

QCR HOLDINGS INC
Form 10-Q
May 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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

For the transition period from _____ to _____

Commission file number 0-22208

QCR HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

42-1397595

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

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 743-7761

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

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

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of May 1, 2014, the Registrant had outstanding 7,917,652 shares of common stock, \$1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

INDEX

	Page Number(s)
<u>Part I</u> FINANCIAL INFORMATION	
Item 1 Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets As of March 31, 2014 and December 31, 2013	2
Consolidated Statements of Income For the Three Months Ended March 31, 2014 and 2013	3
Consolidated Statements of Comprehensive Income For the Three Months Ended March 31, 2014 and 2013	4
Consolidated Statement of Changes in Stockholders' Equity For the Three Months Ended March 31, 2014 and 2013	5
Consolidated Statements of Cash Flows For the Three Months Ended March 31, 2014 and 2013	6-7
Notes to the Consolidated Financial Statements	8-26
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	27-54
Item 3 Quantitative and Qualitative Disclosures About Market Risk	55-56
Item 4 Controls and Procedures	57
<u>Part II</u> OTHER INFORMATION	
Item 1 Legal Proceedings	58
Item 1A Risk Factors	58
	3

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3 Defaults upon Senior Securities	58
Item 4 Mine Safety Disclosures	58
Item 5 Other Information	58
Item 6 Exhibits	59
Signatures	60

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

	March 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$55,444,302	\$41,950,790
Federal funds sold	11,570,000	39,435,000
Interest-bearing deposits at financial institutions	44,389,277	33,044,917
Securities held to maturity, at amortized cost	161,629,152	145,451,895
Securities available for sale, at fair value	545,477,537	551,758,458
Total securities	707,106,689	697,210,353
Loans receivable held for sale	291,600	1,358,290
Loans/leases receivable held for investment	1,492,287,942	1,458,921,268
Gross loans/leases receivable	1,492,579,542	1,460,279,558
Less allowance for estimated losses on loans/leases	(22,653,270)	(21,448,048)
Net loans/leases receivable	1,469,926,272	1,438,831,510
Premises and equipment, net	36,625,837	36,755,364
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,820,555	1,870,433
Bank-owned life insurance	52,456,205	52,002,041
Restricted investment securities	17,252,725	17,027,625
Other real estate owned, net	9,674,635	9,729,053
Other assets	16,830,025	23,873,150
Total assets	\$2,426,319,210	\$2,394,952,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$579,109,614	\$542,566,087
Interest-bearing	1,092,784,029	1,104,425,156
Total deposits	1,671,893,643	1,646,991,243
Short-term borrowings	165,569,112	149,292,967
Federal Home Loan Bank advances	235,700,000	231,350,000
Other borrowings	142,250,644	142,448,362
Junior subordinated debentures	40,322,765	40,289,830
Other liabilities	29,226,019	37,003,742
Total liabilities	2,284,962,183	2,247,376,144

STOCKHOLDERS' EQUITY

Preferred stock, \$1 par value; shares authorized 250,000	14,867	29,867
March 2014 - 14,867 shares issued and outstanding		
December 2013 - 29,867 shares issued and outstanding		
Common stock, \$1 par value; shares authorized 20,000,000	8,038,608	8,005,708
March 2014 - 8,038,608 shares issued and 7,917,362 outstanding		
December 2013 - 8,005,708 shares issued and 7,884,462 outstanding		
Additional paid-in capital	75,504,884	90,154,528
Retained earnings	67,818,380	64,637,173
Accumulated other comprehensive loss	(8,413,202)	(13,643,986)
Less treasury stock, March 2014 and December 2013 - 121,246 common shares, at cost	(1,606,510)	(1,606,510)
Total stockholders' equity	141,357,027	147,576,780
Total liabilities and stockholders' equity	\$2,426,319,210	\$2,394,952,924

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****Three Months Ended March 31, 2014 and 2013**

	2014	2013
Interest and dividend income:		
Loans/leases, including fees	\$ 16,775,590	\$ 15,088,827
Securities:		
Taxable	2,582,794	2,460,449
Nontaxable	1,454,056	802,473
Interest-bearing deposits at financial institutions	90,527	59,754
Restricted investment securities	128,925	125,105
Federal funds sold	3,319	874
Total interest and dividend income	21,035,211	18,537,482
Interest expense:		
Deposits	1,101,593	1,116,791
Short-term borrowings	51,696	64,267
Federal Home Loan Bank advances	1,555,976	1,732,812
Other borrowings	1,171,531	1,190,755
Junior subordinated debentures	305,174	241,540
Total interest expense	4,185,970	4,346,165
Net interest income	16,849,241	14,191,317
Provision for loan/lease losses	1,094,162	1,057,782
Net interest income after provision for loan/lease losses	15,755,079	13,133,535
Noninterest income:		
Trust department fees	1,500,342	1,039,670
Investment advisory and management fees	648,992	609,341
Deposit service fees	1,045,885	907,823
Gains on sales of residential real estate loans	63,487	291,151
Gains on sales government guaranteed portions of loans	194,019	845,224
Securities gains	20,625	-
Earnings on bank-owned life insurance	454,164	438,687
Losses on other real estate owned, net	(18,048)	(446,630)
Other	837,375	1,518,763
Total noninterest income	4,746,841	5,204,029
Noninterest expense:		
Salaries and employee benefits	10,017,918	8,742,683
Occupancy and equipment expense	1,894,288	1,428,870
Professional and data processing fees	1,584,406	1,140,061
FDIC and other insurance	714,750	555,911

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Loan/lease expense	345,636	245,091
Advertising and marketing	337,587	264,568
Postage and telephone	290,675	218,691
Stationery and supplies	151,751	110,670
Bank service charges	298,032	275,495
Acquisition and data conversion costs	-	356,578
Other	505,377	619,882
Total noninterest expense	16,140,420	13,958,500
Net income before income taxes	4,361,500	4,379,064
Federal and state income tax expense	472,285	1,113,920
Net income	\$3,889,215	\$3,265,144
Less: Preferred stock dividends	708,008	810,837
Net income attributable to QCR Holdings, Inc. common stockholders	\$3,181,207	\$2,454,307
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$0.40	\$0.50
Diluted	\$0.40	\$0.49
Weighted average common shares outstanding	7,901,035	4,927,591
Weighted average common and common equivalent shares outstanding	8,030,043	5,034,342
Cash dividends declared per common share	\$-	\$-

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31, 2014 and 2013

	2014	2013
Net income	\$3,889,215	\$3,265,144
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	8,490,174	(1,356,552)
Less reclassification adjustment for gains included in net income before tax	20,625	-
	8,469,549	(1,356,552)
Tax expense (benefit)	3,238,765	(520,194)
Other comprehensive income (loss), net of tax	5,230,784	(836,358)
Comprehensive income attributable to QCR Holdings, Inc.	\$9,119,999	\$2,428,786

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)****Three Months Ended March 31, 2014 and 2013**

