-	-	-	-	83,948

exercised								
Tax benefit of nonqualified stock options exercised			6,026					6,026
Stock compensation expense	-	-	163,585					163,585
Restricted stock awards	-	332	(332)	-	-	-	-	-
Balance September 30, 2013	**$54,867**	**$5,931,848**	**$91,825,249**	**$61,787,378**	**$(10,039,355)**	**$-**	**$(1,606,510)**	**$147,953,47**

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED) - Continued

Nine Months Ended September 30, 2013 and 2012

	Preferred Stock	Common Stock	Additional	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)**	**$144,432,7**
Net income	-	-	-	3,236,818	-	166,031	-	3,402,849
Other comprehensive loss, net of tax	-	-	-	-	(1,517,235)	-	-	(1,517,23
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 as a result of stock options exercised	-	276	2,374	-	-	-	-	2,650
Exchange of 576 shares of common stock	-	(576)	(2,103)	-	-	-	-	(2,679

in connection with payroll taxes for restricted stock								
Tax benefit of nonqualified stock options exercised			-					-
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)**	**$145,767,1**
Net income	-	-	-	3,072,156	-	201,223	-	3,273,379
Other comprehensive loss, net of tax	-	-	-	-	1,241,045	-	-	1,241,045
Common cash dividends declared, $0.04 per share	-	-	-	(189,091)	-	-	-	(189,091
Preferred cash dividends declared	-	-	-	(935,786)	-	-	-	(935,786
Redemption of 10,223 shares of Series F Noncumulative Perpetual Preferred Stock	(10,223)	-	(10,212,777)	-	-	-	-	(10,223,0
Proceeds from issuance of 10,856 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	10,856	78,055	-	-	-	-	88,911
Proceeds from issuance of 9,090 shares of	-	9,090	79,902	-	-	-	-	88,992

common stock as a result of stock options exercised								
Exchange of 611 shares of common stock in connection with stock options exercised	-	(611)	(7,125)	-	-	-	-	(7,736
Proceeds from exercise of warrants to purchase 4,300 shares of common stock issued in conjunction with the Series A Subordinated Notes	-	4,300	38,700	-	-	-	-	43,000
Stock compensation expense	-	-	177,269					177,269
Other adjustments to noncontrolling interests	-	-	-	-	-	(2,065)	-	(2,065
Balance June 30, 2012	**$54,867**	**$4,968,307**	**$80,180,869**	**$48,831,374**	**$4,478,524**	**$2,414,661**	**$(1,606,510)**	**$139,322,0**
Net income	-	-	-	3,057,333	-	127,177	-	3,184,510
Other comprehensive income, net of tax	-	-	-	-	1,643,578	-	-	1,643,578
Preferred cash dividends declared	-	-	-	(810,837)	-	-	-	(810,837
Purchase of noncontrolling interest	-	-	(2,133,417)	-	-	(2,393,802)	-	(4,527,21
Proceeds from issuance of 7,642 shares of common stock as a result of stock purchased under the Employee	-	7,642	58,326	-	-	-	-	65,968

Stock Purchase Plan								
Proceeds from issuance of 7,075 shares of common stock as a result of stock options exercised	-	7,075	58,996	-	-	-	-	66,071
Proceeds from exercise of warrants to purchase 1,000 shares of common stock issued in conjunction with the Series A Subordinated Notes	-	1,000	9,000	-	-	-	-	10,000
Stock compensation expense	-	-	169,189					169,189
Other adjustments to noncontrolling interests	-	-	-	-	-	(2,066)	-	(2,066
Balance September 30, 2012	**$54,867**	**$4,984,024**	**$78,342,963**	**$51,077,870**	**$6,122,102**	**$145,970**	**$(1,606,510)**	**$139,121,2**

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$11,122,319	$9,860,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,995,829	1,740,621
Provision for loan/lease losses	3,944,903	3,325,109
Stock-based compensation expense	619,506	672,703
Losses on other real estate owned, net	566,714	1,324,468
Amortization of premiums on securities, net	2,862,396	2,950,609
Securities gains	(433,396)	(104,600)
Other-than-temporary impairment losses on securities	-	62,400
Loans originated for sale	(70,569,738)	(90,563,711)
Proceeds on sales of loans	76,372,739	90,077,297
Gains on sales of residential real estate loans, net	(722,368)	(987,021)
Gains on sales of government guaranteed portions of loans, net	(1,949,300)	(978,936)
Increase in cash value of bank-owned life insurance	(1,328,598)	(1,196,987)
Bargain purchase gain on Community National acquisition	(1,841,385)	-
Amortization of core deposit intangible	129,003	-
Accretion of acquisition fair value adjustments, net	(592,620)	-
Decrease in other assets	7,319,681	3,101,454
Increase in other liabilities	3,177,088	1,473,626
Net cash provided by operating activities	$30,672,773	$20,757,770
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in federal funds sold	(9,297,000)	15,060,000
Net (increase) decrease in interest-bearing deposits at financial institutions	8,521,233	(22,686,336)
Proceeds from sales of other real estate owned	662,586	4,201,516
Activity in securities portfolio:		
Purchases	(297,033,410)	(363,501,993)
Calls, maturities and redemptions	138,661,369	292,291,109
Paydowns	38,967,219	25,174,348
Sales	37,393,047	19,215,075
Activity in restricted investment securities:		
Purchases	(6,184,250)	(3,466,800)
Redemptions	7,243,400	3,939,600
Net increase in loans/leases originated and held for investment	(65,747,455)	(45,934,981)
Purchase of premises and equipment	(1,597,434)	(1,589,217)
Net cash received from Community National acquisition	3,025,073	-
Net cash used in investing activities	$(145,385,621)	$(77,297,679)

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Nine Months Ended September 30,

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	112,711,191	137,777,646
Net decrease in short-term borrowings	(1,823,399)	(72,647,752)
Activity in Federal Home Loan Bank advances:		
Advances	163,000,000	14,000,000
Calls and maturities	(160,000,000)	(22,400,000)
Proceeds from other borrowings term note	10,000,000	-
Advance (payment) on 364-day revolving note	(5,600,000)	2,000,000
Repayment of Community National's other borrowings at acquisition	(3,950,000)	-
Payment of cash dividends on common and preferred stock	(2,853,434)	(3,278,112)
Redemption of 10,223 shares of Series F Noncumulative Perpetual Preferred Stock	-	(10,223,000)
Proceeds from issuance of common stock, net	384,315	418,510
Purchase of noncontrolling interests	-	(1,679,532)
Net cash provided by financing activities	$111,868,673	$43,967,760
Net decrease in cash and due from banks	(2,844,176)	(12,572,149)
Cash and due from banks, beginning	61,568,446	53,136,710
Cash and due from banks, ending	$58,724,270	$40,564,561
Supplemental disclosure of cash flow information, cash payments for:		
Interest	$13,546,215	$15,225,564
Income/franchise taxes	$1,371,120	$916,000
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale, net	$(14,746,038)	$1,367,388
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	$(424,587)	$(10,415)
Transfers of loans to other real estate owned	$5,220,235	$2,143,017
Liability established for purchase of noncontrolling interest	$-	$2,847,687
Supplemental disclosure of cash flow information for Community National Acquisition:		
Fair value of assets acquired:		
Cash and due from banks *	$9,286,757	$-
Federal funds sold	12,335,000	-
Interest-bearing deposits at financial institutions	2,024,539	-
Securities available for sale	45,853,826	-
Loans/leases receivable held for investment, net	195,658,486	-
Premises and equipment, net	8,132,021	-
Core deposit intangible	3,440,076	-
Bank-owned life insurance	4,595,529	-

Restricted investment securities	1,259,375	-
Other real estate owned	550,326	-
Other assets	5,178,583	-
Total assets acquired	$288,314,518	$-
Fair value of liabilities assumed:		
Deposits	$255,045,071	$-
Other borrowings	3,950,000	-
Junior subordinated debentures	4,125,175	-
Other liabilities	3,911,053	-
Total liabilities assumed	$267,031,299	$-
Net assets acquired	21,283,219	-
Consideration paid:		
Cash paid *	$6,261,684	$-
Issuance of 834,715 shares of common stock	13,180,150	-
Total consideration paid	$19,441,834	$-
Bargain purchase gain	$1,841,385	$-

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

See Notes to Consolidated Financial Statements (Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 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 September 30, 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 four commercial banks: Quad City Bank & Trust Company ("QCBT"), Cedar Rapids Bank & Trust Company ("CRBT"), Rockford Bank & Trust Company ("RB&T"), and Community National Bank ("CNB"). On May 13, 2013, the Company acquired Community National Bancorporation ("Community National") and its banking subsidiary CNB. See Note 2 for additional information on the acquisition. QCBT, CRBT, and RB&T are all state-chartered commercial banks; while CNB is a national-chartered commercial bank. 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.

In July 2013, FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Management is in the process of evaluating the impact of ASU 2013-11 on the Company's consolidated financial statements.

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Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

NOTE 2 – ACQUISITION OF COMMUNITY NATIONAL BANCORPORATION AND COMMUNITY NATIONAL BANK

On May 13, 2013, the Company acquired 100% of Community National's outstanding common stock for aggregate consideration totaling $19,441,834, which consisted of 834,715 shares of QCR Holdings common stock valued at $13,180,150 and cash of $6,261,684. Community National was the 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 and Cedar Falls, Iowa. As a de novo bank, CNB commenced its operations in 1997. Previously, CNB also served Mason City, Iowa and Austin, Minnesota. On October 4, 2013, the Company sold certain assets and liabilities of the two Mason City branches of CNB. And, on October 11, 2013, the Company sold certain assets and liabilities of the two Austin branches of CNB. See Note 9 for additional discussion of these sales. The Company operated CNB as a separate banking charter since the acquisition until October 26, 2013, when CNB's charter was merged with and into CRBT. CNB's merged branch offices will operate as a division of CRBT under the name "Community Bank & Trust."

The Company accounted for the business combination under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations" ("ASC 805"). The Company recognized the full fair value of the assets acquired and liabilities assumed at the acquisition date, net of applicable income tax effects. The excess of fair value of net assets over the carrying value is recorded as bargain purchase gain which is included in noninterest income on the statement of income. The market value adjustments are accreted or amortized on a level yield basis over the expected term. Additionally, the Company recorded a core deposit intangible totaling $3,440,076 which is the portion of the acquisition purchase price which represents the value assigned to the existing deposit base. The core deposit intangible has a finite life and is amortized by the straight-line method over the estimated useful life of the deposits (10 years).

