

QCR HOLDINGS INC
Form 10-Q
May 06, 2016

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, 2016

☐ 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) 743-7724

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(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 2, 2016, the Registrant had outstanding 11,823,268 shares of common stock, \$1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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Throughout the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, we use certain acronyms and abbreviations, as defined in Note 1.

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS (UNAUDITED)****As of March 31, 2016 and December 31, 2015**

	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$44,930,836	\$41,742,321
Federal funds sold	15,740,000	19,850,000
Interest-bearing deposits at financial institutions	41,489,171	36,313,965
Securities held to maturity, at amortized cost	261,129,586	253,674,159
Securities available for sale, at fair value	276,187,867	323,434,982
Total securities	537,317,453	577,109,141
Loans receivable held for sale	765,385	565,850
Loans/leases receivable held for investment	1,873,058,231	1,797,456,825
Gross loans/leases receivable	1,873,823,616	1,798,022,675
Less allowance for estimated losses on loans/leases	(27,395,442)	(26,140,906)
Net loans/leases receivable	1,846,428,174	1,771,881,769
Bank-owned life insurance	55,879,264	55,485,655
Premises and equipment, net	38,142,454	37,350,352
Restricted investment securities	15,321,175	14,835,925
Other real estate owned, net	6,680,283	7,150,658
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,421,531	1,471,409
Other assets	34,100,225	26,784,392
Total assets	\$2,640,673,254	\$2,593,198,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$641,858,800	\$615,292,211
Interest-bearing	1,347,714,289	1,265,373,973
Total deposits	1,989,573,089	1,880,666,184
Short-term borrowings	64,022,811	144,662,716
Federal Home Loan Bank advances	150,500,000	151,000,000
Other borrowings	100,000,000	110,000,000
Junior subordinated debentures	33,378,402	38,499,052
Other liabilities	68,056,233	42,484,573
Total liabilities	2,405,530,535	2,367,312,525

STOCKHOLDERS' EQUITY

Preferred stock, \$1 par value; shares authorized 250,000	-	-
March 2016 and December 2015 - No shares issued or outstanding		
Common stock, \$1 par value; shares authorized 20,000,000	11,814,911	11,761,083
March 2016 - 11,814,911 shares issued and outstanding		
December 2015 - 11,761,083 shares issued and outstanding		
Additional paid-in capital	124,057,965	123,282,851
Retained earnings	98,868,261	92,965,645
Accumulated other comprehensive income (loss):		
Securities available for sale	1,455,351	(1,324,408)
Interest rate cap derivatives	(1,053,769)	(799,421)
Total stockholders' equity	235,142,719	225,885,750
Total liabilities and stockholders' equity	\$2,640,673,254	\$2,593,198,275

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	\$ 19,700,370	\$ 18,004,519
Securities:		
Taxable	1,356,203	1,942,765
Nontaxable	2,242,015	1,730,568
Interest-bearing deposits at financial institutions	60,317	77,054
Restricted investment securities	130,564	142,318
Federal funds sold	12,590	4,506
Total interest and dividend income	23,502,059	21,901,730
Interest expense:		
Deposits	1,289,798	1,072,445
Short-term borrowings	43,066	64,025
Federal Home Loan Bank advances	441,704	1,443,715
Other borrowings	825,083	1,231,886
Junior subordinated debentures	304,886	307,442
Total interest expense	2,904,537	4,119,513
Net interest income	20,597,522	17,782,217
Provision for loan/lease losses	2,072,985	1,710,456
Net interest income after provision for loan/lease losses	18,524,537	16,071,761
Noninterest income:		
Trust department fees	1,575,907	1,633,395
Investment advisory and management fees	658,385	710,043
Deposit service fees	931,079	901,356
Gains on sales of residential real estate loans, net	60,386	86,140
Gains on sales of government guaranteed portions of loans, net	878,528	70,973
Swap fee income	856,958	726,207
Securities gains, net	358,480	421,066
Earnings on bank-owned life insurance	393,609	478,739
Debit card fees	307,651	238,000
Correspondent banking fees	302,130	319,621
Participation service fees on commercial loan participations	210,709	221,949
Fee income from early termination of leases	11,750	84,839
Credit card issuing fees	136,655	134,160
Other	140,246	195,290
Total noninterest income	6,822,473	6,221,778

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Noninterest expense:		
Salaries and employee benefits	10,800,907	11,034,452
Occupancy and equipment expense	1,826,988	1,794,171
Professional and data processing fees	1,447,413	1,470,517
FDIC insurance, other insurance and regulatory fees	634,365	719,057
Loan/lease expense	162,819	302,924
Net cost of operations of other real estate	102,183	76,851
Advertising and marketing	386,259	418,237
Postage and communications	217,090	248,956
Stationery and supplies	164,871	142,555
Bank service charges	415,931	337,458
Losses on debt extinguishment, net	83,197	-
Correspondent banking expense	176,989	175,703
Other	535,486	483,280
Total noninterest expense	16,954,498	17,204,161
Net income before income taxes	8,392,512	5,089,378
Federal and state income tax expense	2,019,023	911,489
Net income	\$6,373,489	\$4,177,889
Basic earnings per common share	\$0.54	\$0.52
Diluted earnings per common share	\$0.53	\$0.52
Weighted average common shares outstanding	11,793,620	7,975,910
Weighted average common and common equivalent shares outstanding	11,953,949	8,097,444
Cash dividends declared per common share	\$0.04	\$-

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)****Three Months Ended March 31, 2016 and 2015**

	Three Months Ended March 31,	
	2016	2015
Net income	\$6,373,489	\$4,177,889
Other comprehensive income:		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period before tax	4,863,718	4,402,337
Less reclassification adjustment for gains included in net income before tax	358,480	421,066
	4,505,238	3,981,271
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(405,373)	(372,384)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	15,438	901
	(420,811)	(373,285)
Other comprehensive income, before tax	4,084,427	3,607,986
Tax expense	1,559,016	1,387,121
Other comprehensive income, net of tax	2,525,411	2,220,865
Comprehensive income attributable to QCR Holdings, Inc.	\$8,898,900	\$6,398,754

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Three Months Ended March 31, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2015	\$11,761,083	\$123,282,851	\$92,965,645	\$ (2,123,829)	\$ -	\$225,885,750
Net income	-	-	6,373,489	-	-	6,373,489
Other comprehensive income, net of tax	-	-	-	2,525,411	-	2,525,411
Common cash dividends declared, \$0.04 per share	-	-	(470,873)	-	-	(470,873)
Proceeds from issuance of 5,054 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,054	94,560	-	-	-	99,614
Proceeds from issuance of 30,331 shares of common stock as a result of stock options exercised	30,331	382,639	-	-	-	412,970
Stock compensation expense	-	382,761	-	-	-	382,761
Tax benefit of nonqualified stock options exercised	-	22,508	-	-	-	22,508
Restricted stock awards	22,382	(22,382)	-	-	-	-
Exchange of 3,939 shares of common stock in connection with restricted stock vested, net	(3,939)	(84,972)	-	-	-	(88,911)
Balance March 31, 2016	\$11,814,911	\$124,057,965	\$98,868,261	\$ 401,582	\$ -	\$235,142,719

Common Stock	Paid-In Capital	Additional Retained Earnings	Accumulated Other Comprehensive	Treasury Stock	Total
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	Income (Loss)					
Balance December 31, 2014	\$8,074,443	\$61,668,968	\$77,876,824	\$ (1,935,216)	\$(1,606,510)	\$144,078,509
Net income	-	-	4,177,889	-	-	4,177,889
Other comprehensive income, net of tax	-	-	-	2,220,865	-	2,220,865
Proceeds from issuance of 5,679 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,679	82,641	-	-	-	88,320
Proceeds from issuance of 9,688 shares of common stock as a result of stock options exercised	9,688	94,728	-	-	-	104,416
Stock compensation expense	-	367,775	-	-	-	367,775
Tax benefit of nonqualified stock options exercised	-	15,651	-	-	-	15,651
Restricted stock awards	26,502	(26,502)	-	-	-	-
Exchange of 3,272 shares of common stock in connection with restricted stock vested, net	(3,272)	(54,188)	-	-	-	(57,460)
Balance March 31, 2015	\$8,113,040	\$62,149,073	\$82,054,713	\$ 285,649	\$(1,606,510)	\$150,995,965