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

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

exercised							
Stock							
compensation	-	-	347,752				347,752
expense							
Tax benefit of							
nonqualified	-	-	18,647	-	-	-	18,647
stock options							
exercised							
Restricted stock	-	27,197	(27,197)	-	-	-	-
awards							
Exchange of							
10,300 shares of							
common stock							
in connection	-	(10,300)	(167,684)	-	-	-	(177,984)
with restricted							
stock vested,							
net							
Balance March	\$14,867	\$8,038,608	\$75,504,884	\$67,818,380	\$(8,413,202)	\$(1,606,510)	\$141,357,027
31, 2014							

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

common stock as a result of stock options exercised								
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 16,798 shares of common stock in connection with restricted stock vested, net	-	(16,798)	(289,113)	-	-	-	(305,911)	
Balance March 31, 2013	\$ 54,867	\$ 5,057,562	\$ 79,041,338	\$ 55,780,849	\$ 3,870,325	\$ (1,606,510)	\$ 142,198,431	

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****Three Months Ended March 31, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$3,889,215	\$3,265,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	692,562	584,884
Provision for loan/lease losses	1,094,162	1,057,782
Stock-based compensation expense	347,752	293,798
Deferred compensation expense accrued	347,850	204,794
Losses on other real estate owned, net	18,048	446,630
Amortization of premiums on securities, net	535,951	974,045
Securities gains	(20,625)	-
Loans originated for sale	(6,354,404)	(26,928,996)
Proceeds on sales of loans	7,678,600	30,382,098
Gains on sales of residential real estate loans	(63,487)	(291,151)
Gains on sales of government guaranteed portions of loans	(194,019)	(845,224)
Amortization of core deposit intangible	49,878	-
Accretion of acquisition fair value adjustments, net	(161,042)	-
Increase in cash value of bank-owned life insurance	(454,164)	(438,687)
Decrease in other assets	3,804,360	587,964
Decrease in other liabilities	(8,049,459)	(2,056,297)
Net cash provided by operating activities	\$3,161,178	\$7,236,784
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold	27,865,000	26,560,000
Net increase in interest-bearing deposits at financial institutions	(11,344,360)	(11,422,165)
Proceeds from sales of other real estate owned	97,120	15,989
Activity in securities portfolio:		
Purchases	(26,142,834)	(187,650,573)
Calls, maturities and redemptions	10,563,599	82,114,256
Paydowns	6,547,632	12,893,508
Sales	7,020,625	-
Activity in restricted investment securities:		
Purchases	(1,040,000)	(1,743,750)
Redemptions	814,900	2,193,900
Net increase in loans/leases originated and held for investment	(33,066,658)	(7,125,623)
Purchase of premises and equipment	(563,035)	(775,714)
Net cash used in investing activities	\$(19,248,011)	\$(84,940,172)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	24,915,536	46,379,158

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Net increase in short-term borrowings	16,276,145	770,510
Activity in Federal Home Loan Bank advances:		
Advances	60,700,000	46,000,000
Calls and maturities	(56,350,000)	(43,000,000)
Net decrease in other borrowings	(200,000)	-
Payment of cash dividends on common and preferred stock	(941,177)	(1,002,789)
Redemption of 15,000 shares of Series F Noncumulative Perpetual Preferred Stock, net	(15,000,000)	-
Proceeds from issuance of common stock, net	179,841	242,200
Net cash provided by financing activities	\$29,580,345	\$49,389,079
Net increase (decrease) in cash and due from banks	13,493,512	(28,314,309)
Cash and due from banks, beginning	41,950,790	61,568,446
Cash and due from banks, ending	\$55,444,302	\$33,254,137

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Three Months Ended March 31, 2014 and 2013

	2014	2013
Supplemental disclosure of cash flow information, cash payments for:		
Interest	\$4,140,254	\$4,472,977
Income/franchise taxes	\$1,365,000	\$717,300
 Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale, net	\$5,230,784	\$(836,358)
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(177,984)	\$(424,587)
Transfers of loans to other real estate owned	\$60,750	\$187,500

See Notes to Consolidated Financial Statements (Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Recent accounting developments: In July 2013, the Financial Accounting Standards Board (“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. Adoption did not have a significant impact on the Company’s consolidated financial statements.

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

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.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 2 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2014				
Securities held to maturity:				
Municipal securities	\$ 160,579,152	\$ 756,828	\$ (4,768,120)	\$ 156,567,860
Other securities	1,050,000	-	-	1,050,000
	\$ 161,629,152	\$ 756,828	\$ (4,768,120)	\$ 157,617,860
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 363,901,863	\$ 31,503	\$ (13,595,807)	\$ 350,337,559
Residential mortgage-backed and related securities	159,343,903	1,377,020	(2,601,522)	158,119,401
Municipal securities	34,495,776	997,316	(417,026)	35,076,066
Other securities	1,378,550	565,961	-	1,944,511
	\$ 559,120,092	\$ 2,971,800	\$ (16,614,355)	\$ 545,477,537
December 31, 2013:				
Securities held to maturity:				
Municipal securities	\$ 144,401,895	\$ 299,789	\$ (7,111,579)	\$ 137,590,105
Other securities	1,050,000	-	-	1,050,000
	\$ 145,451,895	\$ 299,789	\$ (7,111,579)	\$ 138,640,105
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 376,574,132	\$ 41,696	\$ (20,142,841)	\$ 356,472,987
Residential mortgage-backed and related securities	160,110,199	1,153,409	(3,834,157)	157,429,451
Municipal securities	35,813,866	923,315	(778,324)	35,958,857
Other securities	1,372,365	524,798	-	1,897,163

\$573,870,562 \$2,643,218 \$(24,755,322) \$551,758,458

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	Less than 12 Months		12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
		Losses		Losses		Losses
March 31, 2014:						
Securities held to maturity:						
Municipal securities	\$90,268,363	\$(3,972,217)	\$11,141,166	\$(795,903)	\$101,409,529	\$(4,768,120)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$330,406,007	\$(12,809,546)	\$11,194,076	\$(786,261)	\$341,600,083	\$(13,595,807)
Residential mortgage-backed and related securities	74,273,019	(1,586,915)	21,330,340	(1,014,607)	95,603,359	(2,601,522)
Municipal securities	12,715,294	(372,659)	1,699,797	(44,367)	14,415,091	(417,026)
	\$417,394,320	\$(14,769,120)	\$34,224,213	\$(1,845,235)	\$451,618,533	\$(16,614,355)
December 31, 2013:						
Securities held to maturity:						
Municipal securities	\$101,983,602	\$(6,711,240)	\$2,697,375	\$(400,339)	\$104,680,977	\$(7,111,579)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$333,194,820	\$(19,141,077)	\$10,978,390	\$(1,001,764)	\$344,173,210	\$(20,142,841)
Residential mortgage-backed and	94,723,092	(2,947,770)	14,117,719	(886,387)	108,840,811	(3,834,157)

related securities

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

At March 31, 2014, the investment portfolio included 539 securities. Of this number, 323 securities had current unrealized losses with aggregate depreciation of less than 4% from the total amortized cost basis. Of these, 38 securities had an unrealized loss for twelve months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery. At March 31, 2014 and December 31, 2013, equity securities represented less than 1% of the total portfolio.