The Company's acquired loans were recorded at fair value at the acquisition date and no separate valuation allowance was established. The initial fair value was determined with the assistance of a valuation specialist that discounted expected cash flows at appropriate rates. The discount rates were based on market rates for new originations of comparable loans and did not include a factor for credit losses as that was included in the estimated cash flows. ASC Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality”, applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. If both conditions exist, the Company determines whether to account for each loan individually or whether such loans will be assembled into pools based on common risk characteristics such as credit score, loan type, and origination date. Based on this evaluation, the Company determined that the loans acquired from the Community National acquisition subject to ASC Topic 310-30 would be accounted for individually. At the acquisition date, the historical cost and fair value of these loans totaled $3,033,022 and $2,207,891, respectively.

The Company considered expected prepayments and estimated the total expected cash flows, which includes undiscounted expected principal and interest. The excess of that amount over the fair value of the loan is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the expected life of the loan. The excess of the contractual cash flows over expected cash flows is referred to as nonaccretable difference and is not accreted into income. Over the life of the loan, the Company continues to estimate expected cash flows. Subsequent decreases in expected cash flows are recognized as impairments in the current period through the allowance for loan losses. Subsequent increases in cash flows to be collected are first used to reverse any existing valuation allowance and any remaining increase is recognized prospectively through an adjustment of the loan’s yield over its remaining life. At the acquisition date, accretable yield totaled $4,128,315 and nonaccretable yield totaled $397,894.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company assumed junior subordinated debentures with principal outstanding of $6,702,000 and fair value of $4,125,175 after a discount of $2,576,825. The initial fair value was determined with the assistance of a valuation specialist that discounted expected cash flows at appropriate rates. The discount is accreted as interest expense on a level yield basis over the expected remaining term of the junior subordinated debentures.

Results of the operations of the acquired business are included in the income statement from the effective date of the acquisition.

The fair values of the assets acquired and liabilities assumed, including the consideration paid and resulting bargain purchase gain, is as follows:

	As of May 13, 2013
ASSETS	
Cash and due from banks	$9,286,757
Federal funds sold	12,335,000
Interest-bearing deposits at financial institutions	2,024,539
Securities available for sale	45,853,826
Loans/leases receivable, net	195,658,486
Premises and equipment	8,132,021
Core deposit intangible	3,440,076
Bank-owned life insurance	4,595,529
Restricted investment securities	1,259,375
Other real estate owned	550,326
Other assets	5,178,583
Total assets acquired	$288,314,518
LIABILITIES	
Deposits	$255,045,071
Other borrowings	3,950,000
Junior subordinated debentures	4,125,175

Other liabilities	3,911,053
Total liabilties assumed	$267,031,299
Net assets acquired	$21,283,219
CONSIDERATION PAID:	
Cash	$6,261,684
Issuance of 834,715 shares of common stock	13,180,150
Total consideration paid	$19,441,834
Bargain purchase gain	$1,841,385

In order to fund the cash portion of the consideration and pay off the $3,950,000 of Community National borrowings at acquisition, the Company borrowed $4,400,000 on its 364-day revolving credit note. The outstanding balance on the 364-day revolving credit note totaled $10,000,000 until maturity at June 26, 2013. Upon maturity, the credit facility was restructured whereby the $10,000,000 of outstanding debt was restructured into a secured 3-year term note with principal due quarterly and interest due monthly where the interest is calculated at the effective LIBOR rate plus 3.00% per annum (3.18% at September 30, 2013). Additionally, as part of the restructuring, the Company maintained a secured 364-day revolving credit note with availability of $10,000,000 where the interest is calculated at the effective LIBOR rate plus 2.50% per annum. At September 30, 2013, the Company had not borrowed on this revolving credit note and had the full amount available.

The current note agreement contains certain covenants that place restrictions on additional debt and stipulate minimum capital and various asset quality and operating ratios.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company recorded a bargain purchase gain on the acquisition totaling $1,841,385 as the market value of the net assets acquired from Community National exceeded the total consideration paid. The consideration paid approximated a slight premium to the book value of Community National’s net assets at acquisition. The net impact of the market value adjustments resulted in a net increase to Community National’s net assets. The more significant market value adjustments were the core deposit intangible ($3,440,076) and the discount on the trust preferred securities ($2,576,825), as previously discussed.

Unaudited pro forma combined operating results for the three and nine months ended September 30, 2013 and 2012, giving effect to the Community National acquisition as if it had occurred as of January 1, 2012, are as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest income	$21,394,747	$22,106,037	$63,759,583	$66,069,066
Noninterest income	$5,934,653	$4,816,132	$17,274,447	$14,288,314
Net income	$3,348,327	$3,538,764	$8,825,027	$10,692,534
Net income attributable to QCR Holdings, Inc. common stockholders	$2,537,490	$2,600,750	$6,392,515	$7,512,855
Earnings per common share attributable to QCR Holdings, Inc. common stockholders				
Basic	$0.44	$0.45	$1.10	$1.29
Diluted	$0.43	$0.44	$1.08	$1.27

The pro forma results exclude the impact of the bargain purchase gain of $1,841,385. Additionally, the pro forma results do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on January 1, 2012 or of future results of operations of the consolidated entities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of September 30, 2013 and December 31, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2013:				
Securities held to maturity:				
Municipal securities	$ 130,311,845	$ 456,156	$ (6,520,899)	$ 124,247,102
Other securities	1,050,000	-	(4,740)	1,045,260
	$ 131,361,845	$ 456,156	$ (6,525,639)	$ 125,292,362
Securities available for sale:				
U.S. govt. sponsored agency securities	$ 383,193,241	$ 75,797	$ (15,744,151)	$ 367,524,887
Residential mortgage-backed and related securities	167,759,290	1,318,307	(2,533,127)	166,544,470
Municipal securities	36,242,570	978,391	(761,791)	36,459,170
Other securities	1,358,524	450,278	-	1,808,802
	$ 588,553,625	$ 2,822,773	$ (19,039,069)	$ 572,337,329
December 31, 2012:				
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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 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
September 30, 2013:						
Securities held to maturity:						
Municipal securities	$92,786,083	$(6,520,899)	$-	$-	$92,786,083	$(6,520,899)
Other securities	495,260	(4,740)	-	-	495,260	(4,740)
	$93,281,343	$(6,525,639)	$-	$-	$93,281,343	$(6,525,639)
Securities available for sale:						
U.S. govt. sponsored agency securities	$351,006,164	$(15,744,151)	$-	$-	$351,006,164	$(15,744,151)
Residential mortgage-backed and related securities	106,889,560	(2,517,649)	1,279,117	(15,478)	108,168,677	(2,533,127)
Municipal securities	16,263,130	(761,791)	-	-	16,263,130	(761,791)
	$474,158,854	$(19,023,591)	$1,279,117	$(15,478)	$475,437,971	$(19,039,069)
December 31, 2012:						
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 September 30, 2013, the investment portfolio included 545 securities. Of this number, 341 securities had current unrealized losses with aggregate depreciation of less than 5% from the total amortized cost basis. Of these 341, only one had an unrealized loss for twelve months or more and the amount of the unrealized loss was only $15,478. 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 September 30, 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 securities for the three and nine months ended September 30, 2013 and 2012.

The Company did not recognize other-than-temporary impairment on any equity securities for the three and nine months ended September 30, 2013. During the second quarter of 2012, the Company's evaluation determined that one privately held equity security experienced a decline in fair value that was other-than-temporary. As a result, the Company wrote down the value of this security and recognized a loss in the amount of $62,400. The Company did not recognize other-than-temporary impairment on any equity securities during the first quarter or the third quarter of 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and nine months ended September 30, 2013 and 2012, respectively, were from securities identified as available-for-sale. Information on proceeds received, as well as pre-tax gross gains from sales on those securities is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Proceeds from sales of securities	$31,225,516	$ -	$37,393,047	$19,215,075
Pre-tax gross gains from sales of securities	506,611	-	523,071	104,600
Pre-tax gross losses from sales of securities	(89,675)	-	(89,675)	-

The amortized cost and fair value of securities as of September 30, 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” available for sale are excluded from the maturity categories as there is no fixed maturity date for those securities.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	$2,066,615	$2,066,245
Due after one year through five years	9,982,269	9,827,587
Due after one year through five years	119,312,961	113,398,530
	$131,361,845	$125,292,362
Securities available for sale:		
Due in one year or less	$5,220,265	$5,231,685
Due after one year through five years	42,271,445	42,124,141

Due after five years	371,944,101	356,628,231
	$419,435,811	$403,984,057
Residential mortgage-backed and related securities	167,759,290	166,544,470
Other securities	1,358,524	1,808,802
	$588,553,625	$572,337,329

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

	Amortized Cost	Fair Value
Securities held to maturity:		
Municipal securities	$94,833,231	$89,637,985
Securities available for sale:		
U.S. govt. sponsored agency securities	349,624,386	334,694,737
Municipal securities	23,163,866	22,996,424
	$372,788,252	$357,691,161

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of September 30, 2013 and December 31, 2012 is presented as follows:

	As of September 30, 2013	As of December 31, 2012
Commercial and industrial loans	$471,256,974	$394,244,252
Commercial real estate loans		
Owner-occupied commercial real estate	259,500,453	204,911,308
Commercial construction, land development, and other land	49,585,072	44,962,381
Other non owner-occupied commercial real estate	405,615,528	344,105,550
	714,701,053	593,979,239
Direct financing leases *	121,267,997	103,685,656
Residential real estate loans **	150,825,156	115,581,573
Installment and other consumer loans	77,226,363	76,720,514
	1,535,277,543	1,284,211,234
Plus deferred loan/lease origination costs, net of fees	4,106,282	3,176,405
	1,539,383,825	1,287,387,639
Less allowance for estimated losses on loans/leases	(22,062,389)	(19,925,204)
	$1,517,321,436	$1,267,462,435

* Direct financing leases:		
Net minimum lease payments to be received	$136,848,442	$117,719,380
Estimated unguaranteed residual values of leased assets	1,775,830	1,095,848
Unearned lease/residual income	(17,356,275)	(15,129,572)
	121,267,997	103,685,656
Plus deferred lease origination costs, net of fees	4,514,946	3,907,140
	125,782,943	107,592,796
Less allowance for estimated losses on leases	(2,323,509)	(1,990,395)

	$123,459,434	$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 and nine months ended September 30, 2013 and 2012.