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****Three Months Ended March 31, 2016 and 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$6,373,489	\$4,177,889
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	766,069	745,268
Provision for loan/lease losses	2,072,985	1,710,456
Stock-based compensation expense	382,761	367,775
Deferred compensation expense accrued	318,796	437,600
Losses (gains) on other real estate owned, net	(7,740)	28,953
Amortization of premiums on securities, net	294,286	214,427
Securities gains, net	(358,480)	(421,066)
Loans originated for sale	(18,901,618)	(6,647,937)
Proceeds on sales of loans	19,640,997	6,569,050
Gains on sales of residential real estate loans	(60,386)	(86,140)
Gains on sales of government guaranteed portions of loans	(878,528)	(70,973)
Losses on debt extinguishment, net	83,197	-
Amortization of core deposit intangible	49,878	49,878
Accretion of acquisition fair value adjustments, net	(44,169)	(178,380)
Increase in cash value of bank-owned life insurance	(393,609)	(478,739)
Decrease (increase) in other assets	(9,295,660)	486,879
Increase (decrease) in other liabilities	5,079,831	(1,840,279)
Net cash provided by operating activities	\$5,122,099	\$5,064,661
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold	4,110,000	32,745,000
Net decrease (increase) in interest-bearing deposits at financial institutions	(5,175,206)	18,215,699
Proceeds from sales of other real estate owned	494,115	331,151
Activity in securities portfolio:		
Purchases	(45,070,780)	(124,568,138)
Calls, maturities and redemptions	47,573,001	83,794,967
Paydowns	6,428,508	4,073,422
Sales	55,526,851	54,971,056
Activity in restricted investment securities:		
Purchases	(485,250)	(146,300)
Redemptions	-	3,800
Net increase in loans/leases originated and held for investment	(76,346,066)	(25,689,344)
Purchase of premises and equipment	(1,558,171)	(3,197,547)
Net cash provided by (used in) investing activities	\$(14,502,998)	\$40,533,766
CASH FLOWS FROM FINANCING ACTIVITIES		

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Net increase in deposit accounts	108,903,515	54,603,339
Net decrease in short-term borrowings	(80,639,905)	(85,015,951)
Activity in Federal Home Loan Bank advances:		
Term advances	-	5,000,000
Maturities	(7,000,000)	(5,000,000)
Net change in short-term and overnight advances	16,500,000	(7,000,000)
Prepayments	(10,524,197)	-
Activity in other borrowings:		
Maturities and scheduled principal payments	-	(1,175,000)
Prepayments	(10,759,000)	-
Retirement of junior subordinated debentures	(3,955,000)	-
Payment of cash dividends on common stock	(468,583)	(315,955)
Proceeds from issuance of common stock, net	512,584	208,387
Net cash provided by (used in) financing activities	\$ 12,569,414	\$ (38,695,180)
Net increase in cash and due from banks	3,188,515	6,903,247
Cash and due from banks, beginning	41,742,321	38,235,019
Cash and due from banks, ending	\$ 44,930,836	\$ 45,138,266

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Three Months Ended March 31, 2016 and 2015

	2016	2015
Supplemental disclosure of cash flow information, cash payments for:		
Interest	\$2,944,839	\$4,103,459
Income/franchise taxes	\$2,464,300	\$1,618,064
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains on securities available for sale and derivative instruments, net	\$2,525,411	\$2,220,865
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(88,911)	\$(57,460)
Tax benefit of nonqualified stock options exercised	\$22,508	\$15,651
Transfers of loans to other real estate owned	\$16,000	\$837,782
Due to broker for purchases of securities	\$(20,104,340)	\$-

See Notes to Consolidated Financial Statements (Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2016

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, 2015, included in the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2016. 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. GAAP for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results as of and for the three months ended March 31, 2016, are not necessarily indicative of the results expected for the year ending December 31, 2016.

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

Allowance: Allowance for estimated losses on loans/leases
AOI: Accumulated other comprehensive income (loss)
AFS: Available for sale
ASU: Accounting Standards Update
BOLI: Bank-owned life insurance
Caps: Interest rate cap derivatives
Community National: Community National Bancorporation
CNB: Community National Bank

HTM: Held to maturity
m2: m2 Lease Funds, LLC
MD&A: Management's Discussion & Analysis
NIM: Net interest margin
NPA: Nonperforming asset
NPL: Nonperforming loan
OREO: Other real estate owned
OTTI: Other-than-temporary impairment

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CRBT: Cedar Rapids Bank & Trust Company	Provision: Provision for loan/lease losses
CRE: Commercial real estate	QCBT: Quad City Bank & Trust Company
C&I: Commercial and industrial	RB&T: Rockford Bank & Trust Company
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act	ROAA: Return on Average Assets
EPS: Earnings per share	SBA: U.S. Small Business Administration
Exchange Act: Securities Exchange Act of 1934, as amended	SEC: Securities and Exchange Commission
FASB: Financial Accounting Standards Board	TA: Tangible assets
FDIC: Federal Deposit Insurance Corporation	TCE: Tangible common equity
FHLB: Federal Home Loan Bank	TDRs: Troubled debt restructurings
FRB: Federal Reserve Bank of Chicago	The Company: QCR Holdings, Inc.
GAAP: Generally Accepted Accounting Principles	USDA: U.S. Department of Agriculture

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Recent accounting developments: In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was originally effective for the Company on January 1, 2017, however, FASB issued ASU 2015-14 which defers the effective date in order to provide additional time for both public and private entities to evaluate the impact. ASU 2014-09 will now be effective for the Company on January 1, 2018 and it is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2015, FASB issued ASU 2015-02, *Consolidation: Amendments to the Consolidation Analysis*. ASU 2015-02 is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The ASU also reduces the number of consolidation models from four to two. ASU 2015-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and adoption did not have a significant impact on the Company's consolidated financial statements.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 makes targeted adjustments to GAAP by eliminating the available for sale classification for equity securities and requiring equity investments to be measured at fair value with changes in fair value recognized in net income. The standard also requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. The standard clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. It also requires an entity to present separately (within other comprehensive income) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the standard eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim

periods within those fiscal years. The Company is in the process of analyzing the impact of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under ASU 2016-02, lessees will be required to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases (with the exception of short-term leases). Lessor accounting is largely unchanged under ASU 2016-02. However, the definition of initial direct costs was updated to include only initial direct costs that are considered incremental. This change in definition will change the manner in which the Company recognizes the costs associated with originating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities. The Company is in the process of analyzing the impact of adoption on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation*. ASU 2016-09 aims to simplify the accounting for companies that issue share-based payment awards to their employees. Simplification includes the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows of share-based payment awards. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is in the process of analyzing the impact of adoption on the Company's consolidated financial statements.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

FASB recently reached an updated decision on the effective date for its yet to be issued standard regarding measurement of credit losses on financial instruments. Under the standard it is expected that impairment of the Company's loans/leases receivable will be measured using the current expected credit loss model, which will entail day-one recognition of life-of-asset expected losses. The standard is expected to be issued during 2016 and will be effective for the Company for the fiscal year beginning January 1, 2020. Management has not yet analyzed the impact of adoption.

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

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of March 31, 2016 and December 31, 2015 are summarized as follows:

	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	(Losses)	
March 31, 2016				
Securities held to maturity:				
Municipal securities	\$260,079,586	\$4,143,965	\$(858,829)	\$263,364,722
Other securities	1,050,000	-	-	1,050,000
	\$261,129,586	\$4,143,965	\$(858,829)	\$264,414,722
Securities available for sale:				
U.S. govt. sponsored agency securities	\$132,080,737	\$786,623	\$(125,538)	\$132,741,822
Residential mortgage-backed and related securities	116,012,771	761,091	(321,488)	116,452,374

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Municipal securities	24,113,773	839,125	(23,243)	24,929,655
Other securities	1,637,366	428,027	(1,377)	2,064,016
	\$273,844,647	\$2,814,866	\$(471,646)	\$276,187,867

December 31, 2015:

Securities held to maturity:

Municipal securities	\$252,624,159	\$3,190,558	\$(1,173,432)	\$254,641,285
Other securities	1,050,000	-	-	1,050,000
	\$253,674,159	\$3,190,558	\$(1,173,432)	\$255,691,285

Securities available for sale:

U.S. govt. sponsored agency securities	\$216,281,416	\$104,524	\$(2,848,561)	\$213,537,379
Residential mortgage-backed and related securities	81,442,479	511,095	(1,283,439)	80,670,135
Municipal securities	26,764,981	872,985	(59,378)	27,578,588
Other securities	1,108,124	540,919	(163)	1,648,880
	\$325,597,000	\$2,029,523	\$(4,191,541)	\$323,434,982

