QCR HOLDINGS INC
Form 10-Q
November 08, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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	**42-1397595**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 743-7724

(Registrant's telephone number, including area code)

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [X] 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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 2, 2016, the Registrant had outstanding 13,075,670 shares of common stock, $1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2016 and December 31, 2015

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$61,213,134	$41,742,321
Federal funds sold	21,022,000	19,850,000
Interest-bearing deposits at financial institutions	75,025,417	36,313,965
Securities held to maturity, at amortized cost	306,740,174	253,674,159
Securities available for sale, at fair value	258,190,081	323,434,982
Total securities	564,930,255	577,109,141
Loans receivable held for sale	1,377,875	565,850
Loans/leases receivable held for investment	2,359,222,637	1,797,456,825
Gross loans/leases receivable	2,360,600,512	1,798,022,675
Less allowance for estimated losses on loans/leases	(28,826,835)	(26,140,906)
Net loans/leases receivable	2,331,773,677	1,771,881,769
Bank-owned life insurance	56,810,035	55,485,655
Premises and equipment, net	59,484,141	37,350,352
Restricted investment securities	14,999,425	14,835,925
Other real estate owned, net	5,807,603	7,150,658
Goodwill	13,631,626	3,222,688
Core deposit intangible	7,613,593	1,471,409
Other assets	68,675,203	26,784,392
Total assets	$3,280,986,109	$2,593,198,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$764,614,548	$615,292,211
Interest-bearing	1,830,298,205	1,265,373,973
Total deposits	2,594,912,753	1,880,666,184
Short-term borrowings	60,015,417	144,662,716
Federal Home Loan Bank advances	138,642,529	151,000,000
Other borrowings	80,000,000	110,000,000
Junior subordinated debentures	33,446,578	38,499,052
Other liabilities	93,111,672	42,484,573
Total liabilities	3,000,128,949	2,367,312,525

STOCKHOLDERS' EQUITY		
Preferred stock, $1 par value; shares authorized 250,000	-	-
September 2016 and December 2015 - No shares issued or outstanding		
Common stock, $1 par value; shares authorized 20,000,000	13,075,307	11,761,083
September 2016 - 13,075,307 shares issued and outstanding		
December 2015 - 11,761,083 shares issued and outstanding		
Additional paid-in capital	155,950,678	123,282,851
Retained earnings	110,610,144	92,965,645
Accumulated other comprehensive income (loss):		
Securities available for sale	2,379,584	(1,324,408)
Interest rate cap derivatives	(1,158,553)	(799,421)
Total stockholders' equity	280,857,160	225,885,750
Total liabilities and stockholders' equity	$3,280,986,109	$2,593,198,275

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended September 30,

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	$23,001,107	$19,278,335
Securities:		
Taxable	1,057,204	1,639,534
Nontaxable	2,510,169	2,021,804
Interest-bearing deposits at financial institutions	103,216	66,604
Restricted investment securities	132,047	127,172
Federal funds sold	12,992	7,663
Total interest and dividend income	26,816,735	23,141,112
Interest expense:		
Deposits	1,472,031	1,140,419
Short-term borrowings	12,541	63,815
Federal Home Loan Bank advances	420,570	537,473
Other borrowings	974,634	944,903
Junior subordinated debentures	306,182	316,976
Total interest expense	3,185,958	3,003,586
Net interest income	23,630,777	20,137,526
Provision for loan/lease losses	1,607,986	1,635,263
Net interest income after provision for loan/lease losses	22,022,791	18,502,263
Noninterest income:		
Trust department fees	1,518,600	1,531,964
Investment advisory and management fees	765,977	782,442
Deposit service fees	1,150,869	984,631
Gains on sales of residential real estate loans, net	144,105	84,609
Gains on sales of government guaranteed portions of loans, net	218,785	759,668
Swap fee income	333,772	62,700
Securities gains, net	4,251,773	56,580
Earnings on bank-owned life insurance	450,251	407,018
Debit card fees	475,182	333,144
Correspondent banking fees	253,823	310,759
Participation service fees on commercial loan participations	237,456	201,822
Fee income from early termination of leases	95,129	89,332
Credit card issuing fees	137,620	133,904
Lawsuit award	-	387,045
Other	390,059	277,068

Total noninterest income	10,423,401	6,402,686
Noninterest expense:		
Salaries and employee benefits	11,202,460	10,583,361
Occupancy and equipment expense	2,086,331	1,863,648
Professional and data processing fees	1,931,329	1,742,268
Acquisition costs	2,046,036	-
FDIC insurance, other insurance and regulatory fees	582,835	702,136
Loan/lease expense	102,678	90,415
Net cost of operations of other real estate	133,055	(1,117,671)
Advertising and marketing	547,768	460,411
Postage and communications	237,569	220,895
Stationery and supplies	167,887	144,967
Bank service charges	415,401	392,352
Losses on debt extinguishment, net	4,137,310	-
Correspondent banking expense	205,998	176,977
Other	683,826	687,332
Total noninterest expense	24,480,483	15,947,091
Net income before income taxes	7,965,709	8,957,858
Federal and state income tax expense	1,858,208	2,468,871
Net income	$6,107,501	$6,488,987
Basic earnings per common share	$0.47	$0.55
Diluted earnings per common share	$0.46	$0.55
Weighted average common shares outstanding	13,066,777	11,713,993
Weighted average common and common equivalent shares outstanding	13,269,703	11,875,930
Cash dividends declared per common share	$0.04	$-

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Nine Months Ended September 30,

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	$62,939,656	$55,528,578
Securities:		
Taxable	3,605,948	5,317,794
Nontaxable	7,028,387	5,642,692
Interest-bearing deposits at financial institutions	225,775	208,323
Restricted investment securities	396,157	377,651
Federal funds sold	36,155	18,416
Total interest and dividend income	74,232,078	67,093,454
Interest expense:		
Deposits	4,106,227	3,296,351
Short-term borrowings	73,672	181,084
Federal Home Loan Bank advances	1,278,207	2,982,834
Other borrowings	2,624,154	3,285,231
Junior subordinated debentures	912,706	937,375
Total interest expense	8,994,966	10,682,875
Net interest income	65,237,112	56,410,579
Provision for loan/lease losses	4,878,821	5,694,384
Net interest income after provision for loan/lease losses	60,358,291	50,716,195
Noninterest income:		
Trust department fees	4,606,590	4,676,535
Investment advisory and management fees	2,117,100	2,250,918
Deposit service fees	3,028,758	2,790,456
Gains on sales of residential real estate loans, net	288,904	266,284
Gains on sales of government guaranteed portions of loans, net	2,701,203	899,987
Swap fee income	1,358,312	1,182,630
Securities gains, net	4,628,283	473,513
Earnings on bank-owned life insurance	1,324,380	1,318,909
Debit card fees	1,126,581	912,030
Correspondent banking fees	800,892	915,759
Participation service fees on commercial loan participations	694,175	647,598
Fee income from early termination of leases	172,922	250,892
Credit card issuing fees	413,348	403,713
Lawsuit award	-	387,045
Other	746,827	775,142

Total noninterest income	24,008,275	18,151,411
Noninterest expense:		
Salaries and employee benefits	32,920,840	32,709,765
Occupancy and equipment expense	5,797,875	5,507,533
Professional and data processing fees	4,921,064	4,683,480
Acquisition costs	2,401,005	-
FDIC insurance, other insurance and regulatory fees	1,866,804	2,151,756
Loan/lease expense	419,846	601,888
Net cost of operations of other real estate	513,149	(1,088,696)
Advertising and marketing	1,367,478	1,368,152
Postage and communications	711,226	683,993
Stationery and supplies	490,682	424,330
Bank service charges	1,246,682	1,088,806
Losses on debt extinguishment, net	4,220,507	6,894,185
Correspondent banking expense	564,763	517,770
Other	1,736,813	1,775,637
Total noninterest expense	59,178,734	57,318,599
Net income before income taxes	25,187,832	11,549,007
Federal and state income tax expense	6,030,375	1,405,949
Net income	$19,157,457	$10,143,058
Basic earnings per common share	$1.55	$1.03
Diluted earnings per common share	$1.52	$1.01
Weighted average common shares outstanding	12,398,491	9,878,882
Weighted average common and common equivalent shares outstanding	12,580,042	10,024,441
Cash dividends declared per common share	$0.12	$0.04