**Includes residential real estate loans held for sale totaling $1,445,900 and $4,577,233 as of September 30, 2013, and December 31, 2012, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The aging of the loan/lease portfolio by classes of loans/leases as of September 30, 2013 and December 31, 2012 is presented as follows:

	As of September 30, 2013					
Classes of Loans/Leases	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
Commercial and Industrial	$466,597,618	$1,493,016	$208,603	$-	$2,957,737	$471,256,974
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	257,258,899	41,296	58,933	-	2,141,325	259,500,453
Commercial Construction, Land Development, and Other Land	46,919,007	1,506,409	509,601	59,975	590,080	49,585,072
Other Non Owner-Occupied Commercial Real Estate	391,773,134	515,680	346,985	-	12,979,729	405,615,528
Direct Financing Leases	118,820,384	1,429,405	319,620	-	698,588	121,267,997
Residential Real Estate	148,740,223	346,108	52,029	-	1,686,796	150,825,156
Installment and Other Consumer	76,029,956	100,410	22,876	939	1,072,182	77,226,363
	$1,506,139,221	$5,432,324	$1,518,647	$60,914	$22,126,437	$1,535,277,543
As a percentage of total loan/lease	98.10 %	0.35 %	0.10 %	0.00 %	1.44 %	100.00 %

portfolio

Classes of Loans/Leases	As of December 31, 2012 Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
Commercial and Industrial	$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 %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Nonperforming loans/leases by classes of loans/leases as of September 30, 2013 and December 31, 2012 are presented as follows:

	As of September 30, 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	$-	$ 2,957,737	$ 886,165	$ 3,843,902	15.42	%
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	-	2,141,325	-	2,141,325	8.59	%
Commercial Construction, Land Development, and Other Land	59,975	590,080	300,000	950,055	3.81	%
Other Non Owner-Occupied Commercial Real Estate	-	12,979,729	809,162	13,788,891	55.32	%
Direct Financing Leases	-	698,588	-	698,588	2.80	%
Residential Real Estate	-	1,686,796	373,922	2,060,718	8.27	%
Installment and Other Consumer	939	1,072,182	370,000	1,443,121	5.79	%
	$ 60,914	$ 22,126,437	$ 2,739,249	$ 24,926,600	100.00	%

*Nonaccrual loans/leases includes $13,712,367 of troubled debt restructurings, including $130,655 in commercial and industrial loans, $12,935,422 in commercial real estate loans, $374,102 in residential real estate loans, and $272,188 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	$ 120,000	$ 1,564,499	$ 184,084	$ 1,868,583	7.36	%

Commercial Real Estate						
Owner-Occupied Commercial Real Estate	-	627,245	-	627,245	2.47	%
Commercial Construction, Land Development, and Other Land	-	2,781,562	1,016,023	3,797,585	14.96	%
Other Non Owner-Occupied 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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance for estimated losses on loans/leases by portfolio segment for the three and nine months ended September 30, 2013 and 2012, respectively, are presented as follows:

	Three Months Ended September 30, 2013					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$4,790,828	$12,190,497	$2,187,605	$1,165,341	$822,108	$21,156,379
Provisions charged to expense	765,582	88,761	338,984	102,523	71,134	1,366,984
Loans/leases charged off	(214,920)	(443,721)	(203,724)	(13,599)	(51,673)	(927,637)
Recoveries on loans/leases previously charged off	26,034	375,325	644	13,240	51,420	466,663
Balance, ending	$5,367,524	$12,210,862	$2,323,509	$1,267,505	$892,989	$22,062,389

	Three Months Ended September 30, 2012					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$4,180,792	$10,709,991	$1,610,999	$986,714	$1,236,039	$18,724,535
Provisions charged to expense	136,766	721,358	350,194	233,226	54,650	1,496,194
Loans/leases charged off	(214,036)	(552,959)	(111,326)	(183,031)	(88,378)	(1,149,730)
Recoveries on loans/leases previously charged off	69,959	175,467	35,118	-	65,205	345,749
Balance, ending	$4,173,481	$11,053,857	$1,884,985	$1,036,909	$1,267,516	$19,416,748

	Nine Months Ended September 30, 2013					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total

Balance, beginning	$4,531,545	$11,069,502	$1,990,395	$1,070,328	$1,263,434	$19,925,204
Provisions charged to expense	1,026,073	1,875,132	1,057,744	307,196	(321,242)	3,944,903
Loans/leases charged off	(253,820)	(1,264,446)	(726,395)	(126,490)	(192,160)	(2,563,311)
Recoveries on loans/leases previously charged off	63,726	530,674	1,765	16,471	142,957	755,593
Balance, ending	$5,367,524	$12,210,862	$2,323,509	$1,267,505	$892,989	$22,062,389

	Nine Months Ended September 30, 2012					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$4,878,006	$10,596,958	$1,339,496	$704,946	$1,269,856	$18,789,262
Provisions charged to expense	(637,852)	2,254,732	924,109	519,751	264,369	3,325,109
Loans/leases charged off	(669,778)	(1,980,946)	(454,590)	(187,788)	(416,179)	(3,709,281)
Recoveries on loans/leases previously charged off	603,105	183,113	75,970	-	149,470	1,011,658
Balance, ending	$4,173,481	$11,053,857	$1,884,985	$1,036,909	$1,267,516	$19,416,748

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance for estimated losses on loans/leases by impairment evaluation and by portfolio segment as of September 30, 2013 and December 31, 2012 is presented as follows:

	As of September 30, 2013					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for loans/leases individually evaluated for impairment	$1,112,008	$4,987,850	$134,533	$206,700	$52,567	$6,493,658
Allowance for loans/leases collectively evaluated for impairment	4,255,516	7,223,012	2,188,976	1,060,805	840,422	15,568,731
	$5,367,524	$12,210,862	$2,323,509	$1,267,505	$892,989	$22,062,389
Loans/leases individually evaluated for impairment	$2,574,217	$16,517,483	$698,588	$2,060,718	$1,442,182	$23,293,188
Loans/leases collectively evaluated for impairment	468,682,757	698,183,570	120,569,409	148,764,438	75,784,181	1,511,984,355
	$471,256,974	$714,701,053	$121,267,997	$150,825,156	$77,226,363	$1,535,277,543
Allowance as a percentage	43.20 %	30.20 %	19.26 %	10.03 %	3.64 %	27.88 %

of loans/leases individually evaluated for impairment						
Allowance as a percentage of loans/leases collectively evaluated for impairment	0.91 %	1.03 %	1.82 %	0.71 %	1.11 %	1.03 %
	1.14 %	1.71 %	1.92 %	0.84 %	1.16 %	1.43 %

	As of December 31, 2012					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for loans/leases individually evaluated for impairment	$280,170	$4,005,042	$125,000	$105,565	$71,992	$4,587,769
Allowance for loans/leases collectively evaluated for 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 individually evaluated for impairment	$1,006,952	$20,383,846	$998,802	$1,217,256	$687,355	$24,294,211
Loans/leases collectively evaluated for 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 as a percentage of loans/leases individually	27.82 %	19.65 %	12.51 %	8.67 %	10.47 %	18.88 %

evaluated for impairment Allowance as a percentage of loans/leases	1.08	%	1.23	%	1.82	%	0.84	%	1.57	%	1.22	%
collectively evaluated for impairment	1.15	%	1.86	%	1.92	%	0.93	%	1.65	%	1.55	%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the nine months ended September 30, 2013 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial	$701,450	$1,108,661	$-	$796,262	$ 5,811	$ 5,811
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	705,653	705,653	-	1,517,083	-	-
Commercial Construction, Land Development, and Other Land	1,760,962	1,760,962	-	2,031,439	-	-
Other Non Owner-Occupied Commercial Real Estate	1,584,704	1,584,704	-	2,807,422	41,127	41,127
Direct Financing Leases	460,298	460,298	-	812,758	-	-
Residential Real Estate	1,404,241	1,404,241	-	1,033,428	-	-
Installment and Other Consumer	1,004,643	1,004,643	-	863,712	6,801	6,801
	$7,621,951	$8,029,162	$-	$9,862,104	$ 53,739	$ 53,739
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial	$1,872,767	$1,886,717	$1,112,008	$1,044,843	$ 24,647	$ 24,647
Commercial Real Estate						
	1,325,513	2,170,954	461,491	633,230	-	-

Owner-Occupied Commercial Real Estate						
Commercial Construction, Land Development, and Other Land	1,882,762	1,882,762	1,842,784	1,874,976	7,411	7,411
Other Non Owner-Occupied Commercial Real Estate	9,257,889	9,510,848	2,683,575	8,673,807	30,957	30,957
Direct Financing Leases	238,290	238,290	134,533	89,468	-	-
Residential Real Estate	656,477	656,477	206,700	410,364	801	801
Installment and Other Consumer	437,539	437,539	52,567	334,233	-	-
	$15,671,237	$16,783,587	$6,493,658	$13,060,921	$ 63,816	$ 63,816
Total Impaired Loans/Leases:						
Commercial and Industrial	$2,574,217	$2,995,378	$1,112,008	$1,841,105	$ 30,458	$ 30,458
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	2,031,166	2,876,607	461,491	2,150,313	-	-
Commercial Construction, Land Development, and Other Land	3,643,724	3,643,724	1,842,784	3,906,415	7,411	7,411
Other Non Owner-Occupied Commercial Real Estate	10,842,593	11,095,552	2,683,575	11,481,229	72,084	72,084
Direct Financing Leases	698,588	698,588	134,533	902,226	-	-
Residential Real Estate	2,060,718	2,060,718	206,700	1,443,792	801	801
Installment and Other Consumer	1,442,182	1,442,182	52,567	1,197,945	6,801	6,801
	$23,293,188	$24,812,749	$6,493,658	$22,923,025	$ 117,555	$ 117,555

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended September 30, 2013 and 2012, respectively, are presented as follows:

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
Classes of Loans/Leases	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial	$834,405	$ 1,950	$ 1,950	$754,844	$ -	$ -
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	2,295,969	-	-	550,725	-	-
Commercial Construction, Land Development, and Other Land	1,943,718	-	-	1,323,689	1,701	1,701
Other Non Owner-Occupied Commercial Real Estate	1,739,053	354	354	5,798,404	-	-
Direct Financing Leases	527,153	-	-	680,817	-	-
Residential Real Estate	1,273,943	-	-	943,926	1,691	1,691
Installment and Other Consumer	1,012,035	1,689	1,689	1,063,519	121	121
	$9,626,276	$ 3,993	$ 3,993	$11,115,924	$ 3,513	$ 3,513
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial	$1,913,841	$ 9,340	$ 9,340	$223,917	$ 1,984	$ 1,984
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	1,181,798	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	1,897,759	1,992	1,992	2,157,696	-	-

Other Non Owner-Occupied Commercial Real Estate	8,893,535	26,484	26,484	12,036,134	86,744	86,744
Direct Financing Leases	172,428	-	-	210,299	-	-
Residential Real Estate	561,752	801	801	524,031	-	-
Installment and Other Consumer	422,808	-	-	68,898	-	-
	$15,043,921	$ 38,617	$ 38,617	$15,220,975	$ 88,728	$ 88,728
Total Impaired Loans/Leases:						
Commercial and Industrial	$2,748,246	$ 11,290	$ 11,290	$978,761	$ 1,984	$ 1,984
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	3,477,767	-	-	550,725	-	-
Commercial Construction, Land Development, and Other Land	3,841,477	1,992	1,992	3,481,385	1,701	1,701
Other Non Owner-Occupied Commercial Real Estate	10,632,588	26,838	26,838	17,834,538	86,744	86,744
Direct Financing Leases	699,581	-	-	891,116	-	-
Residential Real Estate	1,835,695	801	801	1,467,957	1,691	1,691
Installment and Other Consumer	1,434,843	1,689	1,689	1,132,417	121	121
	$24,670,197	$ 42,610	$ 42,610	$26,336,899	$ 92,241	$ 92,241

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
Commercial and Industrial	$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	$-
Impaired Loans/Leases with Specific Allowance Recorded:			
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
Total Impaired Loans/Leases:			
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
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.

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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 September 30, 2013 and December 31, 2012:

	As of September 30, 2013				
		Commercial Real Estate			
Internally Assigned Risk Rating	Commercial and Industrial	Owner-Occupied Commercial Real Estate	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other Commercial Real Estate	Total
Pass (Ratings 1 through 5)	$445,104,945	$249,985,030	$36,776,727	$374,036,916	$1,105,903,618
Special Mention (Rating 6)	11,374,381	3,261,364	5,292,606	9,717,356	29,645,707
Substandard (Rating 7)	14,733,895	6,095,333	7,515,739	21,861,256	50,206,223
Doubtful (Rating 8)	43,753	158,726	-	-	202,479
	$471,256,974	$259,500,453	$49,585,072	$405,615,528	$1,185,958,027

	As of September 30, 2013			
Delinquency Status *	Direct Financing	Residential Real Estate	Installment and Other	Total

	Leases		Consumer	
Performing	$120,569,409	$148,764,438	$75,783,242	$345,117,089
Nonperforming	698,588	2,060,718	1,443,121	4,202,427
	$121,267,997	$150,825,156	$77,226,363	$349,319,516

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

	As of December 31, 2012			
Delinquency Status *	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of September 30, 2013 and December 31, 2012, troubled debt restructurings totaled $16,451,616 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 and nine months ended September 30, 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 Loans/Leases	For the three months ended September 30, 2013				For the three months ended September 30, 2012			
	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Extension of maturity								
Owner-Occupied Commercial Real Estate	1	$ 61,517	$ 61,517	$ -	-	$ -	$ -	$ -
Other Non Owner-Occupied Commercial Real Estate	7	6,637,835	6,637,835	1,518,303	4	1,184,289	1,184,289	325,923
	8	$ 6,699,352	$ 6,699,352	$ 1,518,303	4	$ 1,184,289	$ 1,184,289	$ 325,923
CONCESSION - Interest rate adjusted below market								
Other Non Owner-Occupied Commercial Real Estate	-	$ -	$ -	$ -	2	$ 1,542,784	$ 1,289,825	$ 55,187
Residential Real Estate	1	79,661	79,661	24,408	-	-	-	-

	1	$ 79,661	$ 79,661	$ 24,408	-	$ -	$ -	$ -
TOTAL	9	$ 6,779,013	$ 6,779,013	$ 1,542,711	4	$ 1,184,289	$ 1,184,289	$ 325,923

	For the nine months ended September 30, 2013				For the nine months ended September 30, 2012			
Classes of Loans/Leases	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Extension of maturity								
Commercial and Industrial	3	$ 809,494	$ 809,494	$ 188,700	-	$ -	$ -	$ -
Owner-Occupied Commercial Real Estate	1	61,517	61,517	-	-	-	-	-
Other Non Owner-Occupied Commercial Real Estate	7	6,637,835	6,637,835	1,518,303	4	1,184,289	1,184,289	325,923
	11	$ 7,508,846	$ 7,508,846	$ 1,707,003	4	$ 1,184,289	$ 1,184,289	$ 325,923
CONCESSION - Significant payment delay								
Owner-Occupied Commercial Real Estate	1	$ 47,958	$ 47,958	$ -	-	$ -	$ -	$ -
Residential Real Estate	1	91,581	91,581	-	-	-	-	-
Installment and Other Consumer	1	370,000	370,000	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	2	200,000	200,000	144,000
	3	$ 509,539	$ 509,539	$ -	2	$ 200,000	$ 200,000	$ 144,000
CONCESSION - Interest rate adjusted below market								
Commercial Construction, Land Development, and Other Land	1	$ 337,500	$ 337,500	$ -	1	$ 337,500	$ 337,500	$ -
	-	-	-	-	2	1,542,784	1,289,825	55,187

Other Non Owner-Occupied Commercial Real Estate								
Residential Real Estate	2	240,288	240,288	24,408	1	167,739	167,739	-
Installment and Other Consumer	-	-	-	-	1	16,043	16,043	-
	3	$ 577,788	$ 577,788	$ 24,408	5	$ 2,064,066	$ 1,811,107	$ 55,187
TOTAL	17	$ 8,596,173	$ 8,596,173	$ 1,731,411	11	$ 3,448,355	$ 3,195,396	$ 525,110

Of the troubled debt restructurings reported above, 10 with post-modification recorded investments totaling $6,087,296 were on nonaccrual as of September 30, 2013, and four with post-modification recorded investments totaling $4,337,321 were on nonaccrual as of September 30, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

For the three and nine months ended September 30, 2013, the Company had one troubled debt restructuring that redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status. The one troubled debt restructuring had a pre-modification and post-modification recorded investment of $61,517 with no specific allowance. The troubled debt restructuring was placed on nonaccrual status during the three months ended September 30, 2013.

For the three and nine months ended September 30, 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.

NOTE 5 – JUNIOR SUBORDINATED DEBENTURES

As part of the acquisition of Community National, the Company assumed two junior subordinated debentures detailed as follows:

The first debenture assumed was issued in September 2004 in the amount of $3,093,000, and provides that interest is payable quarterly with the interest rate adjusted to equal three-month LIBOR plus 2.17% (2.42% at September 30, 2013). Principal is due September 20, 2034, but is callable at any time. The second debenture assume was issued in March 2007 in the amount of $3,609,000, and provides that interest is payable quarterly with the interest rate adjusted to equal three-month LIBOR plus 1.75% (2.00% at September 30, 2013). Principal is due March 15, 2037, but is callable at any time.

Junior subordinated debentures are summarized as of September 30, 2013 and December 31, 2012 as follows:

	2013	2012
Note Payable to QCR Holdings Capital Trust II	$12,372,000	$12,372,000
Note Payable to QCR Holdings Capital Trust III	8,248,000	8,248,000
Note Payable to QCR Holdings Capital Trust IV	5,155,000	5,155,000
Note Payable to QCR Holdings Capital Trust V	10,310,000	10,310,000
Note Payable to Community National Trust II	3,093,000	-
Note Payable to Community National Trust III	3,609,000	-
Market Value Discount per ASC 805	(2,529,562)	-
	$40,257,438	$36,085,000

At acquisition, the fair value of Community National's junior subordinated debentures totaled $4,125,175 which resulted in a discount of $2,576,825. The discount is accreted as interest expense on a level yield basis over the expected remaining term of the junior subordinated debentures.

A schedule of the Company's non-consolidated subsidiaries formed for the issuance of trust preferred securities including the amounts outstanding as of September 30, 2013 and December 31, 2012, is as follows:

Name	Date Issued	Amount Issued	Interest Rate	Interest Rate as of 9/30/2013	Interest Rate as of 12/31/2012
QCR Holdings Statutory Trust II	February 2004	$12,372,000	2.85% over 3-month LIBOR	3.12%	3.21%
QCR Holdings Statutory Trust III	February 2004	8,248,000	2.85% over 3-month LIBOR	3.12%	3.21%
QCR Holdings Statutory Trust IV	May 2005	5,155,000	1.80% over 3-month LIBOR	2.07%	2.14%
QCR Holdings Statutory Trust V	February 2006	10,310,000	1.55% over 3-month LIBOR	1.82%	1.89%
Community National Statutory Trust II	September 2004	3,093,000	2.17% over 3-month LIBOR	2.42%	N/A
Community National Statutory Trust III	March 2007	3,609,000	1.75% over 3-month LIBOR	2.00%	N/A
		$42,787,000	Weighted Average Rate	2.54%	2.68%

Securities issued by all of the trusts listed above mature 30 years from the date of issuance, but all are currently callable at par at any time.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 - EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	$3,811,944	$3,184,510	$11,122,319	$9,860,738
Less: Net income attributable to noncontrolling interests	-	127,177	-	494,431
Net income attributable to QCR Holdings, Inc.	$3,811,944	$3,057,333	$11,122,319	$9,366,307
Less: Preferred stock dividends	810,837	810,837	2,432,512	2,685,248
Net income attributable to QCR Holdings, Inc. common stockholders	$3,001,107	$2,246,496	$8,689,807	$6,681,059
Earnings per common share attributable to QCR Holdings, Inc. common stockholders				
Basic	$0.52	$0.45	$1.62	$1.37
Diluted	$0.51	$0.44	$1.59	$1.35
Weighted average common shares outstanding	5,806,019	4,978,699	5,375,557	4,871,626
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	109,260	101,589	106,741	66,888
Weighted average common and common equivalent shares outstanding	5,915,279	5,080,288	5,482,298	4,938,514

NOTE 7 – BUSINESS SEGMENT INFORMATION

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

The Company’s primary segment, Commercial Banking, is geographically divided by markets into the secondary segments which are the four subsidiary banks wholly-owned by the Company: QCBT, CRBT, RB&T, and CNB (which was acquired on May 13, 2013 and merged with and into CRBT on October 26, 2013). 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 four 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.