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2016 and December 31, 2015, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2016:						
Securities held to maturity:						
Municipal securities	\$16,874,982	\$(669,283)	\$7,610,345	\$(189,546)	\$24,485,327	\$(858,829)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$24,512,886	\$(76,931)	\$4,946,100	\$(48,607)	\$29,458,986	\$(125,538)
Residential mortgage-backed and related securities	18,687,105	(81,719)	29,708,984	(239,769)	48,396,089	(321,488)
Municipal securities	1,157,233	(2,185)	849,972	(21,058)	2,007,205	(23,243)
Other securities	498,623	(1,377)	-	-	498,623	(1,377)
	\$44,855,847	\$(162,212)	\$35,505,056	\$(309,434)	\$80,360,903	\$(471,646)

December 31, 2015:

Securities held to maturity:

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Municipal securities	\$14,803,408	\$(294,438)	\$19,927,581	\$(878,994)	\$34,730,989	\$(1,173,432)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$112,900,327	\$(1,397,591)	\$64,476,661	\$(1,450,970)	\$177,376,988	\$(2,848,561)
Residential mortgage-backed and related securities	40,356,921	(730,466)	19,836,637	(552,973)	60,193,558	(1,283,439)
Municipal securities	2,220,800	(31,807)	848,329	(27,571)	3,069,129	(59,378)
Other securities	411	(163)	-	-	411	(163)
	\$155,478,459	\$(2,160,027)	\$85,161,627	\$(2,031,514)	\$240,640,086	\$(4,191,541)

At March 31, 2016, the investment portfolio included 465 securities. Of this number, 58 securities were in an unrealized loss position. The aggregate losses of these securities totaled less than 1% of the total amortized cost of the portfolio. Of these 58 securities, 21 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, 2016 and December 31, 2015, equity securities represented less than 1% of the total portfolio.

The Company did not recognize OTTI on any debt or equity securities for the three months ended March 31, 2016 and 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three months ended March 31, 2016 and 2015, respectively, were from securities identified as AFS. Information on proceeds received, as well as pre-tax gross gains and losses from sales on those securities are as follows:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Proceeds from sales of securities	\$55,526,851	\$54,971,056
Pre-tax gross gains from sales of securities	515,515	573,684
Pre-tax gross losses from sales of securities	(157,035)	(152,618)

The amortized cost and fair value of securities as of March 31, 2016 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 prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" AFS 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	\$4,206,670	\$4,213,609
Due after one year through five years	20,737,843	20,889,363
Due after five years	236,185,073	239,311,750
	\$261,129,586	\$264,414,722
Securities available for sale:		
Due in one year or less	\$1,884,460	\$1,895,137
Due after one year through five years	68,198,829	69,027,450
Due after five years	86,111,221	86,748,890
	\$156,194,510	\$157,671,477
Residential mortgage-backed and related securities	116,012,771	116,452,374
Other securities	1,637,366	2,064,016

\$273,844,647 \$276,187,867

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	\$135,926,431	\$137,921,557
Securities available for sale:		
U.S. govt. sponsored agency securities	65,969,684	65,976,489
Municipal securities	15,335,099	15,728,025
	\$81,304,783	\$81,704,514

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of March 31, 2016, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 82 issuers with fair values totaling \$72.7 million and revenue bonds issued by 95 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$215.6 million. The Company held investments in general obligation bonds in 19 states, including four states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in nine states, including four states in which the aggregate fair value exceeded \$5.0 million.

As of December 31, 2015, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 82 issuers with fair values totaling \$67.8 million and revenue bonds issued by 92 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$214.4 million. The Company held investments in general obligation bonds in 19 states, including four states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in nine states, including four states in which the aggregate fair value exceeded \$5.0 million.

The amortized cost and fair values of the Company's portfolio of general obligation bonds are summarized in the following tables by the issuer's state:

March 31, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	15	\$19,974,438	\$20,309,435	\$1,353,962
Illinois	10	12,665,888	13,014,865	1,301,487
Missouri	12	7,393,378	7,488,699	624,058
North Dakota	6	16,403,026	16,616,824	2,769,471
Other	39	14,954,651	15,233,176	390,594
Total general obligation bonds	82	\$71,391,381	\$72,662,999	\$886,134

December 31, 2015:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	15	\$19,974,939	\$20,247,108	\$1,349,807
Illinois	9	10,928,700	11,264,348	1,251,594
North Dakota	5	10,890,000	11,050,235	2,210,047
Missouri	12	7,924,800	7,986,856	665,571
Other	41	16,965,393	17,229,485	420,231
Total general obligation bonds	82	\$66,683,832	\$67,778,032	\$826,561

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The amortized cost and fair values of the Company's portfolio of revenue bonds are summarized in the following tables by the issuer's state:

March 31, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	42	\$76,260,706	\$77,142,220	\$1,836,720
Iowa	27	74,013,142	75,274,793	2,787,955
Indiana	17	39,342,789	39,675,326	2,333,843
Kansas	4	12,022,852	12,116,209	3,029,052
Other	5	11,162,489	11,422,830	2,284,566
Total revenue bonds	95	\$212,801,978	\$215,631,378	\$2,269,804

December 31, 2015:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	41	\$78,593,590	\$79,015,378	\$1,927,204
Iowa	26	70,773,660	71,659,410	2,756,131
Indiana	17	40,018,381	40,210,320	2,365,313
Kansas	3	11,748,679	11,821,055	3,940,352
Other	5	11,570,998	11,735,678	2,347,136

Total revenue bonds	92	\$212,705,308	\$214,441,841	\$2,330,890
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Both general obligation and revenue bonds are diversified across many issuers. As of March 31, 2016 and December 31, 2015, the Company did not hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded 4% of the Company's stockholders' equity. Of the general obligation and revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated bonds were underwritten according to loan underwriting standards and have an average loan risk rating of 2, indicating very high quality. Additionally, many of these bonds are funding essential municipal services such as water, sewer, education, and medical facilities.

The Company's municipal securities are owned by each of the three charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually, and as of March 31, 2016, all were well within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of total risk-based capital.

As of March 31, 2016, the Company's standard monitoring of its municipal securities portfolio had not uncovered any facts or circumstances resulting in significantly different credit ratings than those assigned by a nationally recognized statistical rating organization, or in the case of unrated bonds, the rating assigned using the credit underwriting standards.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of March 31, 2016 and December 31, 2015 is presented as follows:

	As of March 31, 2016	As of December 31, 2015
C&I loans	\$682,056,782	\$648,159,892
CRE loans		
Owner-occupied CRE	261,730,899	252,523,164
Commercial construction, land development, and other land	37,970,546	49,083,844
Other non owner-occupied CRE	466,457,920	422,761,757
	766,159,365	724,368,765
Direct financing leases *	172,774,048	173,655,605
Residential real estate loans **	173,096,209	170,432,530
Installment and other consumer loans	71,842,268	73,669,493
	1,865,928,672	1,790,286,285
Plus deferred loan/lease origination costs, net of fees	7,894,944	7,736,390
	1,873,823,616	1,798,022,675
Less allowance	(27,395,442)	(26,140,906)
	\$1,846,428,174	\$1,771,881,769
* Direct financing leases:		
Net minimum lease payments to be received	\$194,005,721	\$195,476,230
Estimated unguaranteed residual values of leased assets	1,131,634	1,165,706
Unearned lease/residual income	(22,363,307)	(22,986,331)
	172,774,048	173,655,605
Plus deferred lease origination costs, net of fees	6,493,124	6,594,582
	179,267,172	180,250,187
Less allowance	(3,287,230)	(3,395,088)

\$175,979,942 \$176,855,099

*Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors, which is combined with management's expertise and understanding of the current states of particular industries to determine informal 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, 2016 and 2015.