The Company did not recognize other-than-temporary impairment on any debt or equity securities for the three months ended March 31, 2014 and 2013.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three months ended March 31, 2014 and 2013, respectively, were from securities identified as available-for-sale. Information on proceeds received, as well as pre-tax gross gains from sales on those securities is as follows:

	Three Months Ended	
	March 31, 2014	March 31, 2013
Proceeds from sales of securities	\$7,020,625	\$ -
Pre-tax gross gains from sales of securities	20,625	-

The amortized cost and fair value of securities as of March 31, 2014 by contractual maturity are shown below. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed and related securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" available for sale are excluded from the maturity categories as there is no fixed maturity date for those securities.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	\$2,298,028	\$2,299,876
Due after one year through five years	10,898,311	10,876,493
Due after one year through five years	148,432,813	144,441,491
	\$161,629,152	\$157,617,860
Securities available for sale:		
Due in one year or less	\$5,399,927	\$5,412,462
Due after one year through five years	51,172,655	50,810,680
Due after five years	341,825,057	329,190,483
	\$398,397,639	\$385,413,625

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Residential mortgage-backed and related securities	159,343,903	158,119,401
Other securities	1,378,550	1,944,511
	\$559,120,092	\$545,477,537

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	\$107,791,951	\$104,916,513
Securities available for sale:		
U.S. govt. sponsored agency securities	307,435,005	295,518,088
Municipal securities	22,063,064	22,190,224
	\$329,498,069	\$317,708,312

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 – LOANS/LEASES RECEIVABLE

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

	As of March 31, 2014	As of December 31, 2013
Commercial and industrial loans	\$442,350,475	\$431,688,129
Commercial real estate loans		
Owner-occupied commercial real estate	269,483,524	261,215,912
Commercial construction, land development, and other land	55,194,025	57,844,902
Other non owner-occupied commercial real estate	354,550,656	352,692,115
	679,228,205	671,752,929
 Direct financing leases *	139,994,059	128,901,442
Residential real estate loans **	148,950,217	147,356,323
Installment and other consumer loans	76,809,540	76,033,810
	1,487,332,496	1,455,732,633
Plus deferred loan/lease origination costs, net of fees	5,247,046	4,546,925
	1,492,579,542	1,460,279,558
Less allowance for estimated losses on loans/leases	(22,653,270)	(21,448,048)
	\$1,469,926,272	\$1,438,831,510

* Direct financing leases:

Net minimum lease payments to be received	\$158,423,507	\$145,662,254
Estimated unguaranteed residual values of leased assets	1,611,999	1,694,499
Unearned lease/residual income	(20,041,447)	(18,455,311)
	139,994,059	128,901,442
Plus deferred lease origination costs, net of fees	5,347,779	4,814,183
	145,341,838	133,715,625
Less allowance for estimated losses on leases	(2,820,239)	(2,517,217)

\$142,521,599 \$131,198,408

Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors and management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal. There were no losses related to residual values for the three months ended March 31, 2014 and 2013.

**Includes residential real estate loans held for sale totaling \$291,600 and \$1,358,290 as of March 31, 2014, and December 31, 2013, respectively.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Classes of Loans/Leases	As of March 31, 2014					Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	
Commercial and Industrial	\$ 440,037,552	\$ 679,842	\$ 82,110	\$ 4,838	\$ 1,546,133	\$ 442,350,475
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	268,087,219	217,205	101,723	-	1,077,377	269,483,524
Commercial Construction, Land Development, and Other Land	53,069,537	943,219	-	-	1,181,269	55,194,025
Other Non Owner-Occupied Commercial Real Estate	342,951,740	246,141	1,104,646	-	10,248,129	354,550,656
Direct Financing Leases	136,956,753	1,684,403	120,969	735	1,231,199	139,994,059
Residential Real Estate	145,891,697	1,562,455	-	-	1,496,065	148,950,217
Installment and Other Consumer	75,402,962	429,310	104,031	2	873,235	76,809,540
	\$ 1,462,397,460	\$ 5,762,575	\$ 1,513,479	\$ 5,575	\$ 17,653,407	\$ 1,487,332,496
	98.32	% 0.39	% 0.10	% 0.00	% 1.19	% 100.00

As a percentage of
total loan/lease
portfolio

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Classes of Loans/Leases	As of March 31, 2014					
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *	Troubled Debt Restructurings Accruing	Total Nonperforming Loans/Leases	Percentage of Total Nonperforming Loans/Leases	
Commercial and Industrial Commercial Real Estate	\$4,838	\$ 1,546,133	\$ 179,695	\$ 1,730,666	9.29	%
Owner-Occupied Commercial Real Estate	-	1,077,377	-	1,077,377	5.78	%
Commercial Construction, Land Development, and Other Land	-	1,181,269	-	1,181,269	6.34	%
Other Non Owner-Occupied Commercial Real Estate	-	10,248,129	-	10,248,129	55.00	%
Direct Financing Leases	735	1,231,199	89,443	1,321,377	7.09	%
Residential Real Estate	-	1,496,065	347,543	1,843,608	9.89	%
Installment and Other Consumer	2	873,235	357,000	1,230,237	6.60	%
	\$5,575	\$ 17,653,407	\$ 973,681	\$ 18,632,663	100.00	%

*Nonaccrual loans/leases includes \$10,666,735 of troubled debt restructurings, including \$75,371 in commercial and industrial loans, \$9,862,220 in commercial real estate loans, \$70,144 in direct financing leases, \$449,525 in residential real estate loans, and \$209,475 in installment loans.

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

As of December 31, 2013

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance for estimated losses on loans/leases by portfolio segment for the three months ended March 31, 2014 and 2013, respectively, are presented as follows:

Three Months Ended March 31, 2014						
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$5,648,774	\$10,705,434	\$2,517,217	\$1,395,849	\$1,180,774	\$21,448,048
Provisions (credits) charged to expense	976,790	(229,985)	352,647	(4,355)	(935)	1,094,162
Loans/leases charged off	(4,023)	(4,098)	(65,733)	(2,712)	(2,755)	(79,321)
Recoveries on loans/leases previously charged off	26,117	116,306	16,108	103	31,747	190,381
Balance, ending	\$6,647,658	\$10,587,657	\$2,820,239	\$1,388,885	\$1,208,831	\$22,653,270
Three Months Ended March 31, 2013						
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,531,545	\$11,069,502	\$1,990,395	\$1,070,328	\$1,263,434	\$19,925,204
Provisions (credits) charged to expense	(87,807)	1,114,294	378,623	8,899	(356,227)	1,057,782
Loans/leases charged off	(215)	-	(73,049)	(112,891)	(116,612)	(302,767)
Recoveries on loans/leases previously charged off	22,741	5,157	554	-	60,791	89,243
Balance, ending	\$4,466,264	\$12,188,953	\$2,296,523	\$966,336	\$851,386	\$20,769,462