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and Nine Months Ended September 30, 2016 and 2015

	Three Months Ended September 30,	
	2016	2015
Net income	$6,107,501	$6,488,987
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains arising during the period before tax	3,682,514	4,155,252
Less reclassification adjustment for gains included in net income before tax	4,251,773	56,580
	(569,259)	4,098,672
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(16,327)	(419,219)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	33,246	20,099
	(49,573)	(439,318)
Other comprehensive income (loss), before tax	(618,832)	3,659,354
Tax expense (benefit)	(257,648)	1,402,871
Other comprehensive income (loss), net of tax	(361,184)	2,256,483
Comprehensive income	$5,746,317	$8,745,470

	Nine Months Ended September 30,	
	2016	2015
Net income	$19,157,457	$10,143,058
Other comprehensive income:		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period before tax	10,628,032	4,598,599
Less reclassification adjustment for gains included in net income before tax	4,628,283	473,513
	5,999,749	4,125,086
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(552,510)	(672,169)

Less reclassification adjustment for ineffectiveness and caplet amortization before tax	82,281	30,562
	(634,791)	(702,731)
Other comprehensive income, before tax	5,364,958	3,422,355
Tax expense	2,020,098	1,323,928
Other comprehensive income, net of tax	3,344,860	2,098,427
Comprehensive income	$22,502,317	$12,241,485

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Three and Nine Months Ended September 30, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	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 46,020 shares of common stock as a result of stock options exercised	46,020	729,473	-	-	775,493
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 15,689 shares of common stock in connection with stock options exercised	(15,689)	(346,834)			(362,523)
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**
Net income	-	-	6,676,467	-	6,676,467
Other comprehensive income, net of tax	-	-	-	1,180,633	1,180,633
Common cash dividends declared, $0.04 per share	-	-	(520,701)	-	(520,701)
Proceeds from the issuance of 1,215,000 shares of common stock, net of issuance costs	1,215,000	28,613,916	-	-	29,828,916
Proceeds from issuance of 6,982 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	6,982	142,887	-	-	149,869

Proceeds from issuance of 20,975 shares of common stock as a result of stock options exercised	20,975	230,671	-	-	251,646
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	-	2,132,415	-	-	2,132,415
Stock compensation expense	-	187,569			187,569
Tax benefit of nonqualified stock options exercised	-	87,858	-	-	87,858
Restricted stock awards	(500)	500	-	-	-
Balance June 30, 2016	**$13,057,368**	**$155,453,781**	**$105,024,027**	**$ 1,582,215**	**$275,117,391**
Net income	-	-	6,107,501	-	6,107,501
Other comprehensive loss, net of tax	-	-	-	(361,184)	(361,184)
Common cash dividends declared, $0.04 per share	-	-	(521,384)	-	(521,384)
Proceeds from issuance of 4,085 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	4,085	85,217	-	-	89,302
Proceeds from issuance of 14,692 shares of common stock as a result of stock options exercised	14,692	173,890	-	-	188,582
Stock compensation expense	-	190,211	-	-	190,211
Tax benefit of nonqualified stock options exercised	-	72,694	-	-	72,694
Exchange of 838 shares of common stock in connection with stock options exercised	(838)	(25,115)	-	-	(25,953)
Balance September 30, 2016	**$13,075,307**	**$155,950,678**	**$110,610,144**	**$ 1,221,031**	**$280,857,160**

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

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

Three and Nine Months Ended September 30, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
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
Exchange of 3,272 shares of common stock in connection with restricted stock vested, net	(3,272)	(54,188)	-	-	-	(57,460)
Restricted stock awards	26,502	(26,502)	-	-	-	-
Balance March 31, 2015	**$8,113,040**	**$62,149,073**	**$82,054,713**	**$ 285,649**	**$(1,606,510)**	**$150,995,965**
Net loss	-	-	(523,818)	-	-	(523,818)
Other comprehensive loss, net of tax	-	-	-	(2,378,921)	-	(2,378,921)
Common cash dividends declared, $0.04 per share	-	-	(464,706)	-	-	(464,706)
	3,680,000	59,804,123	-	-	-	63,484,123

Proceeds from issuance of 3,680,000 shares of common stock, net of issuance costs						
Proceeds from issuance of 8,558 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	8,558	128,927	-	-	-	137,485
Proceeds from issuance of 17,240 shares of common stock as a result of stock options exercised	17,240	238,717	-	-	-	255,957
Tax benefit of nonqualified stock options exercised	-	15,827	-	-	-	15,827
Exchange of 630 shares of common stock in connection with stock options exercised	(630)	(10,616)	-	-	-	(11,246)
Stock compensation expense	-	186,751	-	-	-	186,751
Restricted stock awards	1,616	(1,616)	-	-	-	-
Balance June 30, 2015	**$11,819,824**	**$122,511,186**	**$81,066,189**	**$ (2,093,272)**	**$(1,606,510)**	**$211,697,417**
Net income	-	-	6,488,987	-	-	6,488,987
Other comprehensive income, net of tax	-	-	-	2,256,483	-	2,256,483
Adjustment to common cash dividends declared	-	-	(1,393)	-	-	(1,393)
Proceeds from issuance of 5,394 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,394	81,309	-	-	-	86,703
Proceeds from issuance of 24,711 shares of common stock as a result of stock options exercised	24,711	318,732	-	-	-	343,443
Tax benefit of nonqualified stock options exercised	-	39,632	-	-	-	39,632
Retirement of treasury stock, 121,246 shares of common stock	(121,246)	(580,886)	(904,378)	-	1,606,510	-
Stock compensation expense	-	203,967	-	-	-	203,967
Restricted stock awards	228	(228)	-	-	-	-

Balance September 30, 2015	**$11,728,911**	**$122,573,712**	**$86,649,405**	**$ 163,211**	**$-**	**$221,115,239**

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$19,157,457	$10,143,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,422,257	2,283,558
Provision for loan/lease losses	4,878,821	5,694,384
Stock-based compensation expense	760,541	758,493
Deferred compensation expense accrued	910,439	767,292
Losses (gains) on other real estate owned, net	130,280	(1,204,016)
Amortization of premiums on securities, net	968,553	756,876
Securities gains, net	(4,628,283)	(473,513)
Loans originated for sale	(57,160,485)	(29,968,289)
Proceeds on sales of loans	59,838,717	31,154,335
Gains on sales of residential real estate loans	(288,904)	(266,284)
Gains on sales of government guaranteed portions of loans	(2,701,203)	(899,987)
Losses on debt extinguishment, net	4,220,507	6,894,185
Amortization of core deposit intangible	210,469	149,634
Accretion of acquisition fair value adjustments, net	(690,379)	(334,990)
Increase in cash value of bank-owned life insurance	(1,324,380)	(1,318,909)
Increase in other assets	(2,480,461)	(5,211,555)
Decrease in other liabilities	1,614,477	4,269,482
Net cash provided by operating activities	$25,838,423	$23,193,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in federal funds sold	(474,000)	12,450,000
Net decrease (increase) in interest-bearing deposits at financial institutions	(23,981,295)	3,059,051
Proceeds from sales of other real estate owned	1,913,775	6,774,151
Activity in securities portfolio:		
Purchases	(111,622,489)	(200,249,686)
Calls, maturities and redemptions	109,421,584	187,029,003
Paydowns	21,939,878	11,859,406
Sales	87,772,898	65,889,838
Activity in restricted investment securities:		
Purchases	(25,700)	(2,806,650)
Redemptions	1,375,100	3,435,200
Net increase in loans/leases originated and held for investment	(144,605,204)	(129,356,790)
Purchase of premises and equipment	(3,871,166)	(4,327,671)
Net cash paid for Community State Bank acquisition	(69,905,355)	-
Net cash used in investing activities	$(132,061,974)	$(46,244,148)

CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	227,918,002	175,656,866
Net decrease in short-term borrowings	(84,647,299)	(100,787,458)
Activity in Federal Home Loan Bank advances:		
Term advances	-	5,000,000
Calls and maturities	(19,000,000)	(24,000,000)
Net change in short-term and overnight advances	1,300,000	24,000,000
Prepayments	(10,524,197)	(81,192,185)
Activity in other borrowings:		
Proceeds from other borrowings	35,000,000	-
Calls, maturities and scheduled principal payments	-	(7,350,000)
Prepayments	(50,320,407)	(29,177,000)
Retirement of junior subordinated debentures	(3,955,000)	-
Payment of cash dividends on common stock	(1,460,157)	(782,054)
Net proceeds from the common stock offering, 3,680,000 shares issued	-	63,484,123
Net proceeds from the common stock offering, 1,215,000 shares issued	29,828,916	-
Proceeds from issuance of common stock, net	1,554,506	1,016,324
Net cash provided by financing activities	$125,694,364	$25,868,616
Net increase in cash and due from banks	19,470,813	2,818,222
Cash and due from banks, beginning	41,742,321	38,235,019
Cash and due from banks, ending	$61,213,134	$41,053,241

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Nine Months Ended September 30, 2016 and 2015

	2016	2015
Supplemental disclosure of cash flow information, cash payments for:		
Interest	$9,081,850	$10,880,589
Income/franchise taxes	$9,487,002	$1,985,275
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains on securities available for sale and derivative instruments, net	$3,344,860	$2,098,427
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	$(477,387)	$(68,706)
Tax benefit of nonqualified stock options exercised	$183,060	$71,110
Transfers of loans to other real estate owned	$51,000	$942,782
Due from broker for sales of securities	$32,078,011	$-
Due to broker for purchases of securities	$15,190,000	$-
Due to counterparties for prepayment of FHLB advances and other borrowings	$(24,575,903)	$-
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	$2,132,415	$-
Supplemental disclosure of cash flow information for Community State Bank acquisition:		
Fair value of assets acquired:		
Cash and due from banks *	$10,094,645	$-
Federal funds sold	698,000	-
Interest-bearing deposits at financial institutions	14,730,157	-
Securities	102,640,029	-
Loans/leases receivable held for investment, net	419,029,277	-
Premises and equipment, net	20,684,880	-
Core deposit intangible	6,352,653	-
Restricted investment securities	1,512,900	-
Other real estate owned	650,000	-
Other assets	4,763,224	-
Total assets acquired	$581,155,765	$-

Fair value of liabilities assumed:		
Deposits	$486,298,262	$-
FHLB advances	20,368,877	-
Other liabilities	4,897,564	-
Total liabilities assumed	$511,564,703	$-
Net assets acquired	$69,591,062	$-
Consideration paid:		
Cash paid *	$80,000,000	$-
Total consideration paid	$80,000,000	$-
Goodwill	$10,408,938	$-

* Net cash paid at closing totaled $69,905,355

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 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 of the interim period ended September 30, 2016, are not necessarily indicative of the results expected for the year ending December 31, 2016, or for any other period.

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

Allowance: Allowance for estimated losses on loans/leases	FRB: Federal Reserve Bank of Chicago
AOCI: Accumulated other comprehensive income (loss)	GAAP: Generally Accepted Accounting Principles
AFS: Available for sale	HTM: Held to maturity
ASC: Accounting Standards Codification	m2: m2 Lease Funds, LLC
ASC 805: Business Combinations Standard	MD&A: Management's Discussion & Analysis
ASU: Accounting Standards Update	NIM: Net interest margin

BOLI: Bank-owned life insurance
Caps: Interest rate cap derivatives
Community National: Community National Bancorporation
CNB: Community National Bank
CRBT: Cedar Rapids Bank & Trust Company
CRE: Commercial real estate
CSB: Community State Bank
C&I: Commercial and industrial
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS: Earnings per share
Exchange Act: Securities Exchange Act of 1934, as amended
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHLB: Federal Home Loan Bank
NPA: Nonperforming asset
NPL: Nonperforming loan
OREO: Other real estate owned
OTTI: Other-than-temporary impairment
PCI: Purchased credit impaired
Provision: Provision for loan/lease losses
QCBT: Quad City Bank & Trust Company
RB&T: Rockford Bank & Trust Company
ROAA: Return on Average Assets
SBA: U.S. Small Business Administration
SEC: Securities and Exchange Commission
TA: Tangible assets
TCE: Tangible common equity
TDRs: Troubled debt restructurings
The Company: QCR Holdings, Inc.
USDA: U.S. Department of Agriculture

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include four commercial banks: QCBT, CRBT, CSB 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.

The acquisition of CSB closed on August 31, 2016. CSB is headquartered in Ankeny, Iowa. The financial results of CSB for the period since acquisition are included in this report. See Note 9 to the Consolidated Financial Statements for additional information.

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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 January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 makes targeted adjustments to GAAP by eliminating the AFS classification for equity securities and requiring equity investments to be measured at fair value with changes in fair value recognized in net income. The standard also requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. The standard clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. It also requires an entity to present separately (within other comprehensive income) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the standard eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. 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 and it is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. Under the standard, assets measured at amortized costs (including loans, leases and AFS securities) will be presented at the net amount expected to be collected. Rather than the "incurred" model that is currently being utilized, the standard will require the use of a forward-looking approach to recognizing all expected credit losses at the beginning of an asset's life. For public companies, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may choose to early adopt for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of analyzing the impact of adoption on the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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 September 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2016:				
Securities HTM:				
Municipal securities	$305,690,174	$5,533,151	$(778,982)	$310,444,343
Other securities	1,050,000	-	-	1,050,000
	$306,740,174	$5,533,151	$(778,982)	$311,494,343
Securities AFS:				
U.S. govt. sponsored agency securities	$66,966,328	$992,084	$(73,463)	$67,884,949
Residential mortgage-backed and related securities	131,496,011	1,824,345	(147,552)	133,172,804
Municipal securities	53,887,898	816,063	(63,499)	54,640,462
Other securities	2,002,113	492,980	(3,227)	2,491,866
	$254,352,350	$4,125,472	$(287,741)	$258,190,081
December 31, 2015:				
Securities HTM:				
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 AFS:				
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 September 30, 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
September 30, 2016:						
Securities HTM:						
Municipal securities	$23,632,888	$(251,558)	$14,150,396	$(527,424)	$37,783,284	$(778,982)
Securities AFS:						
U.S. govt. sponsored agency securities	$9,547,746	$(73,463)	$-	$-	$9,547,746	$(73,463)
Residential mortgage-backed and related securities	9,326,000	(78,305)	8,464,738	(69,247)	17,790,738	(147,552)
Municipal securities	25,921,780	(49,087)	846,894	(14,412)	26,768,674	(63,499)
Other securities	641,430	(3,227)	-	-	641,430	(3,227)
	$45,436,956	$(204,082)	$9,311,632	$(83,659)	$54,748,588	$(287,741)
December 31, 2015:						
Securities HTM:						

Municipal securities	$14,803,408	$(294,438)	$19,927,581	$(878,994)	$34,730,989	$(1,173,432)
Securities AFS:						
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 September 30, 2016, the investment portfolio included 526 securities. Of this number, 92 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 92 securities, 17 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 September 30, 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 or nine months ended September 30, 2016 and 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and nine months ended September 30, 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Proceeds from sales of securities*	$58,775,764	$11,922,915	$119,850,909	$65,889,838
Pre-tax gross gains from sales of securities	4,281,828	102,766	4,815,373	672,317
Pre-tax gross losses from sales of securities	(30,055)	(46,186)	(187,090)	(198,804)

* Proceeds from sales of securities for the nine months ended September 30, 2016 includes $32.1 million receivable from broker for the sale of securities

In September 2016, the Company sold an equity security and recognized a pre-tax gross gain on the sale of $4,010,877. The equity security was acquired by the Company at no cost as part of a membership in the invested company in 2002.