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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 and nine months ended September 30, 2013 and 2012.

	Commercial Banking							
	Quad City Bank & Trust	Cedar Rapids Bank & Trust	Rockford Bank & Trust	Community National Bank	**Wealth Management**	**All Other**	**Intercompany Eliminations**	**C T**
Three Months Ended September 30, 2013								
Total revenue	$12,610,738	$6,614,689	$3,457,684	$3,391,981	$1,946,795	$5,398,152	$(5,489,143)	$
Net interest income	$8,494,707	$4,100,494	$2,421,255	$2,782,513	$-	$(488,633)	$-	$
Net income attributable to QCR Holdings, Inc.	$2,541,293	$1,626,220	$445,521	$315,587	$458,813	$3,811,944	$(5,387,434)	$
Total assets	$1,248,417,915	$651,239,436	$333,804,180	$276,428,086	$-	$214,875,126	$(239,050,305)	$
Provision for loan/lease losses	$674,984	$-	$112,000	$580,000	$-	$-	$-	$
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$-	$
Core deposit	$-	$-	$-	$3,311,073	$-	$-	$-	$

intangible								
Three Months Ended September 30, 2012								
Total revenue	$11,643,674	$6,706,485	$2,897,098	$-	$1,490,297	$4,542,612	$(3,675,459)	$
Net interest income	$8,602,967	$4,027,693	$2,368,483	$-	$-	$(369,625)	$-	$
Net income attributable to QCR Holdings, Inc.	$2,586,303	$1,532,946	$(313,019)	$-	$108,950	$3,077,515	$(3,935,362)	$
Total assets	$1,134,296,418	$587,057,961	$299,947,837	$-	$-	$196,448,244	$(193,804,388)	$
Provision for loan/lease losses	$350,194	$300,000	$846,000	$-	$-	$-	$-	$
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$-	$
Nine Months Ended September 30, 2013								
Total revenue	$36,476,985	$20,011,520	$10,291,554	$4,900,023	$5,488,081	$16,570,031	$(14,977,630)	$
Net interest income	$25,371,337	$11,897,163	$7,160,723	$4,008,125	$-	$(1,227,643)	$-	$
Net income attributable to QCR Holdings, Inc.	$6,989,589	$4,971,503	$1,261,243	$458,786	$1,000,558	$11,122,319	$(14,681,679)	$
Total assets	$1,248,417,915	$651,239,436	$333,804,180	$276,428,086	$-	$214,875,126	$(239,050,305)	$
Provision for loan/lease losses	$2,052,889	$400,000	$912,000	$580,014	$-	$-	$-	$
Goodwill	$3,222,688	$-	$-		$-	$-	$-	$
Core deposit intangible	$-	$-	$-	$3,311,073	$-	$-	$-	$
Nine Months Ended September								

30, 2012								
Total revenue	$36,196,909	$19,829,521	$9,665,950	$-	$4,427,051	$13,533,609	$(13,115,614)	$[illegible]
Net interest income	$25,524,594	$11,691,876	$7,259,522	$-	$-	$(1,127,528)	$-	$4[illegible]
Net income attributable to QCR Holdings, Inc.	$7,603,033	$4,214,081	$482,950	$-	$425,356	$9,484,700	$(12,843,813)	$9[illegible]
Total assets	$1,134,296,418	$587,057,961	$299,947,837	$-	$-	$196,448,244	$(193,804,388)	$[illegible]
Provision for loan/lease losses	$1,138,109	$875,000	$1,312,000	$-	$-	$-	$-	$[illegible]
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$-	$[illegible]

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 8 – 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 September 30, 2013 and December 31, 2012:

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

<u>September 30, 2013:</u>				
Securities available for sale:				
U.S. govt. sponsored agency securities	$367,524,887	$-	$367,524,887	$ -
Residential mortgage-backed and related securities	166,544,470	-	166,544,470	-
Municipal securities	36,459,170	-	36,459,170	-
Other securities	1,808,802	285,214	1,523,588	-
	$572,337,329	$285,214	$572,052,115	$ -
<u>December 31, 2012:</u>				
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 and nine months ended September 30, 2013 and 2012.

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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Assets measured at fair value on a non-recurring basis comprise the following at September 30, 2013 and December 31, 2012:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
September 30, 2013:				
Impaired loans/leases	$11,239,694	$-	$ -	$11,239,694
Other real estate owned	9,175,463	-	-	9,175,463
	$20,415,157	$-	$ -	$20,415,157
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.

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

	Quantitave Information about Level Fair Value Measurments			
	Fair Value	**Valuation Technique**	**Unobservable Input**	**Range**
September 30, 2013:				
Impaired loans/leases	$11,239,694	Appraisal of collateral	Appraisal adjustments	-10.00% to -40.00%
Other real estate owned	9,175,463	Appraisal of collateral	Appraisal adjustments	-25.00% to -50.00%

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 and nine months ended September 30, 2013 and 2012.

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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 Hierarchy Level	As of September 30, 2013		As of December 31, 2012	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	$58,724,270	$58,724,270	$61,568,446	$61,568,446
Federal funds sold	Level 2	48,192,000	48,192,000	26,560,000	26,560,000
Interest-bearing deposits at financial institutions	Level 2	15,862,796	15,862,796	22,359,490	22,359,490
Investment securities:					
Held to maturity	Level 3	131,361,845	125,292,362	72,079,385	73,005,706
Available for sale	See Previous Table	572,337,329	572,337,329	530,159,986	530,159,986
Loans/leases receivable, net	Level 3	10,407,124	11,239,694	16,716,883	18,054,234
Loans/leases receivable, net	Level 2	1,506,914,312	1,521,560,306	1,250,745,552	1,262,090,766
Deposits:					
Nonmaturity deposits	Level 2	1,295,910,195	1,295,910,195	1,039,572,326	1,039,572,326
Time deposits	Level 2	445,921,780	447,290,000	334,541,774	337,343,000
Short-term borrowings	Level 2	169,259,562	169,259,562	171,082,961	171,082,961
Federal Home Loan Bank advances	Level 2	205,350,000	216,440,000	202,350,000	220,815,000
Other borrowings	Level 2	142,646,212	154,164,000	138,239,762	154,101,000
Junior subordinated debentures	Level 2	40,257,438	27,903,509	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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 9 – SALES OF CERTAIN BRANCHES OF CNB AND MERGER OF CNB INTO CRBT

On October 4, 2013, the Company finalized the sale of certain assets and liabilities of the two Mason City, Iowa branches of CNB. The detail of the assets and liabilities sold, and resulting gain on sale, is as follows:

ASSETS	As of October 4, 2013
Cash	$29,905,991
Loans receivable	22,709,735
Premises and equipment	776,782
Core deposit intangible	910,415
Other assets	68,456
Total assets sold	$54,371,379
LIABILITIES	
Deposits	$55,191,930
Other liabilities	53,422
Total liabilties sold	$55,245,352
Gain on sale, pre-tax	$873,973

On October 11, 2013, the Company finalized the sale of certain assets and liabilities of the two Austin, Minnesota branches of CNB. The detail of the assets and liabilities sold, and resulting gain on sale, is as follows:

ASSETS	As of October 11, 2013
Cash	$519,627
Loans receivable	31,749,135
Premises and equipment	1,597,040

Core deposit intangible	480,347
Other assets	70,443
Total assets sold	$34,416,592
LIABILITIES	
Deposits	$35,830,168
Other liabilities	46,668
Total liabilties sold	$35,876,836
Gain on sale, pre-tax	$1,460,244

On October 26, 2013, the remaining branch offices of CNB merged with and into CRBT. CNB's merged branch offices will operate as a division of CRBT under the name "Community Bank & Trust."

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

QCR Holdings, Inc. is the parent company of QCBT, CRBT, RB&T, and as the result of the May 13, 2013 acquisition, CNB. See Note 2 to the Consolidated Financial Statements for additional information regarding the Company's acquisition of CNB.

QCBT and CRBT are Iowa-chartered commercial banks, and RB&T is an Illinois-chartered commercial bank. CNB is a national-chartered commercial bank headquartered in Iowa. 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. On October 26, 2013, CNB merged with and into CRBT. CNB's merged branch offices will operate as a division of CRBT under the name "Community Bank & Trust." See below and Note 9 to the Company's Consolidated Financial Statements for further discussion on CNB.

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

CNB commenced operations in 1997 and historically provided full-service commercial and consumer banking, and trust and asset management services, to Cedar Falls, Mason City, and Waterloo, Iowa and Austin, Minnesota. As of September 30, 2013, CNB had a total of eight branch facilities with four in the Waterloo/Cedar Falls area which is where CNB is headquartered, two in Mason City, and two in Austin. On October 4, 2013, the Company finalized the sale of the two branches in Mason City. On October 11, 2013, the Company finalized the sale of the two branches in Austin. On October 26, 2013, CNB merged with and into CRBT. CNB's merged branch offices will operate as a division of CRBT under the name "Community Bank & Trust." See further information in Note 9 to the Company's Consolidated Financial Statements.

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Item 2

MANAGEMENT'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 $3.8 million for the quarter ended September 30, 2013. After preferred stock dividends of $811 thousand, the Company reported net income attributable to common stockholders of $3.0 million, or diluted earnings per common share of $0.51. By comparison, for the third quarter of 2012, the Company recognized net income of $3.2 million and net income attributable to QCR holdings, Inc. of $3.1 million, which excludes the net income attributable to noncontrolling interests of $127 thousand. After preferred stock dividends of $811 thousand, the Company reported net income attributable to common stockholders of $2.2 million, or diluted earnings per common share of $0.44. For the first three quarters of 2013, the Company recognized net income and net income attributable to QCR Holdings, Inc. of $11.1 million, or diluted earnings per share of $1.59 after preferred stock dividends of $2.4 million. This was an increase of $1.8 million, or 19%, over the same period of 2012.