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

	As of March 31, 2014										
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total					
Allowance for loans/leases individually evaluated for impairment	\$ 732,427	\$ 2,712,472	\$ 298,303	\$ 224,972	\$ 396,897	\$ 4,365,071					
Allowance for loans/leases collectively evaluated for impairment	5,915,231	7,875,185	2,521,936	1,163,913	811,934	18,288,199					
	\$ 6,647,658	\$ 10,587,657	\$ 2,820,239	\$ 1,388,885	\$ 1,208,831	\$ 22,653,270					
Loans/leases individually evaluated for impairment	\$ 1,400,758	\$ 12,076,304	\$ 1,320,642	\$ 1,843,608	\$ 1,230,235	\$ 17,871,547					
Loans/leases collectively evaluated for impairment	440,949,717	667,151,901	138,673,417	147,106,609	75,579,305	1,469,460,949					
	\$ 442,350,475	\$ 679,228,205	\$ 139,994,059	\$ 148,950,217	\$ 76,809,540	\$ 1,487,332,496					
Allowance as a percentage of loans/leases individually evaluated for impairment	52.29	% 22.46	% 22.59	% 12.20	% 32.26	% 24.42					
Allowance as a percentage of loans/leases	1.34	% 1.18	% 1.82	% 0.79	% 1.07	% 1.24					

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

collectively
evaluated for
impairment

1.50 % 1.56 % 2.01 % 0.93 % 1.57 % 1.52 %

As of December 31, 2013

Commercial
and
Industrial

Commercial
Real Estate

Direct
Financing
Leases

Residential
Real
Estate

Installment and
Other
Consumer

Total

Allowance
for
loans/leases
individually
evaluated for
impairment

\$927,453

\$3,174,704

\$192,847

\$246,266

\$467,552

\$5,008,822

Allowance
for
loans/leases
collectively
evaluated for
impairment

4,721,321

7,530,730

2,324,370

1,149,583

713,222

16,439,226

\$5,648,774

\$10,705,434

\$2,517,217

\$1,395,849

\$1,180,774

\$21,448,048

Loans/leases
individually
evaluated for
impairment

\$1,761,850

\$12,956,915

\$894,458

\$2,116,747

\$1,350,450

\$19,080,420

Loans/leases
collectively
evaluated for
impairment

429,926,279

658,796,014

128,006,984

145,239,576

74,683,360

1,436,652,213

\$431,688,129

\$671,752,929

\$128,901,442

\$147,356,323

\$76,033,810

\$1,455,732,633

Allowance
as a
percentage
of
loans/leases
individually
evaluated for
impairment

52.64

%

24.50

%

21.56

%

11.63

%

34.62

%

26.25

%

Allowance
as a
percentage
of
loans/leases
collectively
evaluated for

1.10

%

1.14

%

1.82

%

0.79

%

0.95

%

1.14

%

impairment

1.31	%	1.59	%	1.95	%	0.95	%	1.55	%	1.47	%
------	---	------	---	------	---	------	---	------	---	------	---

15

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended March 31, 2014 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income	
					Recognized	Recognized Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial	\$441,945	\$517,833	\$-	\$482,151	\$ 1,888	\$ 1,888
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	389,876	389,876	-	436,412	-	-
Commercial Construction, Land Development, and Other Land	2,124,350	2,247,550	-	2,127,392	-	-
Other Non Owner-Occupied Commercial Real Estate	1,983,846	1,983,846	-	2,376,752	13,283	13,283
Direct Financing Leases	619,800	619,800	-	586,567	-	-
Residential Real Estate	977,436	977,436	-	1,222,955	1,455	1,455
Installment and Other Consumer	833,338	833,338	-	897,665	890	890
	\$7,370,591	\$7,569,679	\$-	\$8,129,894	\$ 17,516	\$ 17,516

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Impaired Loans/Leases with
Specific Allowance Recorded:

Commercial and Industrial	\$958,813	\$1,449,488	\$732,427	\$910,410	\$ -	\$ -
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	224,892	224,892	117,555	112,438	-	-
Commercial Construction, Land Development, and Other Land	685,292	796,492	477,293	685,834	-	-
Other Non Owner-Occupied Commercial Real Estate	6,668,048	7,373,330	2,117,624	6,682,038	-	-
Direct Financing Leases	700,842	700,842	298,303	467,524	-	-
Residential Real Estate	866,172	866,172	224,972	793,141	774	774
Installment and Other Consumer	396,897	396,897	396,897	397,897	-	-
	\$10,500,956	\$11,808,113	\$4,365,071	\$10,049,282	\$ 774	\$ 774

Total Impaired Loans/Leases:

Commercial and Industrial	\$1,400,758	\$1,967,321	\$732,427	\$1,392,561	\$ 1,888	\$ 1,888
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	614,768	614,768	117,555	548,850	-	-
Commercial Construction, Land Development, and Other Land	2,809,642	3,044,042	477,293	2,813,226	-	-
Other Non Owner-Occupied Commercial Real Estate	8,651,894	9,357,176	2,117,624	9,058,790	13,283	13,283
Direct Financing Leases	1,320,642	1,320,642	298,303	1,054,091	-	-
Residential Real Estate	1,843,608	1,843,608	224,972	2,016,096	2,229	2,229
Installment and Other Consumer	1,230,235	1,230,235	396,897	1,295,562	890	890
	\$17,871,547	\$19,377,792	\$4,365,071	\$18,179,176	\$ 18,290	\$ 18,290

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended March 31, 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 Commercial Real Estate	\$402,621	\$775,004	\$-	\$767,929	\$ 1,924	\$ 1,924
Owner-Occupied Commercial Real Estate	498,946	498,946	-	507,451	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied Commercial Real Estate	47,958	47,958	-	3,198,617	40,116	40,116
Direct Financing Leases	789,346	789,346	-	831,677	-	-
Residential Real Estate	630,324	630,324	-	810,583	-	-
Installment and Other Consumer	196,615	196,615	-	187,590	2,093	2,093
	\$2,565,810	\$2,938,193	\$-	\$6,303,847	\$ 44,133	\$ 44,133
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$211,400	\$264,334	\$498,260	\$216,133	\$ -	\$ -
Owner-Occupied Commercial Real Estate	-	-	-	-	-	-
	3,929,839	3,929,839	1,154,155	3,933,530	2,703	2,703

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Commercial Construction, Land Development, and Other Land Other Non Owner-Occupied Commercial Real Estate	9,983,944	10,236,903	2,353,684	10,046,487	4,501	4,501
Direct Financing Leases	421,590	421,590	325,294	273,192	-	-
Residential Real Estate	305,612	305,612	95,232	308,841	-	-
Installment and Other Consumer	927,467	927,467	117,131	629,810	333	333
	\$15,779,852	\$16,085,745	\$4,543,756	\$15,407,993	\$7,537	\$7,537
Total Impaired Loans/Leases:						
Commercial and Industrial Commercial Real Estate	\$614,021	\$1,039,338	\$498,260	\$984,062	\$1,924	\$1,924
Owner-Occupied Commercial Real Estate	498,946	498,946	-	507,451	-	-
Commercial Construction, Land Development, and Other Land Other Non Owner-Occupied Commercial Real Estate	3,929,839	3,929,839	1,154,155	3,933,530	2,703	2,703
Direct Financing Leases	10,031,902	10,284,861	2,353,684	13,245,104	44,617	44,617
Residential Real Estate	1,210,936	1,210,936	325,294	1,104,869	-	-
Installment and Other Consumer	935,936	935,936	95,232	1,119,424	-	-
	1,124,082	1,124,082	117,131	817,400	2,426	2,426
	\$18,345,662	\$19,023,938	\$4,543,756	\$21,711,840	\$51,670	\$51,670