**Includes residential real estate loans held for sale totaling \$765,385 and \$565,850 as of March 31, 2016, and December 31, 2015, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The aging of the loan/lease portfolio by classes of loans/leases as of March 31, 2016 and December 31, 2015 is presented as follows:

Classes of Loans/Leases	As of March 31, 2016											
	Current		30-59 Days Past Due		60-89 Days Past Due		Accruing Past Due 90 Days or More		Nonaccrual Loans/Leases		Total	
C&I CRE	\$674,901,078		\$1,038,410		\$469,292		\$-		\$5,648,002		\$682,056,782	
Owner-Occupied CRE	260,963,128		109,210		-		-		658,561		261,730,899	
Commercial Construction, Land Development, and Other Land	37,779,180		-		-		-		191,366		37,970,546	
Other Non Owner-Occupied CRE	464,239,777		898,733		212,884		-		1,106,526		466,457,920	
Direct Financing Leases	169,792,466		977,630		207,496		-		1,796,456		172,774,048	
Residential Real Estate Installment and Other Consumer	168,865,064		3,133,246		-		46,256		1,051,643		173,096,209	
	70,864,000		645,537		12,776		162		319,793		71,842,268	
	\$1,847,404,693		\$6,802,766		\$902,448		\$46,418		\$10,772,347		\$1,865,928,672	
As a percentage of total loan/lease portfolio	99.01	%	0.36	%	0.05	%	0.00	%	0.58	%	100.00	%

	As of December 31, 2015					
Classes of Loans/Leases	Current	30-59 Days Past	60-89 Days	Accruing Past	Nonaccrual	Total

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		Due	Past	Due	Loans/Leases	
			Due	90 Days or More		
C&I CRE	\$640,725,241	\$1,636,860	\$5,816	\$ -	\$5,791,975	\$648,159,892
Owner-Occupied CRE	251,612,752	182,949	-	-	727,463	252,523,164
Commercial Construction, Land Development, and Other Land	48,890,040	-	-	-	193,804	49,083,844
Other Non Owner-Occupied CRE	420,819,874	614,732	219,383	-	1,107,768	422,761,757
Direct Financing Leases	170,021,289	1,490,818	439,314	2,843	1,701,341	173,655,605
Residential Real Estate Installment and Other	166,415,118	2,800,589	200,080	-	1,016,743	170,432,530
Consumer	73,134,197	412,052	14,127	-	109,117	73,669,493
	\$1,771,618,511	\$7,138,000	\$878,720	\$ 2,843	\$10,648,211	\$1,790,286,285
As a percentage of total loan/lease portfolio	98.96	% 0.40	% 0.05	% 0.00	% 0.59	% 100.00

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NPLs by classes of loans/leases as of March 31, 2016 and December 31, 2015 are presented as follows:

Classes of Loans/Leases	As of March 31, 2016			Total NPLs	Percentage of	
	Accruing Past	Nonaccrual	Accruing			
	Due 90 Days or More	Loans/Leases *	TDRs		Total NPLs	
C&I	\$-	\$ 5,648,002	\$ 172,093	\$ 5,820,095	48.60	%
CRE						
Owner-Occupied CRE	-	658,561	-	658,561	5.50	%
Commercial Construction, Land Development, and Other Land	-	191,366	-	191,366	1.60	%
Other Non Owner-Occupied CRE	-	1,106,526	-	1,106,526	9.24	%
Direct Financing Leases	-	1,796,456	456,592	2,253,048	18.81	%
Residential Real Estate	46,256	1,051,643	398,337	1,496,236	12.49	%
Installment and Other Consumer	162	319,793	129,808	449,763	3.76	%
	\$46,418	\$ 10,772,347	\$ 1,156,830	\$ 11,975,595	100.00	%

*Nonaccrual loans/leases included \$1,576,057 of TDRs, including \$1,217,243 in C&I loans, \$191,366 in CRE loans, \$37,750 in direct financing leases, \$115,671 in residential real estate loans, and \$14,027 in installment loans.

Classes of Loans/Leases	As of December 31, 2015			Total NPLs	Percentage of	
	Accruing Past	Nonaccrual	Accruing			
	Due 90 Days or	Loans/Leases **	TDRs		Total NPLs	

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C&I	\$-	\$ 5,791,975	\$ 173,087	\$ 5,965,062	50.96	%
CRE						
Owner-Occupied CRE	-	727,463	-	\$ 727,463	6.22	%
Commercial Construction, Land Development, and Other Land	-	193,804	-	\$ 193,804	1.66	%
Other Non Owner-Occupied CRE	-	1,107,768	-	\$ 1,107,768	9.46	%
Direct Financing Leases	2,843	1,701,341	-	\$ 1,704,184	14.56	%
Residential Real Estate	-	1,016,743	402,044	\$ 1,418,787	12.12	%
Installment and Other Consumer	-	109,117	478,625	\$ 587,742	5.02	%
	\$ 2,843	\$ 10,648,211	\$ 1,053,756	\$ 11,704,810	100.00	%

**Nonaccrual loans/leases included \$1,533,657 of TDRs, including \$1,164,423 in C&I loans, \$193,804 in CRE loans, \$42,098 in direct financing leases, \$119,305 in residential real estate loans, and \$14,027 in installment loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance by portfolio segment for the three months ended March 31, 2016 and 2015, respectively, are presented as follows:

	Three Months Ended March 31, 2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$10,484,080	\$9,375,117	\$3,395,088	\$1,790,150	\$1,096,471	\$26,140,906
Provisions charged to expense	739,831	715,450	478,245	62,656	76,803	2,072,985
Loans/leases charged off	(243,566)	-	(600,938)	(16,184)	(7,596)	(868,284)
Recoveries on loans/leases previously charged off	11,634	-	14,836	-	23,365	49,835
Balance, ending	\$10,991,979	\$10,090,567	\$3,287,231	\$1,836,622	\$1,189,043	\$27,395,442

	Three Months Ended March 31, 2015					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$8,833,832	\$8,353,386	\$3,359,400	\$1,525,952	\$1,001,795	\$23,074,365
Provisions charged to expense	388,641	835,894	403,452	71,802	10,667	1,710,456
Loans/leases charged off	(200,301)	(351,076)	(547,492)	-	(8,794)	(1,107,663)
Recoveries on loans/leases previously charged off	154,992	-	12,098	-	39,025	206,115
Balance, ending	\$9,177,164	\$8,838,204	\$3,227,458	\$1,597,754	\$1,042,693	\$23,883,273

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance by impairment evaluation and by portfolio segment as of March 31, 2016 and December 31, 2015 is presented as follows:

	As of March 31, 2016									
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total				
Allowance for impaired loans/leases	\$2,168,454	\$82,296	\$483,193	\$199,498	\$246,413	\$3,179,854				
Allowance for nonimpaired loans/leases	8,823,525	10,008,271	2,804,038	1,637,124	942,630	24,215,588				
	\$10,991,979	\$10,090,567	\$3,287,231	\$1,836,622	\$1,189,043	\$27,395,442				
Impaired loans/leases	\$5,178,446	\$1,946,451	\$2,253,046	\$1,496,236	\$449,600	\$11,323,779				
Nonimpaired loans/leases	676,878,336	764,212,914	170,521,002	171,599,973	71,392,668	1,854,604,893				
	\$682,056,782	\$766,159,365	\$172,774,048	\$173,096,209	\$71,842,268	\$1,865,928,672				
Allowance as a percentage of impaired loans/leases	41.87	% 4.23	% 21.45	% 13.33	% 54.81	% 28.08				%
Allowance as a percentage of nonimpaired loans/leases	1.30	% 1.31	% 1.64	% 0.95	% 1.32	% 1.31				%
Total allowance as	1.61	% 1.32	% 1.90	% 1.06	% 1.66	% 1.46				%

a percentage
of total
loans/leases

	As of December 31, 2015											
	C&I		CRE		Direct Financing Leases		Residential Real Estate		Installment and Other Consumer		Total	
Allowance for impaired loans/leases	\$2,592,270		\$76,934		\$306,193		\$185,801		\$143,089		\$3,304,287	
Allowance for nonimpaired loans/leases	7,891,810		9,298,183		3,088,895		1,604,349		953,382		22,836,619	
	\$10,484,080		\$9,375,117		\$3,395,088		\$1,790,150		\$1,096,471		\$26,140,906	
Impaired loans/leases	\$5,286,482		\$2,029,035		\$1,701,341		\$1,418,787		\$587,742		\$11,023,387	
Nonimpaired loans/leases	642,873,410		722,339,730		171,954,264		169,013,743		73,081,751		1,779,262,898	
	\$648,159,892		\$724,368,765		\$173,655,605		\$170,432,530		\$73,669,493		\$1,790,286,285	
Allowance as a percentage of impaired loans/leases	49.04	%	3.79	%	18.00	%	13.10	%	24.35	%	29.98	%
Allowance as a percentage of nonimpaired loans/leases	1.23	%	1.29	%	1.80	%	0.95	%	1.30	%	1.28	%
Total allowance as a percentage of total loans/leases	1.62	%	1.29	%	1.96	%	1.05	%	1.49	%	1.45	%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended March 31, 2016 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	\$286,508	\$477,450	\$-	\$347,369	\$ 1,824	\$ 1,824
CRE						
Owner-Occupied CRE	242,887	336,661	-	244,824	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	1,512,198	1,512,198	-	1,545,334	-	-
Direct Financing Leases	1,314,779	1,314,779	-	1,176,588	11,603	11,603
Residential Real Estate	585,186	624,387	-	585,981	1,038	1,038
Installment and Other Consumer	47,480	47,480	-	212,392	-	-
	\$3,989,038	\$4,312,955	\$-	\$4,112,488	\$ 14,465	\$ 14,465
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$4,891,938	\$4,895,777	\$2,168,454	\$4,885,096	\$ -	\$ -
CRE						