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

	For the three months ended		For the nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income	$3,811,944	$3,184,510	$11,122,319	$9,860,738
Less: Net income attributable to noncontrolling interests	-	127,177	-	494,431
Net income attributable to QCR Holdings, Inc.	$3,811,944	$3,057,333	$11,122,319	$9,366,307
Less: Preferred stock dividends	810,837	810,837	2,432,512	2,685,248
Net income attributable to QCR Holdings, Inc. common stockholders	$3,001,107	$2,246,496	$8,689,807	$6,681,059
Diluted earnings per common share	$0.51	$0.44	$1.59	$1.35

Weighted average common and common equivalent shares outstanding	5,915,279	5,080,288	5,482,298	4,938,514

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

	For the three months ended			For the nine months ended	
	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net interest income	$17,310,336	$15,708,052	$14,629,518	$47,209,705	$43,348,464
Provision for loan/lease losses	(1,366,984)	(1,520,137)	(1,496,194)	(3,944,903)	(3,325,109)
Noninterest income	5,934,653	6,948,756	4,117,182	18,087,438	12,141,569
Noninterest expense	(17,027,268)	(15,234,349)	(13,031,517)	(46,220,117)	(38,878,680)
Federal and state income tax	(1,038,793)	(1,857,091)	(1,034,479)	(4,009,804)	(3,425,506)
Net income	$3,811,944	$4,045,231	$3,184,510	$11,122,319	$9,860,738

With the acquisition of Community National and CNB on May 13, 2013, the Company’s third quarter results include the first full quarter of CNB’s earnings. Specifically, CNB recognized net income of $592 thousand.

In comparing quarter-over-quarter, following are some noteworthy fluctuations:

- Net interest income grew $1.6 million, or 10%, propelled by the addition of CNB for its first full quarter as well as modest organic growth in earning assets.
- Excluding the bargain purchase gain of $1.8 million on the Community National acquisition recognized in the second quarter, noninterest income increased $827 thousand, or 16%, led by wealth management and deposit service fee income.
- The Company incurred $1.8 million more in noninterest expenses as a result of the first full quarter of CNB’s existing cost structure.

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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 $2.7 million, or 18%, to $18.0 million for the quarter ended September 30, 2013, from $15.3 million for the same period of 2012. The increase in net interest income was primarily driven by the addition of CNB for the first full quarter. Included in CNB's net interest income for the third quarter was $592 thousand of net accretion of the market value adjustments recorded upon acquisition.

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

- The average yield on interest-earning assets decreased 34 basis points.
- The average cost of interest-bearing liabilities decreased 27 basis points.
- The net interest spread declined 7 basis points from 2.88% to 2.81%.
- The net interest margin declined 13 basis points from 3.20% to 3.07%.

Net interest income, on a tax equivalent basis, increased $4.3 million, or 10%, to $49.1 million for the first nine months of 2013, from $44.8 million for the same period of 2012. The increase in net interest income was driven primarily by the addition of CNB for the first full quarter. Exclusive of CNB, the Company was still successful in growing net interest income. This was the result of organic loan/lease growth and continued reductions in the cost of deposits as well as growth in noninterest bearing deposits more than offsetting the impact of declining yields on loans which have slowed.

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

The average yield on interest-earning assets decreased 38 basis points.
The average cost of interest-bearing liabilities decreased 27 basis points.
The net interest spread declined 11 basis points from 2.85% to 2.74%.
The net interest margin declined 15 basis points from 3.18% to 3.03%.

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 long-term 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.

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

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

	For the three months ended September 30,					
	2013			**2012**		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
	(dollars in thousands)					
ASSETS						
Interest earning assets:						
Federal funds sold	$24,208	$9	0.15 %	$6,199	$3	0.19 %
Interest-bearing deposits at financial institutions	40,416	73	0.72 %	33,446	76	0.90 %
Investment securities (1)	717,195	4,043	2.24 %	619,650	3,930	2.52 %
Restricted investment securities	16,279	144	3.51 %	15,419	132	3.41 %
Gross loans/leases receivable (1) (2) (3)	1,529,771	18,440	4.78 %	1,227,326	16,002	5.19 %
Total interest earning assets	$2,327,869	22,709	3.87 %	$1,902,040	20,143	4.21 %
Noninterest-earning assets:						
Cash and due from banks	$44,349			$38,376		
Premises and equipment	39,067			31,401		
Less allowance for estimated losses on loans/leases	(21,401)			(18,922)		
Other	66,283			77,314		
Total assets	$2,456,167			$2,030,209		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits	$759,851	625	0.33 %	$557,216	625	0.45 %
Time deposits	452,751	769	0.67 %	357,734	864	0.96 %
Short-term borrowings	144,606	57	0.16 %	164,775	60	0.14 %

Federal Home Loan Bank advances	205,613	1,705	3.29 %	201,328	1,810	3.58 %
Junior subordinated debentures	40,222	329	3.25 %	36,085	261	2.88 %
Other borrowings	142,697	1,201	3.34 %	138,105	1,238	3.57 %
Total interest-bearing liabilities	$1,745,740	4,686	1.06 %	$1,455,243	4,858	1.33 %
Noninterest-bearing demand deposits	$525,708			$406,597		
Other noninterest-bearing liabilities	38,681			29,147		
Total liabilities	$2,310,129			$1,890,987		
Stockholders' equity	146,038			139,222		
Total liabilities and stockholders' equity	$2,456,167			$2,030,209		
Net interest income		$18,023			$15,285	
Net interest spread			2.81 %			2.88 %
Net interest margin			3.07 %			3.20 %
Ratio of average interest-earning assets to average interest-bearing liabilities	133.35 %			130.70 %		

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

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Analysis of Changes of Interest Income/Interest Expense

For the three months ended September 30, 2013

	Inc./(Dec.) from **Prior Period**	**Components** of Change (1) **Rate**	**Volume**
	2013 vs. 2012		
	(dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$6	$(5)	$11
Interest-bearing deposits at financial institutions	(3)	(65)	62
Investment securities (2)	113	(2,016)	2,129
Restricted investment securities	12	4	8
Gross loans/leases receivable (3) (4)	2,438	(6,957)	9,395
Total change in interest income	$2,566	$(9,039)	$11,605
INTEREST EXPENSE			
Interest-bearing deposits	$-	$(768)	$768
Time deposits	(95)	(1,017)	922
Short-term borrowings	(3)	22	(25)
Federal Home Loan Bank advances	(105)	(325)	220
Junior subordinated debentures	68	36	32
Other borrowings	(37)	(240)	203
Total change in interest expense	$(172)	$(2,292)	$2,120
Total change in net interest income	$2,738	$(6,747)	$9,485

(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.

(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.

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	For the nine months ended September 30,							
	2013				**2012**			
	Average Balance	Interest Earned or Paid	Average Yield or Cost		Average Balance	Interest Earned or Paid	Average Yield or Cost	
	(dollars in thousands)							
ASSETS								
Interest earning assets:								
Federal funds sold	$11,656	$13	0.15	%	$2,066	$3	0.19	%
Interest-bearing deposits at financial institutions	37,803	194	0.69	%	51,430	288	0.75	%
Investment securities (1)	693,547	11,742	2.26	%	603,756	10,890	2.41	%
Restricted investment securities	16,075	399	3.32	%	15,327	378	3.29	%
Gross loans/leases receivable (1) (2) (3)	1,409,067	50,221	4.77	%	1,212,324	48,307	5.32	%
Total interest earning assets	2,168,147	62,569	3.86	%	$1,884,903	59,866	4.24	%
Noninterest-earning assets:								
Cash and due from banks	$42,016				$39,764			
Premises and equipment	35,322				31,533			
Less allowance for estimated losses on loans/leases	(21,272)				(19,005)			
Other	72,292				76,330			
Total assets	$2,296,505				$2,013,525			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing liabilities:								
Interest-bearing deposits	$651,896	1,430	0.29	%	$543,723	2,090	0.51	%
Time deposits	400,844	2,257	0.75	%	352,606	2,744	1.04	%
Short-term borrowings	171,838	225	0.18	%	174,578	203	0.16	%
Federal Home Loan Bank advances	208,319	5,164	3.31	%	204,209	5,503	3.60	%

Junior subordinated debentures	39,235	832	2.84 %	36,085	787	2.91 %
Other borrowings	140,333	3,555	3.39 %	136,884	3,720	3.63 %
Total interest-bearing liabilities	$1,612,464	13,463	1.12 %	$1,448,085	15,047	1.39 %
Noninterest-bearing demand deposits	$505,017			$396,031		
Other noninterest-bearing liabilities	34,393			27,080		
Total liabilities	$2,151,874			$1,871,196		
Stockholders' equity	144,631			142,329		
Total liabilities and stockholders' equity	$2,296,505			$2,013,525		
Net interest income		$49,106			$44,819	
Net interest spread			2.74 %			2.85 %
Net interest margin			3.03 %			3.18 %
Ratio of average interest-earning assets to average interest-bearing liabilities	134.46 %			130.17 %		

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

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Analysis of Changes of Interest Income/Interest Expense

For the nine months ended September 30, 2013

	Inc./(Dec.) from **Prior Period**	**Components** of Change (1) **Rate**	**Volume**
	2013 vs. 2012		
	(dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$10	$(1)	$11
Interest-bearing deposits at financial institutions	(94)	(22)	(72)
Investment securities (2)	852	(1,005)	1,857
Restricted investment securities	21	3	18
Gross loans/leases receivable (3) (4)	1,914	(7,463)	9,377
Total change in interest income	$2,703	$(8,488)	$11,191
INTEREST EXPENSE			
Interest-bearing deposits	$(660)	$(1,209)	$549
Time deposits	(487)	(996)	509
Short-term borrowings	22	27	(5)
Federal Home Loan Bank advances	(339)	(506)	167
Junior subordinated debentures	45	(32)	77
Other borrowings	(165)	(302)	137
Total change in interest expense	$(1,584)	$(3,018)	$1,434
Total change in net interest income	$4,287	$(5,470)	$9,757

(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.

(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.