The amortized cost and fair value of securities as of September 30, 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 HTM:		
Due in one year or less	$9,333,827	$9,382,178
Due after one year through five years	30,899,427	31,047,261
Due after five years	266,506,920	271,064,904
	$306,740,174	$311,494,343
Securities AFS:		
Due in one year or less	$2,345,063	$2,347,195
Due after one year through five years	55,691,033	56,456,647
Due after five years	62,818,130	63,721,569
	$120,854,226	$122,525,411
Residential mortgage-backed and related securities	131,496,011	133,172,804
Other securities	2,002,113	2,491,866
	$254,352,350	$258,190,081

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

	Amortized Cost	Fair Value
Securities HTM:		
Municipal securities	$178,052,716	$180,307,064
Securities AFS:		
U.S. govt. sponsored agency securities	11,042,867	11,073,088
Municipal securities	41,062,791	37,443,219
	$52,105,658	$48,516,307

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of September 30, 2016, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 114 issuers with fair values totaling $115.8 million and revenue bonds issued by 112 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling $249.3 million. The Company held investments in general obligation bonds in 24 states, including four states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 13 states, including five 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:

September 30, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	27	$32,289,974	$32,746,465	$1,212,832
Illinois	19	30,063,690	30,437,115	1,601,953
North Dakota	6	19,403,728	19,906,421	3,317,737
Missouri	13	8,304,022	8,448,994	649,923

Other	49	23,934,196	24,247,257	494,842
Total general obligation bonds	114	$113,995,610	$115,786,252	$1,015,669

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:

September 30, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	44	$90,171,820	$91,084,628	$2,070,105
Iowa	30	75,440,709	77,216,784	2,573,893
Indiana	20	43,994,737	44,605,536	2,230,277
Kansas	6	13,480,269	13,587,744	2,264,624
North Dakota	4	8,114,931	8,175,230	2,043,808
Other	8	14,379,998	14,628,631	1,828,579
Total revenue bonds	112	$245,582,464	$249,298,553	$2,225,880

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

Both general obligation and revenue bonds are diversified across many issuers. As of September 30, 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 four charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually, and as of September 30, 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 September 30, 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 September 30, 2016 and December 31, 2015 is presented as follows:

	As of September 30, 2016	As of December 31, 2015
C&I loans	$804,307,562	$648,159,892
CRE loans		
Owner-occupied CRE	317,899,011	252,523,164
Commercial construction, land development, and other land	160,527,094	49,083,844
Other non owner-occupied CRE	591,878,656	422,761,757
	1,070,304,761	724,368,765
Direct financing leases *	166,924,077	173,655,605
Residential real estate loans **	229,080,600	170,432,530
Installment and other consumer loans	81,917,732	73,669,493
	2,352,534,732	1,790,286,285
Plus deferred loan/lease origination costs, net of fees	8,065,780	7,736,390
	2,360,600,512	1,798,022,675
Less allowance	(28,826,835)	(26,140,906)
	$2,331,773,677	$1,771,881,769

* Direct financing leases:		
Net minimum lease payments to be received	$186,183,516	$195,476,230
Estimated unguaranteed residual values of leased assets	1,085,154	1,165,706
Unearned lease/residual income	(20,344,593)	(22,986,331)
	166,924,077	173,655,605
Plus deferred lease origination costs, net of fees	6,018,484	6,594,582
	172,942,561	180,250,187
Less allowance	(3,041,962)	(3,395,088)
	$169,900,599	$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 and nine months ended September 30, 2016 and 2015.

**Includes residential real estate loans held for sale totaling $1,377,875 and $565,850 as of September 30, 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 September 30, 2016 and December 31, 2015 is presented as follows:

	As of September 30, 2016					
Classes of Loans/Leases	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
C&I	$796,943,072	$358,503	$232,297	$266,485	$6,507,205	$804,307,562
CRE Owner-Occupied CRE	316,299,798	-	-	-	1,599,213	317,899,011
Commercial Construction, Land Development, and Other Land	160,034,828	-	-	-	492,266	160,527,094
Other Non Owner-Occupied CRE	585,545,037	4,617,055	-	-	1,716,564	591,878,656
Direct Financing Leases	162,556,659	1,180,356	998,896	-	2,188,166	166,924,077
Residential Real Estate	227,061,212	122,744	114,638	104,789	1,677,217	229,080,600
Installment and Other Consumer	81,576,782	89,104	41,332	20,492	190,022	81,917,732
	$2,330,017,388	$6,367,762	$1,387,163	$391,766	$14,370,653	$2,352,534,732
As a percentage of total loan/lease portfolio	99.05 %	0.27 %	0.06 %	0.02 %	0.61 %	100.00 %

Classes of Loans/Leases	As of December 31, 2015 Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
C&I	$640,725,241	$1,636,860	$5,816	$ -	$5,791,975	$648,159,892
CRE						
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	166,415,118	2,800,589	200,080	-	1,016,743	170,432,530
Installment and Other 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 September 30, 2016 and December 31, 2015 are presented as follows:

Classes of Loans/Leases	As of September 30, 2016 Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *	Accruing TDRs	Total NPLs	Percentage of Total NPLs	
C&I	$266,485	$6,507,205	$170,113	$6,943,803	41.86	%
CRE						
Owner-Occupied CRE	-	1,599,213	-	1,599,213	9.64	%
Commercial Construction, Land Development, and Other Land	-	492,266	-	492,266	2.97	%
Other Non Owner-Occupied CRE	-	1,716,564	-	1,716,564	10.35	%
Direct Financing Leases	-	2,188,166	1,138,335	3,326,501	20.05	%
Residential Real Estate	104,789	1,677,217	390,039	2,172,045	13.09	%
Installment and Other Consumer	20,492	190,022	126,998	337,512	2.03	%
	$391,766	$14,370,653	$1,825,485	$16,587,904	100.00	%

*Nonaccrual loans/leases included $4,859,420 of TDRs, including $2,241,205 in C&I loans, $1,937,655 in CRE loans, $463,859 in direct financing leases, $110,702 in residential real estate loans, and $105,999 in installment loans.