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Owner-Occupied CRE	-	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	191,366	203,366	82,296	192,585	-	-
Other Non Owner-Occupied CRE	-	-	-	-	-	-
Direct Financing Leases	938,267	938,267	483,193	800,606	-	-
Residential Real Estate	911,050	946,628	199,498	871,531	1,958	1,958
Installment and Other Consumer	402,120	402,120	246,413	306,279	1,500	1,500
	\$7,334,741	\$7,386,158	\$3,179,854	\$7,056,097	\$ 3,458	\$ 3,458
Total Impaired Loans/Leases:						
C&I	\$5,178,446	\$5,373,227	\$2,168,454	\$5,232,465	\$ 1,824	\$ 1,824
CRE						
Owner-Occupied CRE	242,887	336,661	-	244,824	-	-
Commercial Construction, Land Development, and Other Land	191,366	203,366	82,296	192,585	-	-
Other Non Owner-Occupied CRE	1,512,198	1,512,198	-	1,545,334	-	-
Direct Financing Leases	2,253,046	2,253,046	483,193	1,977,194	11,603	11,603
Residential Real Estate	1,496,236	1,571,015	199,498	1,457,512	2,996	2,996
Installment and Other Consumer	449,600	449,600	246,413	518,671	1,500	1,500
	\$11,323,779	\$11,699,113	\$3,179,854	\$11,168,585	\$ 17,923	\$ 17,923

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended March 31, 2015 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	\$331,612	\$425,636	\$-	\$1,352,320	\$ 1,849	\$ 1,849
CRE						
Owner-Occupied CRE	173,131	269,354	-	189,621	-	-
Commercial Construction, Land Development, and Other Land	171,186	511,204	-	171,186	-	-
Other Non Owner-Occupied CRE	290,577	1,528,456	-	1,102,174	-	-
Direct Financing Leases	665,735	665,735	-	1,009,487	4,109	4,109
Residential Real Estate	981,608	1,017,186	-	1,089,298	483	483
Installment and Other Consumer	726,050	726,050	-	698,685	-	-
	\$3,339,899	\$5,143,621	\$-	\$5,612,771	\$ 6,441	\$ 6,441
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$4,969,554	\$4,973,392	\$2,513,023	\$4,938,115	\$ -	\$ -
CRE						
Owner-Occupied CRE	454,980	454,980	15,154	468,590	-	-
Commercial Construction, Land Development, and Other Land	197,225	209,225	46,570	197,526	-	-
Other Non Owner-Occupied CRE	4,208,602	4,655,235	767,113	4,335,446	-	-
Direct Financing Leases	457,463	457,463	283,485	380,548	-	-

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Residential Real Estate	864,957	864,957	180,160	728,349	2,830	2,830
Installment and Other Consumer	611,096	611,096	267,430	552,663	2,260	2,260
	\$11,763,877	\$12,226,348	\$4,072,935	\$11,601,237	\$ 5,090	\$ 5,090
Total Impaired Loans/Leases:						
C&I	\$5,301,166	\$5,399,028	\$2,513,023	\$6,290,435	\$ 1,849	\$ 1,849
CRE						
Owner-Occupied CRE	628,111	724,334	15,154	658,211	-	-
Commercial Construction, Land Development, and Other Land	368,411	720,429	46,570	368,712	-	-
Other Non Owner-Occupied CRE	4,499,179	6,183,691	767,113	5,437,620	-	-
Direct Financing Leases	1,123,198	1,123,198	283,485	1,390,035	4,109	4,109
Residential Real Estate	1,846,565	1,882,143	180,160	1,817,647	3,313	3,313
Installment and Other Consumer	1,337,146	1,337,146	267,430	1,251,348	2,260	2,260
	\$15,103,776	\$17,369,969	\$4,072,935	\$17,214,008	\$ 11,531	\$ 11,531

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2015 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
C&I	\$234,636	\$346,072	\$-
CRE			
Owner-Occupied CRE	256,761	350,535	-
Commercial Construction, Land Development, and Other Land	-	228,818	-
Other Non Owner-Occupied CRE	1,578,470	1,578,470	-
Direct Financing Leases	871,884	871,884	-
Residential Real Estate	613,486	649,064	-
Installment and Other Consumer	377,304	377,304	-
	\$3,932,541	\$4,402,147	\$-
Impaired Loans/Leases with Specific Allowance Recorded:			
C&I	\$5,051,846	\$5,055,685	\$2,592,270
CRE			
Owner-Occupied CRE	-	-	-
Commercial Construction, Land Development, and Other Land	193,804	205,804	76,934
Other Non Owner-Occupied CRE	-	-	-
Direct Financing Leases	829,457	829,457	306,193
Residential Real Estate	805,301	805,301	185,801
Installment and Other Consumer	210,438	210,438	143,089
	\$7,090,846	\$7,106,685	\$3,304,287
Total Impaired Loans/Leases:			
C&I	\$5,286,482	\$5,401,757	\$2,592,270
CRE			
Owner-Occupied CRE	256,761	350,535	-
Commercial Construction, Land Development, and Other Land	193,804	434,622	76,934
Other Non Owner-Occupied CRE	1,578,470	1,578,470	-

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Direct Financing Leases	1,701,341	1,701,341	306,193
Residential Real Estate	1,418,787	1,454,365	185,801
Installment and Other Consumer	587,742	587,742	143,089
	\$ 11,023,387	\$ 11,508,832	\$ 3,304,287

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

For 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, 2016 and December 31, 2015:

Internally Assigned Risk Rating	As of March 31, 2016					As a % of Total
	C&I	Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	
Pass (Ratings 1 through 5)	\$647,678,612	\$250,031,858	\$35,892,683	\$448,275,195	\$1,381,878,348	95.42 %
Special Mention (Rating 6)	12,346,445	3,376,191	1,780,000	10,562,085	28,064,721	1.94 %
Substandard (Rating 7)	22,031,725	8,322,850	297,863	7,620,640	38,273,078	2.64 %
Doubtful (Rating 8)	-	-	-	-	-	-
	\$682,056,782	\$261,730,899	\$37,970,546	\$466,457,920	\$1,448,216,147	100.00 %

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Delinquency Status *	As of March 31, 2016					As a % of Total
	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total		
Performing	\$ 170,521,000	\$ 171,599,973	\$ 71,392,505	\$ 413,513,478	98.99	%
Nonperforming	2,253,048	1,496,236	449,763	4,199,047	1.01	%
	\$ 172,774,048	\$ 173,096,209	\$ 71,842,268	\$ 417,712,525	100.00	%

As of December 31, 2015

Internally Assigned Risk Rating	C&I	CRE				As a % of Total
		Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land		Total	
Pass (Ratings 1 through 5)	\$616,200,797	\$238,119,608	\$46,929,876	\$406,027,442	\$1,307,277,723	95.24 %
Special Mention (Rating 6)	18,031,845	8,630,658	1,780,000	8,846,286	37,288,789	2.72 %
Substandard (Rating 7)	13,927,250	5,772,898	373,968	7,888,029	27,962,145	2.04 %
Doubtful (Rating 8)	-	-	-	-	-	-
	\$648,159,892	\$252,523,164	\$49,083,844	\$422,761,757	\$1,372,528,657	100.00 %

Delinquency Status *	As of December 31, 2015					As a % of Total
	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total		
Performing	\$ 171,951,421	\$ 169,013,743	\$ 73,081,751	\$ 414,046,915	99.11	%
Nonperforming	1,704,184	1,418,787	587,742	3,710,713	0.89	%
	\$ 173,655,605	\$ 170,432,530	\$ 73,669,493	\$ 417,757,628	100.00	%

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of March 31, 2016 and December 31, 2015, TDRs totaled \$2,732,887 and \$2,587,413, respectively.