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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 ("allowance"). The Company's allowance methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in 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 in the statement of income to change the allowance if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion in the section entitled "Financial Condition" of this Management's Discussion and Analysis that discusses the allowance. Although management believes the level of the allowance as of September 30, 2013 was 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

RESULTS OF OPERATIONS

INTEREST INCOME

Interest income grew $2.5 million, or 13%, comparing the third quarter of 2013 to the same period of 2012. For the first nine months of 2013, interest income increased $2.3 million, or 4%, compared to the same period of 2012. Excluding CNB's interest income ($3.1 million for the third quarter of 2013 and $4.4 million since acquisition), the trend in declining interest income continued as the effect of declines in loan and securities yields, caused primarily by the continuing low interest rate environment, more than offset the growth in loans and securities. The Company continues to focus on diversifying its securities portfolio, including increasing its portfolio of agency-sponsored mortgage-backed securities as well as municipal securities, in an effort to increase interest income. 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 third quarter of 2013 declined $172 thousand, or 4%, from the third quarter of 2012. For the first nine months of 2013, the Company's interest expense fell $1.6 million, or 11%, compared to the first nine months of 2012. CNB's interest expense ($301 thousand for the third quarter of 2013, and $416 thousand since acquisition) was mostly cost of deposits as CNB has no long-term borrowings. The Company has been successful in maintaining pricing discipline on deposits and decreasing the cost of borrowings, which has contributed to the decline in interest expense. Management has placed a strong focus on reducing the reliance on long-term wholesale funding as it tends to be higher cost than deposits. In recent years, the majority of maturing wholesale funds have not been replaced, or, to a lesser extent, have been replaced at significantly reduced cost. Additionally, in recent years, the Company has been successful in modifying a portion of its wholesale funding portfolio which serves to reduce interest expense through extending maturities while minimizing the exposure to rising rates.

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. An important consideration to these strategies is the impact on the Company’s interest rate risk position as some of its wholesale funding was originally borrowed to help strengthen the Company’s net interest income in rising interest rate scenarios.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

PROVISION FOR LOAN/LEASE LOSSES

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

Provision totaled $1.4 million for the third quarter of 2013, which was down $153 thousand from the prior quarter, and down $129 thousand from the third quarter of 2012. For the first nine months of 2013, the Company's provision totaled $3.9 million, which was an increase of $620 thousand, or 19%, from the same period of 2012. With the provision of $1.4 million more than offsetting the net charge-offs totaling $461 thousand (only three basis points of average loans/leases during the current quarter), the Company's allowance grew to $22.1 million at September 30, 2013. As of September 30, 2013, the Company's allowance to total loans/leases was 1.43%, which was up from 1.38% at June 30, 2013, and down from 1.56% at September 30, 2012. In accordance with generally accepted accounting principles for acquisition accounting, the acquired CNB loans were recorded at fair value; therefore, there was no allowance associated with CNB's loans at acquisition. Further, the Company's allowance to total nonperforming loans/leases was 89% at September 30, 2013, which was up from 71% at June 30, 2013, and up from 81% at September 30, 2012.

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

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NONINTEREST INCOME

The following tables set forth the various categories of noninterest income for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30, 2013	September 30, 2012	$ Change	% Change
Trust department fees	$1,312,349	$914,586	$397,763	43.5 %
Investment advisory and management fees	634,446	575,711	58,735	10.2
Deposit service fees	1,228,685	847,343	381,342	45.0
Gains on sales of residential real estate loans	184,596	424,255	(239,659)	(56.5)
Gains on sales of government guaranteed portions of loans	338,338	260,291	78,047	30.0
Earnings on bank-owned life insurance	466,028	399,925	66,103	16.5
Credit card fees, net of processing costs	57,538	140,542	(83,004)	(59.1)
Subtotal	$4,221,980	$3,562,653	$659,327	18.5
Losses on other real estate owned, net	(36,745)	(745,799)	709,054	(95.1)
Securities gains	416,936	-	416,936	100.0
Other	1,332,482	1,300,328	32,154	2.5
Total noninterest income	$5,934,653	$4,117,182	$1,817,471	44.1 %

	Nine Months Ended September 30, 2013	September 30, 2012	$ Change	% Change
Trust department fees	$3,549,200	$2,650,552	$898,648	33.9 %
Investment advisory and management fees	1,938,881	1,776,499	162,382	9.1

Deposit service fees	3,190,731	2,626,822	563,909	21.5
Gains on sales of residential real estate loans	722,368	987,021	(264,653)	(26.8)
Gains on sales of government guaranteed portions of loans	1,949,300	978,936	970,364	99.1
Earnings on bank-owned life insurance	1,328,598	1,196,987	131,611	11.0
Credit card fees, net of processing costs	192,509	409,730	(217,221)	(53.0)
Subtotal	$12,871,587	$10,626,547	$2,245,040	21.1
Losses on other real estate owned, net	(566,714)	(1,324,468)	757,754	(57.2)
Securities gains	433,396	104,600	328,796	314.3
Bargain purchase gain on Community National acquisition	1,841,385	-	1,841,385	100.0
Other	3,507,784	2,734,890	772,894	28.3
Total noninterest income	$18,087,438	$12,141,569	$5,945,869	49.0 %

Trust department fees continue to be a significant contributor to noninterest income. Trust department fees grew 44% from the third quarter of 2012 to the third quarter of 2013. For the first nine months of 2013, trust department fees were up 34% compared to the same period of 2012. Part of the increase stems from the addition of CNB's trust department as CNB recognized $298 thousand of trust department fees for the third quarter and $462 thousand since acquisition. The majority of the trust department fees are determined based on the value of the investments within the managed trusts. As markets have strengthened with the national economy's continued recovery from recession, the Company's fee income has experienced similar growth. Additionally, the Company has been successful in expanding its customer base, which has helped to drive the recent increases in fee income.

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF

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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 10% comparing the third quarter of 2013 to the same period of 2012, and grew 9% in the first nine months of 2013 over the first nine months of 2012. CNB did not provide investment advisory and management services; however, the Company expects to leverage its existing infrastructure to efficiently offer these services in the communities served by CNB. Similar to trust department fees, these fees are largely determined based on the value of the investments managed. Continued expansion of the customer base in the Company’s legacy markets 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 across all of the Company’s markets will continue to be a primary strategic focus.

Deposit service fees have generally expanded over the past several years. This expansion continued into the third quarter of 2013 with increases of 45% quarter-over-quarter and 22% year-over-year. CNB’s deposit service fees for the third quarter were $239 thousand and $364 thousand since acquisition. Excluding CNB, the Company organically grew deposit service fees in the third quarter and over the first nine months of 2013. The Company continued its 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.

Gains on sales of residential real estate loans fell 57% comparing third quarter of 2013 to third quarter of 2012, and were down 27% year-over-year. 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.

Gains on sales of government guaranteed portions of loans were up 30% quarter-over-quarter and up 99% year-over-year. As one of its core strategies, the Company continues to leverage its small business lending expertise by taking advantage of programs offered by the Small Business Administration ("SBA") and the United States 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.

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

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 the properties timely at minimal loss.

During the third quarter of 2013, QCBT sold $31.2 million of a mix of government-sponsored residential mortgage backed securities, government-sponsored agency securities, and one smaller individual trust preferred security at a pre-tax gain on sale of $417 thousand. In turn, QCBT reinvested the sales proceeds back into a blend of government-sponsored agency and residential mortgage-backed securities at a higher yield with modest duration extension.

In accordance with acquisition accounting rules, the Company recognized a bargain purchase gain of $1.8 million in recording the acquisition of Community National. The Company adjusted the acquired assets and assumed liabilities to fair value as determined by an independent valuation specialist. The gain resulted primarily from the recording of a core deposit intangible based on the value of the acquired deposit portfolio, and the recognition of a discount on the trust preferred securities that were previously issued by Community National and were assumed by the Company in the transaction. Net of other more modest valuation adjustments, and the resulting deferred income tax liabilities, the $1.8 million bargain purchase gain was included in noninterest income. See Note 2 to the Consolidated Financial Statements for additional information regarding the Company’s acquisition of Community National.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The following table sets forth the various categories of other noninterest income for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended			
	September 30, 2013	September 30, 2012	$ Change	% Change
Debit card fees	$265,000	$239,600	$25,400	10.6 %
Fees on interest rate swaps on commercial loans	44,240	93,600	(49,360)	(52.7)
Miscellaneous	1,023,242	967,128	56,114	5.8
Other noninterest income	$1,332,482	$1,300,328	$32,154	2.5 %

	Nine Months Ended			
	September 30, 2013	September 30, 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	752,100	729,200	22,900	3.1
Fees on interest rate swaps on commercial loans	50,960	300,240	(249,280)	(83.0)
Miscellaneous	1,854,051	1,705,450	148,601	8.7
Other noninterest income	$3,507,784	$2,734,890	$772,894	28.3 %

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 half 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 of its subsidiary banks as the circumstances are appropriate for the borrower and the Company.

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NONINTEREST EXPENSE

The following tables set forth the various categories of noninterest expense for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended			
	September 30, 2013	September 30, 2012	$ Change	% Change
Salaries and employee benefits	$9,802,712	$8,201,323	$1,601,389	19.5 %
Occupancy and equipment expense	1,914,996	1,459,901	455,095	31.2
Professional and data processing fees	1,902,799	1,065,780	837,019	78.5
FDIC and other insurance	712,954	599,422	113,532	18.9
Loan/lease expense	396,477	273,166	123,311	45.1
Advertising and marketing	406,085	437,130	(31,045)	(7.1)
Postage and telephone	276,580	190,868	85,712	44.9
Stationery and supplies	143,226	139,592	3,634	2.6
Bank service charges	306,539	211,378	95,161	45.0
Subtotal	$15,862,368	$12,578,560	$3,283,808	26.1
Acquisition and data conversion costs	388,663	-	388,663	100.0
Other	776,237	452,957	323,280	71.4
Total noninterest expense	$17,027,268	$13,031,517	$3,995,751	30.7 %

	Nine Months Ended			
	September 30, 2013	September 30, 2012	$ Change	% Change
Salaries and employee benefits	$27,731,628	$24,581,642	$3,149,986	12.8 %
Occupancy and equipment expense	4,930,707	4,177,076	753,631	18.0
Professional and data processing fees	4,481,613	3,342,847	1,138,766	34.1

FDIC and other insurance	1,896,255	1,756,493	139,762	8.0
Loan/lease expense	893,436	755,066	138,370	18.3
Advertising and marketing	1,082,694	1,057,246	25,448	2.4
Postage and telephone	752,882	716,050	36,832	5.1
Stationery and supplies	404,614	417,769	(13,155)	(3.1)
Bank service charges	866,379	609,599	256,780	42.1
Subtotal	$43,040,208	$37,413,788	$5,626,420	15.0
Acquisition and data conversion costs	1,177,567	-	1,177,567	100.0
Other-than-temporary impairment losses on securities	-	62,400	(62,400)	(100.0)
Other	2,002,342	1,402,492	599,850	42.8
Total noninterest expense	$46,220,117	$38,878,680	$7,341,437	18.9 %

Management places a strong emphasis on overall cost containment and is committed to improving the Company’s general efficiency. The addition of CNB’s cost structure impacts the Company’s noninterest expenses. Management fully intends to continue to execute the integration plan for CNB over the next few quarters and increase efficiency and realize cost savings.