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
Commercial and Industrial Commercial Real Estate	\$492,622	\$568,951	\$-
Owner-Occupied Commercial Real Estate	392,542	392,542	-
Commercial Construction, Land Development, and Other Land	1,943,168	2,054,368	-
Other Non Owner-Occupied Commercial Real Estate	1,790,279	1,902,279	-
Direct Financing Leases	557,469	557,469	-
Residential Real Estate	1,071,927	1,071,927	-
Installment and Other Consumer	509,667	509,667	-
	\$6,757,674	\$7,057,203	\$-
Impaired Loans/Leases with Specific Allowance Recorded:			
Commercial and Industrial Commercial Real Estate	\$1,269,228	\$1,956,755	\$927,453
Owner-Occupied Commercial Real Estate	159,247	159,247	67,498
Commercial Construction, Land Development, and Other Land	888,547	1,011,747	503,825
Other Non Owner-Occupied Commercial Real Estate	7,783,132	8,488,414	2,603,381
Direct Financing Leases	336,989	336,989	192,847
Residential Real Estate	1,044,820	1,044,820	246,266
Installment and Other Consumer	840,783	840,783	467,552
	\$12,322,746	\$13,838,755	\$5,008,822
Total Impaired Loans/Leases:			
Commercial and Industrial Commercial Real Estate	\$1,761,850	\$2,525,706	\$927,453
Owner-Occupied Commercial Real Estate	551,789	551,789	67,498
Commercial Construction, Land Development, and Other Land	2,831,715	3,066,115	503,825

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Other Non Owner-Occupied Commercial Real Estate	9,573,411	10,390,693	2,603,381
Direct Financing Leases	894,458	894,458	192,847
Residential Real Estate	2,116,747	2,116,747	246,266
Installment and Other Consumer	1,350,450	1,350,450	467,552
	\$ 19,080,420	\$ 20,895,958	\$ 5,008,822

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

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

As of March 31, 2014					
Internally Assigned Risk Rating	Commercial and Industrial	Commercial Real Estate			Total
		Non Owner-Occupied Commercial			
		Owner-Occupied	Construction, Land Development, and Other Land	Other Commercial Real Estate	
		Commercial Real Estate	Land Development, and Other Land	Other Commercial Real Estate	
Pass (Ratings 1 through 5)	\$419,982,030	\$250,623,915	\$50,250,005	\$327,819,856	\$1,048,675,806
Special Mention (Rating 6)	12,464,206	10,356,128	-	1,765,205	24,585,539
Substandard (Rating 7)	9,904,239	8,503,481	4,944,020	24,965,595	48,317,335
Doubtful (Rating 8)	-	-	-	-	-
	\$442,350,475	\$269,483,524	\$55,194,025	\$354,550,656	\$1,121,578,680

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

As of March 31, 2014

Delinquency Status *	Direct Financing	Residential Real	Installment and	Total
	Leases	Estate	Other Consumer	
Performing	\$ 138,672,682	\$ 147,106,609	\$ 75,579,303	\$ 361,358,594
Nonperforming	1,321,377	1,843,608	1,230,237	4,395,222
	\$ 139,994,059	\$ 148,950,217	\$ 76,809,540	\$ 365,753,816

As of December 31, 2013

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

As of December 31, 2013

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of March 31, 2014 and December 31, 2013, troubled debt restructurings totaled \$11,640,416 and \$13,413,366, respectively.

For each class of financing receivable, the following presents the number and recorded investment of troubled debt restructurings, by type of concession, that were restructured during the three months ended March 31, 2014 and 2013. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring.

Classes of Loans/Leases	For the three months ended March 31, 2014				For the three months ended March 31, 2013			
	Number		Post-		Number		Post-	
	of		Modification		of		Modification	
	Loans	Recorded	Recorded	Specific Allowance	Loans	Recorded	Recorded	Specific Allowance
	Leases	Investment	Investment		Leases	Investment	Investment	
CONCESSION - Significant payment delay								
Owner-Occupied Commercial Real Estate	-	\$ -	\$ -	\$ -	1	\$ 47,958	\$ 47,958	\$ -
Direct Financing Leases	1	\$ 89,443	\$ 89,443	\$ -	-	\$ -	\$ -	\$ -
	1	\$ 89,443	\$ 89,443	\$ -	1	\$ 47,958	\$ 47,958	\$ -
CONCESSION - Extension of maturity								
Commercial and Industrial	-	\$ -	\$ -	\$ -	3	\$ 809,494	\$ 809,494	\$ 188,700
Direct Financing Leases	1	\$ 70,144	\$ 70,144	\$ 24,246	-	\$ -	\$ -	\$ -
	1	\$ 70,144	\$ 70,144	\$ 24,246	3	\$ 809,494	\$ 809,494	\$ 188,700
TOTAL	2	\$ 159,587	\$ 159,587	\$ 24,246	4	\$ 857,452	\$ 857,452	\$ 188,700

Of the troubled debt restructurings reported above, one with a post-modification recorded investment totaling \$70,144 was on nonaccrual as of March 31, 2014, and two with post-modification recorded investments totaling \$80,426 were on nonaccrual as of March 31, 2013.

For the three months ended March 31, 2014 and 2013, none of the Company's troubled debt restructurings had redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 - EARNINGS PER SHARE

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

	Three months ended	
	March 31, 2014	2013
Net income	\$3,889,215	\$3,265,144
Less: Preferred stock dividends	708,008	810,837
Net income attributable to QCR Holdings, Inc. common stockholders	\$3,181,207	\$2,454,307
Earnings per common share attributable to QCR Holdings, Inc. common stockholders		
Basic	\$0.40	\$0.50
Diluted	\$0.40	\$0.49
Weighted average common shares outstanding	7,901,035	4,927,591
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	129,008	106,751
Weighted average common and common equivalent shares outstanding	8,030,043	5,034,342

NOTE 5 – BUSINESS SEGMENT INFORMATION

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

decision-makers routinely use to make decisions about operating matters.

The Company's primary segment, Commercial Banking, is geographically divided by markets into the secondary segments which are the three subsidiary banks wholly-owned by the Company: QCBT, CRBT, and RB&T. CRBT includes CNB's operations from its acquisition on May 13, 2013. Each of these three secondary segments offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Selected financial information on the Company's business segments is presented as follows for the three months ended March 31, 2014 and 2013.