For each class of financing receivable, the following presents the number and recorded investment of TDRs, by type of concession, that were restructured during the three months ended March 31, 2016. There were no TDRs that were restructured during the three months ended March 31, 2015. 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, 2016			
	Number	Post-		
	of	Modification		
	Loans	Modification	Modification	Specific
	/ Recorded	Recorded	Recorded	Allowance
	Leases	Investment	Investment	
CONCESSION - Extension of Maturity				
Direct Financing Leases	4 \$ 410,653	\$ 410,653	\$ -	
	4 \$ 410,653	\$ 410,653	\$ -	
CONCESSION - Significant Payment Delay				
Direct Financing Leases	1 \$ 45,939	\$ 45,939	\$ -	
	1 \$ 45,939	\$ 45,939	\$ -	
TOTAL	5 \$ 456,592	\$ 456,592	\$ -	

Of the TDRs reported above, none were on nonaccrual as of March 31, 2016.

For the three months ended March 31, 2016 and 2015, none of the Company's TDRs 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 – BORROWINGS

During the first quarter of 2016, the Company extinguished \$5.1 million of the QCR Holdings Capital Trust IV junior subordinated debentures (the full balance outstanding) and recorded a \$1.2 million gain on extinguishment (pre-tax), as the Company was able to acquire the related security at a discount through auction. This gain is included in the statements of income within losses on debt extinguishment. The interest rate on these debentures floated at 3-month LIBOR plus 1.80% and had a rate of 2.42% at the time of extinguishment. QCR Holdings Capital Trust IV was dissolved after the extinguishment.

Also during the first quarter of 2016, the Company executed balance sheet restructuring strategies at QCBT and CRBT, which included the repayment of \$10.0 million of wholesale structured repurchase agreements and \$10.0 million of FHLB advances with a combined weighted average interest rate of 3.92%. As a result of this restructuring, the Company incurred \$1.3 million (pre-tax) in losses on debt extinguishment that are included in the statements of income. The weighted average duration of this combined debt was 2.17 years, with \$10.0 million maturing in 2017 and \$10.0 maturing in 2018. This funding was replaced with short-term borrowings at an average interest rate of 0.50%.

NOTE 5 - EARNINGS PER SHARE

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

	Three months ended	
	March 31, 2016	2015
Net income	\$6,373,489	\$4,177,889

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Basic earnings per common share	\$0.54	\$0.52
Diluted earnings per common share	\$0.53	\$0.52
Weighted average common shares outstanding	11,793,620	7,975,910
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	160,329	121,534
Weighted average common and common equivalent shares outstanding	11,953,949	8,097,444

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Assets measured at fair value on a recurring basis comprise the following at March 31, 2016 and December 31, 2015:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2016:				
Securities available for sale:				
U.S. govt. sponsored agency securities	\$132,741,822	\$-	\$132,741,822	\$ -
Residential mortgage-backed and related securities	116,452,374	-	116,452,374	-
Municipal securities	24,929,655	-	24,929,655	-
Other securities	2,064,016	779	2,063,237	-
Derivative instruments	450,651	-	450,651	-
	\$276,638,518	\$779	\$276,637,739	\$ -
December 31, 2015:				
Securities available for sale:				
U.S. govt. sponsored agency securities	\$213,537,379	\$-	\$213,537,379	\$ -
Residential mortgage-backed and related securities	80,670,135	-	80,670,135	-
Municipal securities	27,578,588	-	27,578,588	-
Other securities	1,648,880	411	1,648,469	-
Derivative instruments	856,024	-	856,024	-
	\$324,291,006	\$411	\$324,290,595	\$ -

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, 2016 or 2015.

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).

Derivative instruments consist of interest rate caps that are used for the purpose of hedging interest rate risk. See Note 4 to the Consolidated Financial Statements for the details of these instruments. The fair values are determined by pricing models that consider observable market data for derivative instruments with similar structures (Level 2 inputs).

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Assets measured at fair value on a non-recurring basis comprise the following at March 31, 2016 and December 31, 2015:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<u>March 31, 2016:</u>				
Impaired loans/leases	\$4,969,221	\$-	\$ -	\$4,969,221
OREO	7,214,706	-	-	7,214,706
	\$12,183,927	\$-	\$ -	\$12,183,927
<u>December 31, 2015:</u>				
Impaired loans/leases	\$4,545,966	\$-	\$ -	\$4,545,966
OREO	7,722,711	-	-	7,722,711
	\$12,268,677	\$-	\$ -	\$12,268,677

Impaired loans/leases are evaluated and valued at the time the loan/lease is identified as impaired, at the lower of cost or fair value, and are classified as Level 3 in the fair value hierarchy. Fair value is measured based on the value of the collateral securing these loans/leases. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values are discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

OREO in the table above consists of property acquired through foreclosures and settlements of loans. Property acquired is carried at the estimated fair value of the property, less disposal costs, and is classified as Level 3 in the fair value hierarchy. The estimated fair value of the property is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values are discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the property.

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

Quantitative Information about Level Fair Value Measurements					
	Fair Value	Fair Value	Valuation	Unobservable	Range
	March 31, 2016	December 31, 2015	Technique	Input	
Impaired loans/leases	\$ 4,969,221	\$ 4,545,966	Appraisal of collateral	Appraisal adjustments	-10.00% to -50.00%
OREO	7,214,706	7,722,711	Appraisal of collateral	Appraisal adjustments	0.00% to -35.00%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

There have been no changes in valuation techniques used for any assets measured at fair value during the three months ended March 31, 2016 and 2015.

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

	Fair Value Hierarchy Level	As of March 31, 2016		As of December 31, 2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	\$44,930,836	\$44,930,836	\$41,742,321	\$41,742,321
Federal funds sold	Level 2	15,740,000	15,740,000	19,850,000	19,850,000
Interest-bearing deposits at financial institutions	Level 2	41,489,171	41,489,171	36,313,965	36,313,965
Investment securities:					
Held to maturity	Level 2	261,129,586	264,414,722	253,674,159	255,691,285
Available for sale	See Previous Table	276,187,867	276,187,867	323,434,982	323,434,982
Loans/leases receivable, net	Level 3	4,601,131	4,969,221	4,209,228	4,545,966
Loans/leases receivable, net	Level 2	1,841,827,043	(4,601,131)	1,767,672,541	1,764,178,772
Derivative instruments	Level 2	450,651	450,651	856,024	856,024
Deposits:					
Nonmaturity deposits	Level 2	1,586,207,114	1,586,207,114	1,516,599,081	1,516,599,081
Time deposits	Level 2	403,365,975	404,278,000	364,067,103	364,192,000
Short-term borrowings	Level 2	64,022,811	64,022,811	144,662,716	144,662,716
FHLB advances	Level 2	150,500,000	152,206,000	151,000,000	153,143,000
Other borrowings	Level 2	100,000,000	106,466,000	110,000,000	116,061,000
Junior subordinated debentures	Level 2	33,378,402	24,520,003	38,499,052	27,642,093

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 7 – BUSINESS SEGMENT INFORMATION

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

The Company’s primary segment, Commercial Banking, is geographically divided by markets into the secondary segments comprised of the three subsidiary banks wholly owned by the Company: QCBT, CRBT, and RB&T. Each of these secondary segments offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

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

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 as of and for the three months ended March 31, 2016 and 2015.