Classes of Loans/Leases	As of December 31, 2015 Accruing Past	Nonaccrual Loans/Leases	Accruing TDRs	Total NPLs	Percentage of

	Due 90 Days or More	**		Total NPLs		
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 and nine months ended September 30, 2016 and 2015, respectively, are presented as follows:

	Three Months Ended September 30, 2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$10,724,506	$10,987,062	$3,226,194	$2,014,987	$1,144,741	$28,097,490
Provisions charged to expense	859,031	8,962	641,435	79,221	19,337	1,607,986
Loans/leases charged off	(96,330)	-	(847,668)	(38,554)	(4,530)	(987,082)
Recoveries on loans/leases previously charged off	70,759	6,500	22,001	-	9,181	108,441
Balance, ending	$11,557,966	$11,002,524	$3,041,962	$2,055,654	$1,168,729	$28,826,835

	Three Months Ended September 30, 2015					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$10,020,866	$9,929,656	$3,352,303	$1,720,135	$1,123,040	$26,146,000
Provisions charged to expense	520,058	573,119	361,071	130,742	50,273	1,635,263
Loans/leases charged off	(145,665)	(1,813,973)	(483,420)	(25,928)	(6,837)	(2,475,823)
Recoveries on loans/leases previously charged off	136,909	19,913	18,679	4,107	49,296	228,904
Balance, ending	$10,532,168	$8,708,715	$3,248,633	$1,829,056	$1,215,772	$25,534,344

Nine Months Ended September 30, 2016

	Commercial and Industrial	Commercial Real Estate	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 (credits) charged to expense	1,357,262	1,644,008	1,580,677	336,865	(39,991)	4,878,821
Loans/leases charged off	(388,879)	(23,101)	(1,983,322)	(72,261)	(22,018)	(2,489,581)
Recoveries on loans/leases previously charged off	105,503	6,500	49,519	900	134,267	296,689
Balance, ending	$11,557,966	$11,002,524	$3,041,962	$2,055,654	$1,168,729	$28,826,835

Nine Months Ended September 30, 2015

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$8,750,317	$8,353,386	$3,442,915	$1,525,952	$1,001,795	$23,074,365
Provisions charged to expense	1,513,430	2,490,766	1,238,505	324,925	126,758	5,694,384
Loans/leases charged off	(391,303)	(2,165,049)	(1,496,010)	(25,928)	(40,886)	(4,119,176)
Recoveries on loans/leases previously charged off	659,724	29,612	63,223	4,107	128,105	884,771
Balance, ending	$10,532,168	$8,708,715	$3,248,633	$1,829,056	$1,215,772	$25,534,344

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance by impairment evaluation and by portfolio segment as of September 30, 2016 and December 31, 2015 is presented as follows:

	As of September 30, 2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for impaired loans/leases	$1,114,680	$175,743	$739,207	$169,147	$148,320	$2,347,097
Allowance for nonimpaired loans/leases	10,443,286	10,826,781	2,302,755	1,886,507	1,020,409	26,479,738
	$11,557,966	$11,002,524	$3,041,962	$2,055,654	$1,168,729	$28,826,835
Impaired loans/leases	$5,874,093	$3,495,386	$2,925,205	$2,230,829	$368,924	$14,894,437
Nonimpaired loans/leases	798,433,469	1,066,809,375	163,998,872	226,849,771	81,548,808	2,337,640,295
	$804,307,562	$1,070,304,761	$166,924,077	$229,080,600	$81,917,732	$2,352,534,732
Allowance as a percentage of impaired loans/leases	18.98 %	5.03 %	25.27 %	7.58 %	40.20 %	15.76 %
Allowance as a	1.31 %	1.01 %	1.40 %	0.83 %	1.25 %	1.13 %

percentage of nonimpaired loans/leases						
Total allowance as a percentage of total loans/leases	1.44 %	1.03 %	1.82 %	0.90 %	1.43 %	1.22 %

	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 nine months ended September 30, 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	$1,846,140	$1,987,082	$-	$3,864,852	$ 8,644	$ 8,644
CRE						
Owner-Occupied CRE	767,032	860,806	-	621,553	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	2,042,391	2,042,391	-	1,789,571	-	-
Direct Financing Leases	1,860,773	1,860,773	-	1,755,969	52,595	52,595
Residential Real Estate	1,418,957	1,458,158	-	1,455,159	2,992	2,992
Installment and Other Consumer	208,916	208,916	-	430,322	-	-
	$8,144,209	$8,418,126	$-	$9,917,426	$ 64,231	$ 64,231
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$4,027,953	$4,031,792	$1,114,680	$2,195,524	$ -	$ -

CRE						
Owner-Occupied CRE	322,148	322,148	57,398	401,050	-	-
Commercial Construction, Land Development, and Other Land	186,681	186,681	77,611	190,208	-	-
Other Non Owner-Occupied CRE	177,134	177,134	40,734	67,571	-	-
Direct Financing Leases	1,064,432	1,064,432	739,207	653,884	-	-
Residential Real Estate	811,872	886,004	169,147	799,427	5,409	5,409
Installment and Other Consumer	160,008	160,008	148,320	145,962	4,426	4,426
	$6,750,228	$6,828,199	$2,347,097	$4,453,626	$ 9,835	$ 9,835
Total Impaired Loans/Leases:						
C&I	$5,874,093	$6,018,874	$1,114,680	$6,060,376	$ 8,644	$ 8,644
CRE						
Owner-Occupied CRE	1,089,180	1,182,954	57,398	1,022,603	-	-
Commercial Construction, Land Development, and Other Land	186,681	186,681	77,611	190,208	-	-
Other Non Owner-Occupied CRE	2,219,525	2,219,525	40,734	1,857,142	-	-
Direct Financing Leases	2,925,205	2,925,205	739,207	2,409,853	52,595	52,595
Residential Real Estate	2,230,829	2,344,162	169,147	2,254,586	8,401	8,401
Installment and Other Consumer	368,924	368,924	148,320	576,284	4,426	4,426
	$14,894,437	$15,246,325	$2,347,097	$14,371,052	$ 74,066	$ 74,066

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended September 30, 2016 and 2015, respectively, are presented as follows:

Classes of Loans/Leases	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$ 1,677,527	$ 3,301	$ 3,301	$ 365,798	$ 1,870	$ 1,870
CRE						
Owner-Occupied CRE	767,032	-	-	451,851	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	9,968	-	-
Other Non Owner-Occupied CRE	1,969,034	-	-	2,868,950	-	-
Direct Financing Leases	2,008,095	21,095	21,095	634,378	325	325
Residential Real Estate	1,481,340	941	941	900,938	1,362	1,362
Installment and Other Consumer	322,738	-	-	328,669	3,912	3,912
	$ 8,225,766	$ 25,337	$ 25,337	$ 5,560,552	$ 7,469	$ 7,469
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$ 4,188,621	$ -	$ -	$ 4,735,149	$ -	$ -
CRE						
Owner-Occupied CRE	363,911	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	187,831	-	-	335,707	-	-

Other Non Owner-Occupied CRE	135,141	-	-	-	-	-
Direct Financing Leases	793,769	-	-	488,860	-	-
Residential Real Estate	807,827	1,503	1,503	984,558	1,981	1,981
Installment and Other Consumer	160,301	1,458	1,458	723,674	1,391	1,391
	$6,637,401	$ 2,961	$ 2,961	$7,267,948	$ 3,372	$ 3,372
Total Impaired Loans/Leases:						
C&I	$5,866,148	$ 3,301	$ 3,301	$5,100,947	$ 1,870	$ 1,870
CRE						
Owner-Occupied CRE	1,130,943	-	-	451,851	-	-
Commercial Construction, Land Development, and Other Land	187,831	-	-	345,675	-	-
Other Non Owner-Occupied CRE	2,104,175	-	-	2,868,950	-	-
Direct Financing Leases	2,801,864	21,095	21,095	1,123,238	325	325
Residential Real Estate	2,289,167	2,444	2,444	1,885,496	3,343	3,343
Installment and Other Consumer	483,039	1,458	1,458	1,052,343	5,303	5,303
	$14,863,167	$ 28,298	$ 28,298	$12,828,500	$ 10,841	$ 10,841

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	-
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 September 30, 2016 and December 31, 2015:

	As of September 30, 2016					
		CRE				
Internally Assigned Risk Rating	C&I	Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total
Pass (Ratings 1 through 5)	$770,822,390	$307,017,431	$153,401,738	$572,769,744	$1,804,011,303	96.24 %
Special Mention (Rating 6)	10,160,760	1,737,127	1,780,000	5,894,259	19,572,146	1.04 %
Substandard (Rating 7)	23,324,412	9,144,453	5,345,356	13,214,653	51,028,874	2.72 %
Doubtful (Rating 8)	-	-	-	-	-	-
	$804,307,562	$317,899,011	$160,527,094	$591,878,656	$1,874,612,323	100.00 %