	Commercial Banking			Wealth Management	All Other	Intercompany Eliminations	Consolidated Total
	Quad City	Cedar Rapids	Rockford				
	Bank & Trust	Bank & Trust	Bank & Trust				
Three Months Ended March 31, 2014							
Total revenue	\$ 11,938,133	\$ 8,303,625	\$ 3,482,876	\$ 2,149,334	\$ 5,223,865	\$ (5,315,781)	\$ 25,782,052
Net interest income	\$ 8,921,038	\$ 5,902,059	\$ 2,475,682	\$ -	\$ (449,538)	\$ -	\$ 16,849,241
Net income	\$ 2,341,283	\$ 1,934,770	\$ 471,039	\$ 459,294	\$ 3,889,215	\$ (5,206,386)	\$ 3,889,215
Total assets	\$ 1,269,106,354	\$ 819,179,681	\$ 346,365,023	\$ -	\$ 203,666,846	\$ (211,998,694)	\$ 2,426,319,210
Provision for loan/lease losses	\$ 609,162	\$ 300,000	\$ 185,000	\$ -	\$ -	\$ -	\$ 1,094,162
Goodwill	\$ 3,222,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,222,688
Core deposit intangible	\$ -	\$ 1,820,555	\$ -	\$ -	\$ -	\$ -	\$ 1,820,555

**Three
Months
Ended
March
31, 2013**

Total revenue	\$12,055,661	\$6,928,351	\$3,184,059	\$1,649,011	\$4,732,570	\$(4,808,141)	\$23,741,511
Net interest income	\$8,391,538	\$3,844,882	\$2,305,077	\$-	\$(350,180)	\$-	\$14,191,317
Net income	\$2,497,025	\$1,720,811	\$96,242	\$213,007	\$3,265,144	\$(4,527,085)	\$3,265,144
Total assets	\$1,223,662,809	\$598,842,406	\$322,544,243	\$-	\$199,591,558	\$(200,650,364)	\$2,143,990,652
Provision for loan/lease losses	\$357,782	\$300,000	\$400,000	\$-	\$-	\$-	\$1,057,782
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 – FAIR VALUE

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

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets measured at fair value on a recurring basis comprise the following at March 31, 2014 and December 31, 2013:

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

March 31, 2014:

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Securities available for sale:

U.S. govt. sponsored agency securities	\$350,337,559	\$-	\$350,337,559	\$	-
Residential mortgage-backed and related securities	158,119,401	-	158,119,401		-
Municipal securities	35,076,066	-	35,076,066		-
Other securities	1,944,511	317,137	1,627,374		-
	\$545,477,537	\$317,137	\$545,160,400	\$	-

December 31, 2013:

Securities available for sale:

U.S. govt. sponsored agency securities	\$356,472,987	\$-	\$356,472,987	\$	-
Residential mortgage-backed and related securities	157,429,451	-	157,429,451		-
Municipal securities	35,958,857	-	35,958,857		-
Other securities	1,897,163	317,698	1,579,465		-
	\$551,758,458	\$317,698	\$551,440,760	\$	-

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the three months ended March 31, 2014 and 2013.

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Assets measured at fair value on a non-recurring basis comprise the following at March 31, 2014 and December 31, 2013:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<u>March 31, 2014:</u>				
Impaired loans/leases	\$7,524,198	\$-	\$ -	\$7,524,198
Other real estate owned	10,448,606	-	-	10,448,606
	\$17,972,804	\$-	\$ -	\$17,972,804
<u>December 31, 2013:</u>				
Impaired loans/leases	\$9,009,557	\$-	\$ -	\$9,009,557
Other real estate owned	10,507,377	-	-	10,507,377
	\$19,516,934	\$-	\$ -	\$19,516,934

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:

Quantitative Information about Level Fair Value Measurements				
	Fair Value	Valuation Technique	Unobservable Input	Range
<u>March 31, 2014:</u>				
Impaired loans/leases	\$ 7,524,198	Appraisal of collateral	Appraisal adjustments	-10.00% to -50.00 %
Other real estate owned	10,448,606	Appraisal of collateral	Appraisal adjustments	0.00% to -35.00 %

Quantitative Information about Level Fair Value Measurements				
	Fair Value	Valuation Technique	Unobservable Input	Range
<u>December 31, 2013:</u>				
Impaired loans/leases	\$ 9,009,557	Appraisal of collateral	Appraisal adjustments	-10.00% to -50.00 %
Other real estate owned	10,507,377	Appraisal of collateral	Appraisal adjustments	0.00% to -35.00 %

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 months ended March 31, 2014 and 2013.

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	As of March 31, 2014		As of December 31, 2013	
		Carrying	Estimated	Carrying	Estimated
	Level	Value	Fair Value	Value	Fair Value
Cash and due from banks	Level 1	\$55,444,302	\$55,444,302	\$41,950,790	\$41,950,790
Federal funds sold	Level 2	11,570,000	11,570,000	39,435,000	39,435,000
Interest-bearing deposits at financial institutions	Level 2	44,389,277	44,389,277	33,044,917	33,044,917
Investment securities:					
Held to maturity	Level 3	161,629,152	157,617,860	145,451,895	138,640,105
Available for sale	See Previous Table	545,477,537	545,477,537	551,758,458	551,758,458
Loans/leases receivable, net	Level 3	6,966,850	7,524,198	8,342,182	9,009,557
Loans/leases receivable, net	Level 2	1,462,959,422	1,472,150,150	1,430,489,328	1,441,952,443
Deposits:					
Nonmaturity deposits	Level 2	1,296,408,620	1,296,408,620	1,256,209,352	1,256,209,352
Time deposits	Level 2	375,485,023	376,596,000	390,781,891	391,923,000
Short-term borrowings	Level 2	165,569,112	165,569,112	149,292,967	149,292,967
Federal Home Loan Bank advances	Level 2	235,700,000	245,555,000	231,350,000	241,623,000
Other borrowings	Level 2	142,250,644	152,184,000	142,448,362	152,761,000
Junior subordinated debentures	Level 2	40,322,765	28,218,054	40,289,830	28,094,228

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

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

dependent upon unobservable inputs.

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

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

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

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 7 – PARTIAL REDEMPTION OF SERIES F PREFERRED STOCK

On March 31, 2014, the Company redeemed 15,000 shares of its Series F Non-Cumulative Perpetual Preferred Stock (the “Series F Preferred Stock”) from the United States Department of the Treasury (“Treasury”) for an aggregate redemption amount of \$15,000,000 plus unpaid dividends to the date of redemption of \$337,500.

Previously, on September 15, 2011, the Company issued 40,090 shares of Series F Preferred Stock to the Treasury for an aggregate purchase price of \$40,090,000. The sale of Series F Preferred Stock was the result of an investment by Treasury under the Small Business Lending Fund (“SBLF”).

On June 29, 2012, the Company redeemed 10,223 shares of Series F Preferred Stock. In total, the Company has redeemed 25,223 shares of the Series F Preferred Stock with 14,867 shares remaining at March 31, 2014. The Company’s dividend rate increased from 5% to 9% with the dividend for the first quarter of 2014, which was paid on April 1, 2014.

The Series F Preferred Stock may be redeemed at any time at the option of the Company, subject to the approval, if required, of the Company’s primary federal banking regulator. All redemptions must be in amounts equal to at least 25% of the number of originally issued shares, or 100% of the then-outstanding shares (if less than 25% of the originally issued shares). The Company intends to fully redeem the remaining 14,867 shares during 2014.

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, and RB&T.