	Commercial Banking					Intercompany Eliminations	Consolidated Total
	Quad City Bank & Trust	Cedar Rapids Bank & Trust	Rockford Bank & Trust	Wealth Management	All Other		
Three Months Ended March 31, 2016							
Total revenue	\$ 13,516,932	\$ 10,839,221	\$ 3,794,247	\$ 2,234,292	\$ 6,859,775	\$ (6,919,935)	\$ 30,324,532
Net interest income	\$ 10,961,447	\$ 7,024,988	\$ 2,911,974	\$ -	\$ (300,887)	\$ -	\$ 20,597,522
Net income	\$ 2,831,696	\$ 2,934,731	\$ 617,785	\$ 447,770	\$ 6,373,488	\$ (6,831,981)	\$ 6,373,489
Total assets	\$ 1,361,607,041	\$ 885,858,279	\$ 367,031,670	\$ -	\$ 288,814,613	\$ (262,638,349)	\$ 2,640,673,254
Provision	\$ 1,222,985	\$ 550,000	\$ 300,000	\$ -	\$ -	\$ -	\$ 2,072,985
Goodwill	\$ 3,222,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,222,688
Core deposit intangible	\$ -	\$ 1,421,531	\$ -	\$ -	\$ -	\$ -	\$ 1,421,531
Three Months Ended March 31, 2015							
Total revenue	\$ 12,801,418	\$ 9,525,647	\$ 3,541,590	\$ 2,343,438	\$ 5,616,443	\$ (5,705,028)	\$ 28,123,508
Net interest income	\$ 9,275,038	\$ 6,358,297	\$ 2,634,082	\$ -	\$ (485,200)	\$ -	\$ 17,782,217
Net income	\$ 2,562,613	\$ 2,068,306	\$ 518,657	\$ 459,330	\$ 4,177,889	\$ (5,608,906)	\$ 4,177,889
Total assets	\$ 1,268,168,825	\$ 855,417,474	\$ 354,993,941	\$ -	\$ 221,549,665	\$ (208,470,899)	\$ 2,491,659,006
Provision	\$ 882,456	\$ 600,000	\$ 228,000	\$ -	\$ -	\$ -	\$ 1,710,456
Goodwill	\$ 3,222,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,222,688
Core deposit intangible	\$ -	\$ 1,621,043	\$ -	\$ -	\$ -	\$ -	\$ 1,621,043

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 8 – REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and subsidiary banks' financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the subsidiary banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiary banks to maintain minimum amounts and ratios (set forth in the following table) of total common equity Tier 1 and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets, each as defined by regulation. Management believes, as of March 31, 2016 and December 31, 2015, that the Company and the subsidiary banks met all capital adequacy requirements to which they are subject.

Under the regulatory framework for prompt corrective action, to be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and common equity Tier 1 ratios as set forth in the following tables. The Company and the subsidiary banks' actual capital amounts and ratios as of March 31, 2016 and December 31, 2015 are also presented in the following table (dollars in thousands). As of March 31, 2016 and December 31, 2015, each of the subsidiary banks met the requirements to be "well capitalized".

		For Capital Adequacy Purposes With Capital Conservation Buffer*		To Be Well Capitalized Under Prompt Corrective Action Provisions	
Actual Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2016:					

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Company:

Total risk-based capital	\$282,957	12.68 %	\$192,416 >	8.625 %	\$223,091 >	10.0 %
Tier 1 risk-based capital	255,372	11.45 %	147,797 >	6.625	178,472 >	8.0
Tier 1 leverage	255,372	9.85 %	103,728 >	4.000	129,660 >	5.0
Common equity Tier 1	225,582	10.11 %	114,334 >	5.125	145,009 >	6.5
Quad City Bank & Trust:						
Total risk-based capital	\$137,161	12.01 %	\$98,496 >	8.625 %	\$114,198 >	10.0 %
Tier 1 risk-based capital	124,668	10.92 %	75,656 >	6.625	91,358 >	8.0
Tier 1 leverage	124,668	9.12 %	54,680 >	4.000	68,351 >	5.0
Common equity Tier 1	124,668	10.92 %	58,526 >	5.125	74,229 >	6.5
Cedar Rapids Bank & Trust:						
Total risk-based capital	\$106,576	13.98 %	\$65,729 >	8.625 %	\$76,208 >	10.0 %
Tier 1 risk-based capital	97,032	12.73 %	50,488 >	6.625	60,966 >	8.0
Tier 1 leverage	97,032	11.03 %	35,197 >	4.000	43,996 >	5.0
Common equity Tier 1	97,032	12.73 %	39,056 >	5.125	49,535 >	6.5
Rockford Bank & Trust:						
Total risk-based capital	\$39,201	12.03 %	\$28,096 >	8.625 %	\$32,575 >	10.0 %
Tier 1 risk-based capital	35,125	10.78 %	21,581 >	6.625	26,060 >	8.0
Tier 1 leverage	35,125	9.52 %	14,758 >	4.000	18,447 >	5.0
Common equity Tier 1	35,125	10.78 %	16,695 >	5.125	21,174 >	6.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

	Actual		For Capital Adequacy Purposes*		To Be Well Capitalized Under Prompt Corrective Action Provisions
	Amount	Ratio	Amount	Ratio	Amount Ratio
As of December 31, 2015:					
Company:					
Total risk-based capital	\$280,273	13.11%	\$170,969	≥ 8.0% %	\$213,711 ≥ 10.0%
Tier 1 risk-based capital	253,891	11.88%	128,227	≥ 6.0	170,969 ≥ 8.0
Tier 1 leverage	253,891	9.75%	104,163	> 4.0	130,203 ≥ 5.0
Common equity Tier 1	220,800	10.33%	96,170	≥ 4.5	138,912 ≥ 6.5
Quad City Bank & Trust:					
Total risk-based capital	\$135,477	12.50%	\$86,726	≥ 8.0% %	\$108,407 ≥ 10.0%
Tier 1 risk-based capital	123,498	11.39%	65,044	≥ 6.0	86,726 ≥ 8.0
Tier 1 leverage	123,498	8.87%	55,718	≥ 4.0	69,648 ≥ 5.0
Common equity Tier 1	123,498	11.39%	48,783	≥ 4.5	70,465 ≥ 6.5
Cedar Rapids Bank & Trust:					
Total risk-based capital	\$105,285	14.39%	\$58,537	≥ 8.0% %	\$73,172 ≥ 10.0%
Tier 1 risk-based capital	96,118	13.14%	43,903	≥ 6.0	58,537 ≥ 8.0
Tier 1 leverage	96,118	10.96%	35,079	≥ 4.0	43,848 ≥ 5.0
Common equity Tier 1	96,118	13.14%	32,927	≥ 4.5	47,562 ≥ 6.5
Rockford Bank & Trust:					
Total risk-based capital	\$38,544	11.96%	\$25,772	≥ 8.0% %	\$32,216 ≥ 10.0%
Tier 1 risk-based capital	34,514	10.71%	19,329	≥ 6.0	25,772 ≥ 8.0
Tier 1 leverage	34,514	9.59%	14,401	≥ 4.0	18,001 ≥ 5.0
Common equity Tier 1	34,514	10.71%	14,497	≥ 4.5	20,940 ≥ 6.5

*The minimums under Basel III phase in higher by .625% (the capital conservation buffer) annually until 2019. The fully phased-in minimums are 10.5% (Total risk-based capital), 8.5% (Tier 1 risk-based capital), and 7.0% (Common equity Tier 1). At December 31, 2015, the New Basel III minimums mirrored the minimums required for capital adequacy purposes. The first phase-in of the Basel III capital conservation buffer occurred in 2016.

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

INTRODUCTION

This section reviews the financial condition and results of operations of the Company and its subsidiaries as of and for the three months ending March 31, 2016. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends. When reading this discussion, also refer to the Consolidated Financial Statements and related notes in this report. The page locations and specific sections and notes that are referred to are presented in the table of contents.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 to the Consolidated Financial Statements.

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 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. Cedar Falls and Waterloo, Iowa and adjacent communities are served through three additional CRBT 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.

EXECUTIVE OVERVIEW

The Company reported net income of \$6.4 million for the quarter ended March 31, 2016, and diluted EPS of \$0.53. By comparison, for the quarter ended December 31, 2015, the Company reported net income of \$6.8 million, and diluted EPS of \$0.57. For the first quarter of 2015, the Company reported net income of \$4.2 million, and diluted EPS of \$0.52.

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

The first quarter of 2016 was highlighted by several significant items:

Net interest margin improvement of 18 basis points quarter-over-quarter and 34 basis points year-over-year;
Loan and lease growth at an annualized rate of 16.9% through the first three months of the year; and
Strong swap fee income and gains on the sale of government guaranteed portions of loans.

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

	For the three months ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Net income	\$6,373,489	\$6,784,823	\$4,177,889
Diluted earnings per common share	\$0.53	\$0.57	\$0.52
Weighted average common and common equivalent outstanding	11,953,949	11,926,038	8,097,444

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

	For the three months ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Net interest income	\$20,597,522	\$19,886,145	\$17,782,217
Provision expense	2,072,985	1,176,516	1,710,456

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Noninterest income	6,822,473	6,177,904	6,221,778
Noninterest expense	16,954,498	15,839,417	17,204,161
Federal and state income tax	2,019,023	2,263,293	911,489
Net income	\$6,373,489	\$6,784,823	\$4,177,889

In comparing quarter-over-quarter, following are some noteworthy changes in the Company's financial results:

Net interest income increased 4% compared to the fourth quarter of 2015 and increased 16% from the same period in 2015.