Delinquency Status *	As of September 30, 2016 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$163,597,576	$226,908,556	$81,580,220	$472,086,352	98.78 %
Nonperforming	3,326,501	2,172,044	337,512	5,836,057	1.22 %
	$166,924,077	$229,080,600	$81,917,732	$477,922,409	100.00 %

Internally Assigned Risk Rating	As of December 31, 2015 C&I	CRE Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of 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 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of 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 September 30, 2016 and December 31, 2015, TDRs totaled $6,684,905 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 and nine months ended September 30, 2016 and 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 September 30, 2016				For the three months ended September 30, 2015			
	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Significant Payment Delay								
Direct Financing Leases	2	$ 461,643	$ 461,643	$ -			$ -	$ -
	2	$ 461,643	$ 461,643	$ -	-	$ -	$ -	$ -
CONCESSION - Interest Rate Adjusted Below Market								
Installment and Other Consumer	-	$ -	$ -	$ -	1	$ 14,203	$ 14,203	$ -
	-	$ -	$ -	$ -	1	$ 14,203	$ 14,203	$ -
TOTAL	2	$ 461,643	$ 461,643	$ -	1	$ 14,203	$ 14,203	$ -

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015

Classes of Loans/Leases	Number of Loans / Leases	Pre- Modification Recorded Investment	Post- Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre- Modification Recorded Investment	Post- Modification Recorded Investment	Specific Allowance
CONCESSION - Extension of Maturity								
C&I	1	$ 52,286	$ 52,286	$ -	-	$ -	$ -	$ -
Direct Financing Leases	4	410,653	410,653	-	-	-	-	-
	5	$ 462,939	$ 462,939	$ -	-	$ -	$ -	$ -
CONCESSION - Significant Payment Delay								
C&I	1	$ 62,140	$ 62,140	$ -	-	$ -	$ -	$ -
Direct Financing Leases	6	771,672	771,672	-	-	-	-	-
	7	$ 833,812	$ 833,812	$ -	-	$ -	$ -	$ -
CONCESSION - Interest Rate Adjusted Below Market								
CRE - Other	1	$ 1,233,740	$ 1,233,740	$ -	-	$ -	$ -	$ -
Installment and Other Consumer	-	-	-	-	1	14,203	14,203	-
	1	$ 1,233,740	$ 1,233,740	$ -	1	$ 14,203	$ 14,203	$ -
TOTAL	13	$ 2,530,491	$ 2,530,491	$ -	1	$ 14,203	$ 14,203	$ -

Of the TDRs reported above, two with a post-modification recorded balance of $1,384,680 were on nonaccrual as of September 30, 2016. Not included in the table above, the Company had one TDR that was restructured and charged off in 2016, totaling $236,545.

For the three and nine months ended September 30, 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

Maturity and interest rate information on advances from FHLB as of September 30, 2016 and December 31, 2015 is as follows:

	September 30, 2016			
	Amount Due	Weighted Average Interest Rate at Quarter-End	Amount Due with Putable Option *	Weighted Average Interest Rate at Quarter-End
Maturity:				
Year ending December 31:				
2016	$90,300,000	0.55 %	$ -	- %
2017	23,342,549	2.59	-	-
2018	25,000,000	2.70	-	-
Total FHLB advances	$138,642,549	1.68 %	$ -	- %

	December 31, 2015			
	Amount Due	Weighted Average Interest Rate at Year-End	Amount Due with Putable Option *	Weighted Average Interest Rate at Year-End
Maturity:				

Year ending December 31:						
2016	$103,000,000	0.56	%	$2,000,000	4.00	%
2017	18,000,000	2.89		-	-	
2018	30,000,000	3.27		5,000,000	2.84	
Total FHLB advances	$151,000,000	1.37	%	$7,000,000	3.17	%

Other borrowings as of September 30, 2016 and December 31, 2015 are summarized as follows:

	As of September 30, 2016	As of December 31, 2015
Wholesale structured repurchase agreements	$45,000,000	$110,000,000
Term note	30,000,000	-
Revolving line of credit	5,000,000	-
	$80,000,000	$110,000,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Maturity and interest rate information concerning wholesale structured repurchase agreements is summarized as follows:

	September 30, 2016			December 31, 2015		
	Amount Due	Weighted Average Interest Rate at Quarter-End		Amount Due	Weighted Average Interest Rate at Year-End	
Maturity:						
Year ending December 31:						
2016	$-	0.00	%	$-	0.00	%
2017	10,000,000	3.07		10,000,000	3.00	
2018	-	-		10,000,000	3.97	
2019	10,000,000	3.44		45,000,000	3.40	
2020	25,000,000	2.48		45,000,000	2.66	
Total Wholesale Structured Repurchase Agreements	$45,000,000	2.83	%	$110,000,000	3.11	%

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%.

During the third quarter of 2016, the Company executed further balance sheet restructuring at QCBT which included the repayment of $55.0 million of wholesale structured repurchase agreements and $5.0 million of FHLB advances with a combined weighted average interest rate of 3.24%. As a result of this restructuring, the Company incurred $4.1 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 2.95 years, with $5.0 million maturing in 2018, $35.0 million maturing in 2019, and $20.0 million maturing in 2020. This funding was replaced partially with proceeds from the sale of bonds previously pledged as collateral for the wholesale structured repurchase agreements ($27.8 million) and the rest with short-term borrowings at an average interest rate of 0.50%.

As of December 31, 2015, the Company maintained a $40.0 million revolving line of credit note, with interest calculated at the effective LIBOR rate plus 2.50% per annum (3.10% at December 31, 2015). At December 31, 2015, the Company had not borrowed on this revolving credit note and had the full amount available. At the renewal date in June 2016, the note was amended to provide a $10.0 million revolving line of credit note and a $30.0 million term note commitment with a five-year term. Interest on the revolving line of credit is calculated at the effective LIBOR rate plus 2.50% per annum (3.34% at September 30, 2016). Interest on the term note is calculated at the effective LIBOR rate plus 3.00% per annum (3.84% at September 30, 2016). Upon closing of the acquisition of CSB, the Company utilized the full $30.0 million term note commitment and borrowed $5.0 million on the revolving line of credit note. At September 30, 2016, the Company had $35.0 million in borrowings outstanding. For the term note, the Company is required to make quarterly principal payments of $1.5 million with maturity information as of September 30, 2016, summarized as follows:

	As of September 30, 2016
2017	6,000,000
2018	6,000,000
2019	6,000,000
2020	6,000,000
2021	6,000,000
	$30,000,000

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Similar to the previous revolving note agreement, the amended agreement contains covenants that place restrictions on additional debt and stipulate minimum capital and various operating ratios.

In October 2016, the Company executed new agreements with the creditor on both the term note and the revolving line of credit, adjusting the rate index from 3-month LIBOR to 1-month LIBOR.

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.

NOTE 5 - EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$6,107,501	$6,488,987	$19,157,457	$10,143,058
Basic EPS	$0.47	$0.55	$1.55	$1.03
Diluted EPS	$0.46	$0.55	$1.52	$1.01

Weighted average common shares outstanding*	13,066,777	11,713,993	12,398,491	9,878,882
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	202,926	161,937	181,551	145,559
Weighted average common and common equivalent shares outstanding	13,269,703	11,875,930	12,580,042	10,024,441

*The increase in the weighted average common shares outstanding was primarily due to the common stock issuance discussed in Note 9 to the Consolidated Financial Statements.