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Salaries and employee benefits, which is the largest component of noninterest expense, increased from the third quarter of 2012 to the third quarter of 2013 by 20%, and increased from the first nine months of 2012 to the first nine months of 2013 by 13%. This increase was largely the result of:

- Addition of CNB's cost structure for the first full quarter. Specifically, CNB incurred salaries and benefits cost of $1.3 million for the third quarter of 2013 and $2.0 million since acquisition.
- 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.
- Higher accrued incentive compensation based on improved financial performance for the first nine months of 2013.
- 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 office of RB&T was renovated to allow for existing and future expansion. Lastly, CNB's occupancy and equipment expense totaled $253 thousand for the third quarter of 2013 and $384 thousand since acquisition.

Professional and data processing fees increased quarter-over-quarter and year-over-year due to the addition of CNB's cost structure and increased legal fees for a longstanding legal matter concerning a past nonperforming loan that experienced increased litigation activity in 2013. The Company, the plaintiff on the litigation, was awarded judgement in an amount to be paid by the defendant.

FDIC and other insurance expense has generally fallen over the past several years since the FDIC modified its assessment calculation to more closely align with bank performance and risk. CNB incurred FDIC and other insurance expense of $76 thousand for the third quarter of 2013 and $115 thousand since acquisition. Excluding CNB, the remaining increases were modest.

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 recent years.

With the acquisition of Community National on May 13, 2013, the Company incurred acquisition and data conversion costs totaling $389 thousand for the third quarter of 2013, and $1.2 million for the first nine months of 2013. In accordance with generally accepted accounting principles, the Company expensed these costs as incurred. With the conversion of CNB’s systems set to occur in the fourth quarter of 2013, management expects to incur further acquisition and data conversion costs.

In conjunction with the sales of QCBT’s credit card loan portfolio and issuing operations in the first quarter of 2013, 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).

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INCOME TAXES

The provision for income taxes totaled $1.0 million, or an effective tax rate of 21%, for the third quarter of 2013 compared to $1.0 million, or an effective tax rate of 25%, for the same quarter in 2012. The decline in effective tax rate quarter-over-quarter was the direct result of continued growth in nontaxable income from increased investment in tax exempt municipal securities, as the Company has nearly doubled its position from September 30, 2012 to September 30, 2013.

For the first nine months of 2013, provision for income taxes totaled $4.0 million, or an effective tax rate of 27%, compared to $3.4 million, or an effective tax rate of 26%, for the first nine months of 2012. As the acquisition costs are capitalized for tax purposes, the Company’s taxable income is not reduced for these costs. Data conversion costs are deductible for tax purposes. The majority of the costs incurred in the third quarter of 2013 were related to data conversion. The acquisition costs incurred for the year to date have offset the impact of the shift in the proportion of nontaxable to taxable income as described above. The net result is a slight increase in the effective tax rate year-over-year.

FINANCIAL CONDITION

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

	As of September 30, 2013 *(dollars in thousands)*	December 31, 2012	September 30, 2012

	Amount	%		Amount	%		Amount	%	
Cash, federal funds sold, and interest-bearing deposits	$ 122,779	5	%	$ 110,488	5	%	$ 95,727	5	%
Securities	703,699	28	%	602,239	29	%	591,351	29	%
Net loans/leases	1,517,321	61	%	1,267,462	61	%	1,224,875	61	%
Other assets	141,915	6	%	113,541	5	%	111,993	5	%
Total assets	$ 2,485,714	100	%	$ 2,093,730	100	%	$ 2,023,946	100	%
Total deposits	$ 1,741,832	70	%	$ 1,374,114	66	%	$ 1,343,235	66	%
Total borrowings	557,513	22	%	547,758	26	%	511,561	25	%
Other liabilities	38,416	2	%	31,424	1	%	30,029	2	%
Total stockholders' equity	147,953	6	%	140,434	7	%	139,121	7	%
Total liabilities and stockholders' equity	$ 2,485,714	100	%	$ 2,093,730	100	%	$ 2,023,946	100	%

During the third quarter of 2013, the Company’s total assets grew $38.9 million, or 2%, to a total of $2.49 billion. Loan/leases grew slightly at 1% while securities were flat. The Company’s liquid assets (cash and federal funds sold) grew $27.2 million. Most of the asset growth was funded with deposits which grew $25.1 million, or 2%.

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INVESTMENT SECURITIES. 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 the Midwest with some 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.

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

	As of					
	September 30, 2013		December 31, 2012		September 30, 2012	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
U.S. govt. sponsored agency securities	$367,525	52 %	$338,609	57 %	$343,244	58 %
Residential mortgage-backed and related securities	166,545	24 %	163,601	27 %	155,691	26 %
Municipal securities	166,771	24 %	97,615	16 %	90,032	15 %
Other securities	2,858	0 %	2,414	0 %	2,384	0 %
	$703,699	100%	$602,239	100%	$591,351	100%
As a % of Total Assets	28.31 %		28.76 %		29.22 %	
Net Unrealized Gains/(Losses) as a % of Amortized Cost	-3.10 %		1.44 %		1.70 %	
Duration (in years)	4.5		2.8		2.7	

With the increase in long-term interest rates during the middle of 2013, the Company's securities portfolio shifted from a net unrealized gain position to a net unrealized loss position. Management expected this shift to occur with the increase in long-term interest rates. Management performs an evaluation of the portfolio quarterly to understand the current market value as well as projections of market value in a variety of rising and falling interest rate scenarios. In addition, management has evaluated those securities with an unrealized loss position to determine whether the loss is derived from credit deterioration or the movement in interest rates. The evaluation determined that there were no securities with other-than-temporary impairment. See the "Critical Accounting Policies" section for further discussion on this evaluation.

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

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

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LOANS/LEASES. Total loans/leases grew slightly at 1% during the third quarter of 2013. This marks the 10th consecutive quarter of organic loan/lease growth. 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 addition of CNB's portfolio helped maintain this shift in mix as CNB's portfolio mix was similar to the Company's three legacy banks. The mix of the loan/lease types within the Company's loan/lease portfolio is presented in the following table.

	As of September 30, 2013		December 31, 2012		September 30, 2012	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
Commercial and industrial loans	$471,257	31 %	$394,244	31 %	$355,004	29 %
Commercial real estate loans	714,701	46 %	593,979	46 %	594,904	48 %
Direct financing leases	121,268	8 %	103,686	8 %	102,039	8 %
Residential real estate loans	150,825	10 %	115,582	9 %	112,492	9 %
Installment and other consumer loans	77,226	5 %	76,720	6 %	76,838	6 %
Total loans/leases	$1,535,277	100%	$1,284,211	100%	$1,241,277	100%
Plus deferred loan/lease origination costs, net of fees	4,106		3,176		3,015	
Less allowance for estimated losses on loans/leases	(22,062)		(19,925)		(19,417)	
Net loans/leases	$1,517,321		$1,267,462		$1,224,875	

Following was the mix of CNB's loan portfolio as of September 30, 2013 (dollars in thousands):

	September 30, 2013	
	Amount	%
Commercial and industrial loans	$56,572	30 %
Commercial real estate loans	103,018	54 %
Direct financing leases	-	0 %
Residential real estate loans	21,967	12 %
Installment and other consumer loans	8,108	4 %
Total loans/leases	$189,665	100%

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"), is discussed 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 September 30, 2013 and December 31, 2012, approximately 36% and 34%, respectively, of the commercial real estate loan portfolio was owner-occupied. CNB's portfolio of owner-occupied commercial real estate loans was 45% of total commercial real estate loans as of September 30, 2013. Additionally, CNB only had $4.4 million of commercial construction, land development, and other land loans.

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Following is a listing of significant industries within the Company's commercial real estate loan portfolio as of September 30, 2013 and December 31, 2012:

	As of September 30, 2013		As of December 31, 2012	
	Amount	%	Amount	%
	(dollars in thousands)			
Lessors of Nonresidential Buildings	$230,692	32 %	$178,060	30 %
Lessors of Residential Buildings	80,507	11 %	61,460	10 %
Land Subdivision	29,940	4 %	28,854	5 %
Hotels	22,808	4 %	26,710	4 %
New Car Dealers	22,730	3 %	27,079	5 %
Other *	328,024	46 %	271,816	46 %
Total Commercial Real Estate Loans	$714,701	100%	$593,979	100%

* "Other" consists of all other industries. None of these had concentrations greater than $17.5 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 4 to the Consolidated Financial Statements for additional information regarding the Company’s loan/lease portfolio.

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ALLOWANCE FOR ESTIMATED LOSSES ON LOANS/LEASES. Changes in the allowance for the three and nine months ended September 30, 2013 and 2012 are presented as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(dollars in thousands)			
Balance, beginning	$21,156	$ 18,725	$19,925	$ 18,789
Provisions charged to expense	1,367	1,496	3,945	3,325
Loans/leases charged off	(928)	(1,150)	(2,563)	(3,709)
Recoveries on loans/leases previously charged off	467	346	755	1,012
Balance, ending	$22,062	$ 19,417	$22,062	$ 19,417

The allowance was $22.1 million at September 30, 2013 compared to $19.9 million at December 31, 2012 and $19.4 million at September 30, 2012. The allowance was determined based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, past loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, governmental guarantees and other factors that, in management's judgment, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on a number of factors, including the increase/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.

As of

Internally Assigned Risk Rating *	September 30, 2013