Provision increased 76% compared to the fourth quarter of 2015. Provision increased 21% from the same period of 2015. Both increases were primarily due to the strong loan growth in the first quarter of 2016.

Noninterest income increased 10% compared to the fourth quarter of 2015. Noninterest income increased 10% from the first quarter of 2015. Noninterest income has continued to increase due to swap fee income and gains on the sale of government guaranteed portions of loans (totaling \$1.7 million for the quarter ended March 31, 2016 compared to \$940 thousand and \$797 thousand for the quarters ending December 31, 2015 and March 31, 2015, respectively).

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Noninterest expense increased 7% compared to the fourth quarter of 2015. The fourth quarter of 2015 included several one-time reductions in noninterest expenses due to the adjustment of certain accruals, primarily in data processing and occupancy expense. Noninterest expense decreased 1% from the first quarter of 2015.

Federal and state income tax decreased slightly compared to the fourth quarter of 2015. Federal and state income tax increased significantly compared to the first quarter of 2015. See the Income Taxes section of this report for additional details.

LONG-TERM FINANCIAL GOALS

As previously stated, the Company has established certain financial goals by which it manages its business and measures its performance. The goals are periodically updated to reflect changes in business developments. While the Company is determined to work prudently to achieve these goals, there is no assurance that they will be met. Moreover, the Company's ability to achieve these goals will be affected by the factors discussed under "Forward Looking Statements" as well as the factors detailed in the "Risk Factors" section included under Item 1A. of Part I of the Company's Form 10-K. The Company's long-term financial goals are as follows:

Improve balance sheet efficiency by targeting a gross loans and leases to total assets ratio in the range of 70 – 75%;

Improve profitability (measured by NIM and ROAA);

Continue to improve asset quality by reducing NPAs to total assets to below 0.75% and maintain charge-offs as a percentage of average loans of under 0.25% annually;

Reduce reliance on wholesale funding to less than 15% of total assets;

Grow noninterest bearing deposits to more than 30% of total assets;

Increase the commercial lease portfolio so that it represents 10% of total assets;

Grow gains on sales of government guaranteed portions of loans and swap fee income to more than \$4 million annually; and

Grow wealth management segment net income by 15% annually.

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

The following table shows the evaluation of the Company's long-term financial goals.

<i>Goal</i>	<i>Key Metric</i>	<i>Target****</i>	For the Quarter Ending		March 31, 2015
			March 31, 2016	December 31, 2015	
			<i>(dollars in thousands)</i>		
Balance sheet efficiency	Gross loans and leases to total assets	70 - 75%	71%	69%	66%
Profitability	NIM	> 3.50%	3.59%	3.41%	3.25%
	ROAA	> 1.00%	0.98%	1.04%	0.67%
	NPAs to total assets	< 0.75%	0.71%	0.74%	1.21%
Asset quality	Net charge-offs to average	< 0.25% annually	0.16%	0.12%	0.24%
Lower reliance on wholesale funding	loans** Wholesale funding to total	< 15%	17%	20%	26%
Funding mix	assets Noninterest bearing deposits	> 30%	24%	24%	23%
Commercial leasing	as a percentage of total assets Leases as a percentage of	10%	7%	7%	7%
Consistent, high quality noninterest	total assets Gains on sales of government	> \$4 million	\$6.9 million	\$3.8 million	\$4.6 million

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income revenue streams	guaranteed portions of loans	annually			
	and swap fee income**				
	Grow wealth management	> 15% annually	10%	5%	18%
	segment net income**				

* Non-GAAP calculations are provided, when applicable. Refer to GAAP to non-GAAP reconciliation table on page 47 of this report.

** Ratios and amounts provided for these measurements represent year-to-date actual amounts for the respective period, that are then annualized for comparison. Annual growth percentages are calculated with a base of December 31, 2015 and 2014 year-to-date totals.

*** Targets will be re-evaluated and adjusted as needed.

STRATEGIC DEVELOPMENTS

The Company took the following actions to support its corporate strategy and the long-term financial goals shown above.

Loan and lease growth for the quarter was 4.2%, or an annualized rate of 16.9%. This exceeded the Company's target organic growth rate of 10-12%. A majority of this growth was in the C&I and CRE loan categories. This loan and lease growth has continued to help move the loan and lease to total asset ratio upward to 71%, from 69% in the prior quarter and 66% a year ago.

The Company intends to participate as an acquirer in the consolidation taking place to further boost ROAA and improve the Company's efficiency ratio.

The Company continued to focus on reducing the NPAs to total assets ratio and decreased this ratio from 0.74% at December 31, 2015 to 0.71% at March 31, 2016. Although NPAs remained relatively flat from the prior quarter, the Company remains committed to further improving asset quality ratios in 2016.

Management continued to focus on reducing the Company's reliance on wholesale funding. The modest restructuring executed in the first quarter of 2016 (as described in Note 4 of the Consolidated Financial Statements) has further reduced the Company's reliance on wholesale funding. Management continues to closely evaluate opportunities for continued reduction in wholesale funding.

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

Correspondent banking continues to be a core line of business for the Company. The Company is competitively positioned with experienced staff, software systems and processes to continue growing in the three states currently served – Iowa, Illinois and Wisconsin. The Company acts as the correspondent bank for 173 downstream banks with total noninterest bearing deposits of \$321.5 million as of March 31, 2016. This line of business provides a strong source of noninterest bearing deposits, fee income and high-quality loan participations.

The Company provides commercial leasing services through its wholly-owned subsidiary, m2 Lease Funds, which has lease specialists in Iowa, Wisconsin, Minnesota, South Carolina, Georgia, Florida, Colorado, Texas and Pennsylvania. Historically, this portfolio has been high yielding, with an average gross yield in 2016 approximating 8.3%. This portfolio has also shown strong asset quality throughout its history.

SBA and USDA lending is a specialty lending area on which the Company has focused. Once these loans are originated, the government-guaranteed portion of the loan can be sold to the secondary market for premiums. The Company intends to make this a more significant and consistent source of noninterest income.

As a result of the historically low interest rate environment, the Company is focused on executing interest rate swaps on select commercial loans. The interest rate swaps allow the commercial borrowers to pay a fixed interest rate while the Company receives a variable interest rate as well as an upfront fee dependent on the pricing. Management believes that these swaps help position the Company more favorably for rising rate environments. The Company 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.

Wealth management is another core line of business for the Company and includes a full range of products, including trust services, brokerage and investment advisory services, asset management, estate planning and financial planning. As of March 31, 2016 the Company had \$1.78 billion of total financial assets in trust (and related) accounts and \$697 million of total financial assets in brokerage (and related) accounts. Continued growth in assets under management will help to drive trust and investment advisory fees. The Company offers trust and investment advisory services to the correspondent banks that it serves. As management focuses on growing fee income, expanding market share will continue to be a primary strategy.

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

GAAP TO NON-GAAP RECONCILIATIONS

The following table presents certain non-GAAP financial measures related to the “tangible common equity to tangible assets ratio”, “core net income”, “core net income attributable to QCR Holdings, Inc. common stockholders”, “core earnings per common share” and “core return on average assets”. The table also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

The tangible common equity to tangible assets ratio has been a focus for investors and management believes that this ratio may assist investors in analyzing the Company’s capital position without regard to the effects of intangible assets.

The table below also includes several “core” measurements of financial performance. The Company's management believes that these measures are important to investors as they exclude non-recurring income and expense items; therefore, they provide a better comparison for analysis and may provide a better indicator of future run-rates.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
	<i>(dollars in thousands, except per share data)</i>		
TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS RATIO			
Stockholders' equity (GAAP)	\$235,143	\$225,886	\$150,996
Less: Intangible assets	4,645	4,694	4,844
Tangible common equity (non-GAAP)	\$230,498	\$221,192	\$146,152
Total assets (GAAP)	\$2,640,673	\$2,593,198	\$2,491,659
Less: Intangible assets	4,645	4,694	4,844
Tangible assets (non-GAAP)	\$2,636,028	\$2,588,504	\$2,486,815
Tangible common equity to tangible assets ratio (non-GAAP)	8.74	% 8.55	% 5.88

	For the Quarter ended
	March 31, 2016
	December 31, 2015
	March 31, 2015
CORE NET INCOME	