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NOTE 6 – FAIR VALUE

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

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

Assets and liabilities measured at fair value on a recurring basis comprise the following at September 30, 2016 and December 31, 2015:

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

September 30, 2016:					
Securities AFS:					
U.S. govt. sponsored agency securities	$67,884,949	$-	$67,884,949	$	-
Residential mortgage-backed and related securities	133,172,804	-	133,172,804		-
Municipal securities	54,640,462	-	54,640,462		-
Other securities	2,491,866	1,107	2,490,759		-
Interest rate caps	221,233	-	221,233		-
Interest rate swaps - assets	9,386,262	-	9,386,262		-
Total assets measured at fair value	$267,797,576	$1,107	$267,796,469	$	-
Interest rate swaps - liabilities	$9,386,262	$-	$9,386,262	$	-
Total liabilities measured at fair value	$9,386,262	$-	$9,386,262	$	-
December 31, 2015:					
Securities AFS:					
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		-
Interest rate caps	856,024	-	856,024		-
Interest rate swaps - assets	3,044,525	-	3,044,525		-
Total assets measured at fair value	$327,335,531	$411	$327,335,120	$	-
Interest rate swaps - liabilities	$3,044,525	$-	$3,044,525	$	-
Total liabilities measured at fair value	$3,044,525	$-	$3,044,525	$	-

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

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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).

Interest rate caps are used for the purpose of hedging interest rate risk. The fair values are determined by pricing models that consider observable market data for derivative instruments with similar structures (Level 2 inputs).

Interest rate swaps are executed for select commercial customers. The interest rate swaps are further described in Note 1 of the Company's annual report filed on form 10-K as of December 31, 2015. The fair values are determined by comparing the contract rate on the swap with the then-current market rate for the remaining term of the transaction (Level 2 inputs).

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

Assets measured at fair value on a non-recurring basis comprise the following at September 30, 2016 and December 31, 2015:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
September 30, 2016:				
Impaired loans/leases	$7,870,032	$-	$ -	$7,870,032
OREO	6,272,211	-	-	6,272,211

	$14,142,243	$-	$ -	$14,142,243
December 31, 2015:				
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.

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

	Quantitative Information about Level Fair Value Measurements				
	Fair Value September 30, 2016	**Fair Value December 31, 2015**	**Valuation Technique**	**Unobservable Input**	**Range**
Impaired loans/leases	$7,870,032	$4,545,966	Appraisal of collateral	Appraisal adjustments	-10.00% to -50.00%
OREO	6,272,211	7,722,711	Appraisal of collateral	Appraisal adjustments	0.00% to -35.00%

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

There have been no changes in valuation techniques used for any assets measured at fair value during the three and nine months ended September 30, 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 September 30, 2016		As of December 31, 2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	$61,213,134	$61,213,134	$41,742,321	$41,742,321
Federal funds sold	Level 2	21,022,000	21,022,000	19,850,000	19,850,000
	Level 2	75,025,417	75,025,417	36,313,965	36,313,965

Interest-bearing deposits at financial institutions					
Investment securities:					
HTM	Level 2	306,740,174	311,494,343	253,674,159	255,691,285
AFS	See Previous Table	258,190,081	258,190,081	323,434,982	323,434,982
Loans/leases receivable, net	Level 3	7,287,067	7,870,032	4,209,228	4,545,966
Loans/leases receivable, net	Level 2	2,324,486,610	2,327,955,000	1,767,672,541	1,764,178,772
Interest rate caps	Level 2	221,233	221,233	856,024	856,024
Interest rate swaps - assets	Level 2	9,386,262	9,386,262	3,044,525	3,044,525
Deposits:					
Nonmaturity deposits	Level 2	2,103,706,174	2,103,706,174	1,516,599,081	1,516,599,081
Time deposits	Level 2	491,206,579	491,849,000	364,067,103	364,192,000
Short-term borrowings	Level 2	60,015,417	60,015,417	144,662,716	144,662,716
FHLB advances	Level 2	138,642,529	140,153,000	151,000,000	153,143,000
Other borrowings	Level 2	80,000,000	82,119,000	110,000,000	116,061,000
Junior subordinated debentures	Level 2	33,446,578	24,768,273	38,499,052	27,642,093
Interest rate swaps - liabilities	Level 2	9,386,262	9,386,262	3,044,525	3,044,525

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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 four subsidiary banks wholly owned by the Company: QCBT, CRBT, CSB 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 four subsidiary banks in aggregate. This segment generates income primarily from fees charged based on assets under administration for corporate and personal trusts, custodial services, and investments managed. No assets of the subsidiary banks have been allocated to the Wealth Management segment.

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

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Selected financial information on the Company’s business segments is presented as follows as of and for the three and nine months ended September 30, 2016 and 2015.

	Commercial Banking				**Wealth**		**Intercompany**	**C**
	QCBT	CRBT	CSB	RB&T	**Management**	**All Other**	**Eliminations**	**T**
Three Months Ended September 30, 2016								
Total revenue	$18,026,215	$10,065,032	$2,675,741	$4,232,205	$2,284,577	$8,463,636	$(8,507,270)	$1
Net interest income	$11,225,414	$7,594,557	$2,191,862	$3,056,989	$-	$(438,045)	$-	$2
Net income	$3,596,469	$3,286,724	$188,608	$944,781	$398,859	$6,107,492	$(8,415,432)	$6
Total assets	$1,407,733,009	$887,592,695	$580,210,270	$393,191,774	$-	$368,990,749	$(356,732,388)	$3
Provision	$1,137,986	$-	$270,000	$200,000	$-	$-	$-	$1
Goodwill	$3,222,688	$-	$10,408,938	$-	$-	$-	$-	$1
Core deposit intangible	$-	$1,321,775	$6,291,818	$-	$-	$-	$-	$7
Three Months Ended September 30, 2015								
Total revenue	$14,143,548	$10,047,658	$-	$3,922,304	$2,314,406	$7,937,087	$(8,821,205)	$2
Net interest income	$10,728,143	$6,956,027	$-	$2,771,214	$-	$(317,858)	$-	$2
Net income (loss)	$3,786,289	$2,893,397	$-	$847,709	$373,801	$6,488,988	$(7,901,197)	$6
Total assets	$1,328,053,105	$867,064,041	$-	$360,348,002	$-	$277,001,408	$(256,611,839)	$2
Provision	$910,263	$550,000	$-	$175,000	$-	$-	$-	$1
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$-	$3

Core deposit intangible	$-	$1,521,287	$-	$-	$-	$-	$-	$1
Nine Months Ended September 30, 2016								
Total revenue	$45,706,061	$31,342,345	$2,675,741	$11,945,081	$6,723,690	$23,567,906	$(23,720,471)	$9
Net interest income	$33,394,620	$21,755,270	$2,191,862	$8,914,380	$-	$(1,019,020)	$-	$6
Net income	$10,326,508	$9,366,441	$188,608	$2,334,735	$1,232,831	$19,157,447	$(23,449,113)	$1
Total assets	$1,407,733,009	$887,592,695	$580,210,270	$393,191,774	$-	$368,990,749	$(356,732,388)	$3
Provision	$3,108,821	$700,000	$270,000	$800,000	$-	$-	$-	$4
Goodwill	$3,222,688	$-	$10,408,938	$-	$-	$-	$-	$1
Core deposit intangible	$-	$1,321,775	$6,291,818	$-	$-	$-	$-	$7
Nine Months Ended September 30, 2015								
Total revenue	$39,893,713	$28,396,380	$-	$11,095,899	$6,927,453	$14,487,857	$(15,556,437)	$8
Net interest income	$29,745,080	$19,836,835	$-	$8,089,626	$-	$(1,260,962)	$-	$2
Net income	$6,578,479	$4,645,136	$-	$1,895,933	$1,271,661	$10,143,059	$(14,391,210)	$1
Total assets	$1,328,053,105	$867,064,041	$-	$360,348,002	$-	$277,001,408	$(256,611,839)	$2
Provision	$3,466,384	$1,650,000	$-	$578,000	$-	$-	$-	$5
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$-	$3
Core deposit intangible	$-	$1,521,287	$-	$-	$-	$-	$-	$1

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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 September 30, 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 September 30, 2016 and December 31, 2015 are also presented in the following table (dollars in thousands). As of September 30, 2016 and December 31, 2015, each of the subsidiary banks met the requirements to be "well capitalized".