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

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

CRBT commenced operations in 2001 and provides full-service commercial and consumer banking, and trust and asset management services to Cedar Rapids, Iowa and adjacent communities through its main office located on First Avenue in downtown Cedar Rapids, Iowa and its branch facility located on Council Street in northern Cedar Rapids. On October 26, 2013, Community National Bank ("CNB"), which was acquired by the Company on May 13, 2013, merged with and into CRBT. CNB's merged branch offices operate as a division of CRBT under the name "Community Bank & Trust," and serve Cedar Falls and Waterloo, Iowa and adjacent communities through its three offices (two in Waterloo and one in Cedar Falls).

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

OVERVIEW

The Company recognized net income of \$3.9 million for the quarter ended March 31, 2014. After preferred stock dividends of \$708 thousand, the Company reported net income attributable to common stockholders of \$3.2 million, or diluted earnings per common share of \$0.40. By comparison, for the first quarter of 2013, the Company recognized net income of \$3.3 million. After preferred stock dividends of \$811 thousand, the Company reported net income attributable to common stockholders of \$2.5 million, or diluted earnings per common share of \$0.49.

Although earnings increased nearly 30% in the first quarter of 2014 compared to the first quarter of 2013, diluted earnings per common share decreased by \$0.09, or 18%, due to the issuance of new common stock related to the CNB acquisition in the second quarter of 2013 (834,715 shares issued), as well as the conversion of Series E Preferred Stock to common stock that was executed in the fourth quarter of 2013 (2,057,502 shares issued). These two events increased weighted average common shares outstanding approximately 57%, resulting in the lower diluted earnings per share.

Part I

Item 2

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

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

	For the three months ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Net income	\$3,889,215	\$3,815,926	\$3,265,144
Less: Preferred stock dividends	708,008	735,790	810,837
Net income attributable to QCR Holdings, Inc. common stockholders	\$3,181,207	\$3,080,136	\$2,454,307
Diluted earnings per common share	\$0.40	\$0.50	\$0.49
Weighted average common and common equivalent shares outstanding	8,030,043	6,140,809	5,034,342

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

	For the three months ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Net interest income	\$16,849,241	\$16,895,732	\$14,191,317
Provision for loan/lease losses	(1,094,162)	(1,985,517)	(1,057,782)
Noninterest income	4,746,841	7,726,390	5,204,029
Noninterest expense	(16,140,420)	(18,212,541)	(13,958,500)
Federal and state income tax	(472,285)	(608,138)	(1,113,920)
Net income	\$3,889,215	\$3,815,926	\$3,265,144

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

Provision for loan/lease losses decreased 45% due to continued credit improvement.

Noninterest income decreased \$3.0 million compared to the fourth quarter of 2013. The fourth quarter of 2013, however, included \$2.3 million of gains from the sale of CNB branches, as well as \$576 thousand of gains recognized on the sale of nonperforming loans. Excluding these nonrecurring items, noninterest income remained relatively flat.

Noninterest expense decreased 11%. CNB acquisition costs are no longer being incurred (\$1.2 million of acquisition costs were incurred in the fourth quarter of 2013) and the Company has now realized the full impact of the reduced cost structure created by the acquisition.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NET INTEREST INCOME

Net interest income, on a tax equivalent basis, increased \$2.9 million, or 20%, to \$17.7 million for the quarter ended March 31, 2014, from \$14.7 million for the same period of 2013. The increase in net interest income was primarily driven by the acquisition of CNB in May 2013. The Company has also improved net interest income as the result of:

Organic loan/lease growth,
Further diversification of the Company's securities portfolio with increased investment in tax-exempt municipal securities,
Continued reductions in the cost of deposits, and
Continued growth in noninterest bearing deposits.

A comparison of yields, spread and margin from the first quarter of 2014 to the first quarter of 2013 is as follows (on a tax equivalent basis):

The average yield on interest-earning assets decreased 5 basis points.
The average cost of interest-bearing liabilities decreased 20 basis points.
The net interest spread increased 15 basis points from 2.68% to 2.83%.
The net interest margin improved 9 basis points from 3.02% to 3.11%.

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 while balancing interest rate risk. Management continually addresses this issue with pricing and other balance sheet management strategies including, but not limited to, the use of alternative funding sources. 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. Also, the Company's management has focused on reducing the cost of portions of the Company's existing wholesale funding. 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.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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

	For the three months ended March 31, 2014				2013			
	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	\$10,995	\$3	0.11	%	\$2,349	\$1	0.17	%
Interest-bearing deposits at financial institutions	88,376	91	0.42	%	37,834	60	0.64	%
Investment securities (1)	722,220	4,655	2.61	%	648,638	3,656	2.29	%
Restricted investment securities	17,249	129	3.03	%	15,415	125	3.29	%
Gross loans/leases receivable (1) (2) (3)	1,465,061	16,968	4.70	%	1,279,040	15,251	4.84	%
Total interest earning assets	\$2,303,901	21,846	3.85	%	\$1,983,276	19,093	3.90	%
Noninterest-earning assets:								
Cash and due from banks	\$43,830				\$39,908			
Premises and equipment	36,732				31,202			
Less allowance for estimated losses on loans/leases	(21,894)				(20,224)			
Other	71,589				75,850			
Total assets	\$2,434,158				\$2,110,012			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing liabilities:								
Interest-bearing deposits	\$715,054	446	0.25	%	\$562,905	409	0.29	%

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Time deposits	382,721	656	0.70	%	333,696	708	0.86	%
Short-term borrowings	149,989	52	0.14	%	175,706	64	0.15	%
Federal Home Loan Bank advances	234,627	1,556	2.69	%	202,618	1,733	3.47	%
Junior subordinated debentures	40,306	305	3.07	%	36,085	241	2.71	%
Other borrowings	142,317	1,171	3.34	%	138,210	1,191	3.49	%
Total interest-bearing liabilities	\$1,665,014	4,186	1.02	%	\$1,449,220	4,346	1.22	%
Noninterest-bearing demand deposits	\$585,441				\$487,264			
Other noninterest-bearing liabilities	33,640				32,345			
Total liabilities	\$2,284,095				\$1,968,829			
Stockholders' equity	150,063				141,183			
Total liabilities and stockholders' equity	\$2,434,158				\$2,110,012			
Net interest income		\$17,660				\$14,747		
Net interest spread			2.83	%			2.68	%
Net interest margin			3.11	%			3.02	%
Ratio of average interest-earning assets to average interest-bearing liabilities	138.37	%			136.85	%		

(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.

Part I

Item 2

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

Analysis of Changes of Interest Income/Interest Expense**For the three months ended March 31, 2014**

	Inc./Decrease Components		
	from Prior Period 2014 vs. 2013 (dollars in thousands)	of Change (1) Rate Volume	
INTEREST INCOME			
Federal funds sold	\$2	\$(2)	\$ 4
Interest-bearing deposits at financial institutions	31	(128)	159
Investment securities (2)	999	558	441
Restricted investment securities	4	(46)	50
Gross loans/leases receivable (2) (3) (4)	1,717	(2,681)	4,398
Total change in interest income	\$2,753	\$(2,299)	\$ 5,052
INTEREST EXPENSE			
Interest-bearing deposits	\$37	\$(296)	\$ 333
Time deposits	(52)	(508)	456
Short-term borrowings	(12)	(3)	(9)
Federal Home Loan Bank advances	(177)	(1,408)	1,231
Junior subordinated debentures	64	34	30
Other borrowings	(20)	(185)	165
Total change in interest expense	\$(160)	\$(2,366)	\$ 2,206
Total change in net interest income	\$2,913	\$67	\$ 2,846

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

Part I

Item 2

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

CRITICAL ACCOUNTING POLICIES

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

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for estimated losses on loans/leases ("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 for loan/leases losses ("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 March 31, 2014 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.

Part I

Item 2

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 first quarter of 2014 to the same period of 2013. The majority of this growth was the result of the acquisition of CNB and the addition of its earning assets. Additionally, the Company's loan/lease yield expanded 5 basis points during the first quarter of 2014 (from 4.65% to 4.70%) marking the first quarter of expansion since the recession. The securities portfolio yield continued to increase (from 2.29% for the first quarter of 2013 to 2.61% for the first quarter of 2014) as 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 first quarter of 2014 declined \$160 thousand, or 4%, from the first quarter of 2013. Considering the growth of interest-bearing liabilities (average balances grew \$215.8 million, or 15%, from the first quarter of 2013 to the same quarter of 2014) from the acquisition of CNB as well as organic growth at the Company's legacy charters, the Company has been successful in maintaining pricing discipline on deposits and decreasing the cost of borrowings, which has more than offset the growth impact and contributed to the net decline in interest expense. Management has placed a strong focus on reducing the reliance on long-term wholesale funding as it tends to be higher cost than deposits. In recent years, the majority of maturing wholesale funds have been replaced by core deposits, or, to a lesser extent, have been replaced by new wholesale funds at significantly reduced cost. Continuing

this trend will strengthen the Company's franchise value, reduce funding costs, and increase fee income opportunities through deposit service charges.

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.

Part I

Item 2

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

PROVISION FOR LOAN/LEASE LOSSES

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

Provision totaled \$1.1 million for the first quarter of 2014, which was down \$892 thousand from the prior quarter, and essentially flat from the first quarter of 2013. The Company had net recoveries of \$111 thousand for the first quarter of 2014 which, when coupled with the provision of \$1.1 million, increased the Company's allowance to \$22.7 million at March 31, 2014. As of March 31, 2014, the Company's allowance to total loans/leases was 1.52%, which was up from 1.47% at December 31, 2013, and down from 1.61% at March 31, 2013.

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

NONINTEREST INCOME

The following tables set forth the various categories of noninterest income for the three months ended March 31, 2014 and 2013.

	Three Months Ended				
	March 31, 2014	March 31, 2013	\$ Change	% Change	
Trust department fees	\$ 1,500,342	\$ 1,039,670	\$ 460,672	44.3	%

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Investment advisory and management fees	648,992	609,341	39,651	6.5
Deposit service fees	1,045,885	907,823	138,062	15.2
Gains on sales of residential real estate loans	63,487	291,151	(227,664)	(78.2)
Gains on sales of government guaranteed portions of loans	194,019	845,224	(651,205)	(77.0)
Earnings on bank-owned life insurance	454,164	438,687	15,477	3.5
Subtotal	\$3,906,889	\$4,131,896	\$(225,007)	(5.4)
Losses on other real estate owned, net	(18,048)	(446,630)	428,582	(96.0)
Securities gains	20,625	-	20,625	100.0
Other	837,375	1,518,763	(681,388)	(44.9)
Total noninterest income	\$4,746,841	\$5,204,029	\$(457,188)	(8.8)%

Trust department fees continue to be a significant contributor to noninterest income. Trust department fees grew 44% from the first quarter of 2013 to the first quarter of 2014. Part of the increase stems from the addition of CNB's trust department which recognized \$269 thousand of trust department fees for the first quarter of 2014. 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 organically expanding its customer base at its legacy charters, which has helped to drive the recent increases in fee income.

Part I

Item 2

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

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 7% comparing the first quarter of 2014 to the same period of 2013. 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. CNB did not provide investment advisory and management services; however, the Company is in the process of leveraging its existing infrastructure to efficiently offer these services in the communities served by CNB.

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 expanded 15% comparing the first quarter of 2014 to the same period in 2013. Most of this growth is attributable to the acquisition of CNB and its deposit portfolio. Additionally, the Company continues its emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits across all its markets. With this shift in mix, the Company has increased the number of demand deposit accounts, which tend to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to further focus on growing deposit service fees.

Gains on sales of residential real estate loans fell 78% comparing the first quarter of 2014 to the first quarter of 2013. 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 down 77% year-over-year. 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, this remains a core strategy for the Company and the pipelines are active.

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, as evidenced by the minimal losses recognized thus far in 2014.

Part I

Item 2

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 months ended March 31, 2014 and 2013.

	Three Months Ended				
	March 31, 2014	March 31, 2013	\$ Change	% Change	
Debit card fees	\$230,605	\$229,900	\$705	0.3	%
Correspondent banking fees	232,143	158,111	74,032	46.8	
Participation service fees on commercial loan participations	206,194	167,326	38,868	23.2	
Fees on interest rate swaps on commercial loans	62,000	6,720	55,280	822.6	
Gain on sale of credit card loan portfolio	-	495,405	(495,405)	(100.0)	
Gain on sale of credit card issuing operations	-	355,268	(355,268)	(100.0)	
Miscellaneous	106,433	106,033	400	0.4	
Other noninterest income	\$837,375	\$1,518,763	\$(681,388)	(44.9)%	

Debit card fees are the interchange fees paid on certain debit card customer transactions. The debit card fees were relatively flat comparing the first quarter of 2014 to the first quarter of 2013. As an opportunity to maximize fees, the Company's legacy charters offer a deposit product with a modest increased rate that incentivizes debit card activity. Offering a similar product in the Company's newest market is currently under strategic review.

Correspondent banking fees increased 47%, when comparing the first quarter of 2014 to the first quarter of 2013. Correspondent banking continues to be a core strategy for the Company, as this line of business provides a high level of noninterest bearing deposits that can be used to fund additional loan growth as well as a steady source of fee income.

Participation service fees on commercial loan participations represent fees paid annually to the Company by the participant(s) to cover servicing expenses incurred by the Company. The fee is generally 25 basis points of the

participated loan amount. Participation service fees grew 23% year-over-year as a result of the acquisition of CNB's participated loan portfolio as well as organic growth of commercial loan participations across the Company's legacy charters.

In recent years, as a result of the sustained historically low interest rate environment, CRBT 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.

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.

Part I

Item 2

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

NONINTEREST EXPENSE

The following tables set forth the various categories of noninterest expense for the three months ended March 31, 2014 and 2013.

	Three Months Ended			
	March 31,	March 31,	\$ Change	%
	2014	2013		Change
Salaries and employee benefits	\$ 10,017,918	\$ 8,742,683	\$ 1,275,235	14.6 %
Occupancy and equipment expense	1,894,288	1,428,870	465,418	32.6
Professional and data processing fees	1,584,406	1,140,061	444,345	39.0
FDIC and other insurance	714,750	555,911	158,839	28.6
Loan/lease expense	345,636	245,091	100,545	41.0
Advertising and marketing	337,587	264,568	73,019	27.6
Postage and telephone	290,675			