	Actual		For Capital Adequacy Purposes With Capital Conservation Buffer*		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30,						

2016:														
Company:														
Total risk-based capital	$	316,063	11.33	%	$	240,629	≥	8.625	%	$	278,991	≥	10.0	%
Tier 1 risk-based capital		287,015	10.29	%		184,831	≥	6.625			223,192	≥	8.0	
Tier 1 leverage		287,015	10.09	%		113,737	≥	4.000			142,172	≥	5.0	
Common equity Tier 1		257,119	9.22	%		142,983	≥	5.125			181,344	≥	6.5	
Quad City Bank & Trust:														
Total risk-based capital	$	138,333	11.71	%	$	101,861	≥	8.625	%	$	118,100	≥	10.0	%
Tier 1 risk-based capital		125,410	10.62	%		78,241	≥	6.625			94,480	≥	8.0	
Tier 1 leverage		125,410	8.86	%		56,628	≥	4.000			70,785	≥	5.0	
Common equity Tier 1		125,410	10.62	%		60,526	≥	5.125			76,765	≥	6.5	
Cedar Rapids Bank & Trust:														
Total risk-based capital	$	104,206	13.13	%	$	68,474	≥	8.625	%	$	79,390	≥	10.0	%
Tier 1 risk-based capital		94,266	11.87	%		52,596	≥	6.625			63,512	≥	8.0	
Tier 1 leverage		94,266	10.36	%		36,407	≥	4.000			45,509	≥	5.0	
Common equity Tier 1		94,266	11.87	%		40,687	≥	5.125			51,604	≥	6.5	
Community State Bank:														
Total risk-based capital	$	67,008	14.09	%	$	41,031	≥	8.625	%	$	47,572	≥	10.0	%
Tier 1 risk-based capital		66,735	14.03	%		31,516	≥	6.625			38,058	≥	8.0	
Tier 1 leverage		66,735	11.74	%		22,745	≥	4.000			28,431	≥	5.0	
Common equity Tier 1		66,735	14.03	%		24,381	≥	5.125			30,922	≥	6.5	
Rockford Bank & Trust:														
	$	41,130	11.95	%	$	29,680	≥	8.625	%	$	34,412	≥	10.0	%

Total risk-based capital									
Tier 1 risk-based capital	36,821	10.70	%	22,798	≥	6.625	27,529	≥	8.0
Tier 1 leverage	36,821	9.45	%	15,587	≥	4.000	19,484	≥	5.0
Common equity Tier 1	36,821	10.70	%	17,636	≥	5.125	22,367	≥	6.5

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	Actual Amount		Ratio		For Capital Adequacy Purposes* Amount			Ratio		To Be Well Capitalized Under Prompt Corrective Action Provisions 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.

On October 27, 2016, the Company filed a universal shelf registration statement on Form S-3 with the SEC. When declared effective by the SEC, the registration statement will allow the Company to offer and sell various types of securities, including common stock, preferred stock, debt securities and/or warrants, from time to time up to an aggregate amount of $100 million. The Company utilized $30.1 million of its previous $100 million shelf registration filing through the offer and sale of its common stock in the second quarter of 2016 to help fund the acquisition of CSB. This Form S-3 filing will replenish the amount available to the previous level of $100 million. The specific terms and prices of any securities offered pursuant to the registration statement will be determined at the time of any future offering and described in a separate prospectus supplement, which would be filed with the SEC at the time of the particular offering, if any.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 9 – ACQUISITION OF COMMUNITY STATE BANK AND COMMON STOCK OFFERING

On August 31, 2016, the Company acquired Community State Bank from Van Diest Investment Company. CSB is headquartered in Ankeny, Iowa and is an Iowa-chartered bank that operates ten banking locations throughout the Des Moines metropolitan area. The Company purchased 100% of the outstanding common stock of CSB for cash consideration of $80.0 million.

The acquisition of CSB allowed the Company to expand its footprint into the Des Moines market. CSB has an experienced and capable leadership team that is committed to leading the Company's efforts in the Des Moines MSA. CSB has demonstrated significant improvement in earnings and asset quality during the last three years. Additionally, CSB has a strong core deposit base and retail franchise. Although CSB already has strong earnings with an expected ROAA of 1.00% in 2016, the Company has identified several opportunities for enhanced future earnings performance. With $581 million of assets acquired, the Company believes this acquisition is large enough to provide meaningful impact on the financial results, but is not too large to overstrain existing infrastructure. Lastly, financial metrics related to the transaction were favorable, as measured by EPS accretion and earn-back of tangible book value dilution.

In connection with the acquisition, during the second quarter of 2016, the Company sold 1,215,000 shares of its common stock at a price of $24.75 per share, for net proceeds of $29.8 million, after deducting expenses. The shares were offered to institutional investors in a registered direct offering conducted without an underwriter or placement agent. The offering was a partial take-down of a previously filed shelf registration and closed on May 23, 2016.

Cash received from the common stock offering was used to help finance the purchase price of the acquisition. Additionally, the Company drew $5.0 million on its $10.0 million revolving line of credit and fully funded its $30.0 million term facility. Both of these facilities are described further in Note 4 to the Consolidated Financial Statements. Cash dividends of $15.2 million from QCBT and CRBT were used to fund the remainder of the purchase price.

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

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

The Company has several areas of specialization, including government guaranteed lending, C&I lending, interest rate swaps, leasing, wealth management, private banking and municipal bond offerings that will be offered in this new market, increasing future earnings potential. There is also value added to the Company through having a footprint in a market that has strong growth potential. Additionally, there are qualitative benefits gained through the addition of a new charter including better leverage of centralized operations and increased lending limits. The experience and value of the personnel at CSB and their knowledge of the Des Moines MSA is also beneficial.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	As of August 31, 2016
ASSETS	
Cash and due from banks	$10,094,645
Federal funds sold	698,000
Interest-bearing deposits at financial institutions	14,730,157
Securities	102,640,029
Loans/leases receivable, net	419,029,277
Premises and equipment	20,684,880
Core deposit intangible	6,352,653
Restricted investment securities	1,512,900
Other real estate owned	650,000
Other assets	4,763,224
Total assets acquired	$581,155,765
LIABILITIES	
Deposits	$486,298,262
FHLB advances	20,368,877
Other liabilities	4,897,564
Total liabilities assumed	$511,564,703
Net assets acquired	$69,591,062
CONSIDERATION PAID:	
Cash	$80,000,000
Total consideration paid	$80,000,000
Goodwill	$10,408,938

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	PCI Loans	Performing Loans	Total
Contractually required principal payments	$3,662,431	$428,552,119	$432,214,550
Nonaccretable discount	(991,685)	-	(991,685)
Principal cash flows expected to be collected	$2,670,746	$428,552,119	$431,222,865
Accretable discount	(277,579)	(11,916,009)	(12,193,588)
Fair Value of acquired loans	$2,393,167	$416,636,110	$419,029,277

Changes in accretable yield for the loans acquired were as follows for the three and nine months ended September 30, 2016:

	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	(277,579)	(11,916,009)	(12,193,588)
Accretion recognized	29,317	366,293	395,610
Balance at the end of the period	$(248,262)	$(11,549,716)	$(11,797,978)

During the current quarter, there was also $89 thousand of nonaccretable discount that was accelerated due to the early repayment of PCI loans.

Premises and equipment acquired with a fair value of $20,684,880 includes ten branch locations with a fair value of $19,735,000, including a write-up of $8,334,437. The fair value was determined with the assistance of a third party appraiser. The write-up of these properties will be recognized as an increase in depreciation expense over 39 years.

The Company recorded a core deposit intangible totaling $6,352,653 which is the portion of the acquisition purchase price which represents the value assigned to the existing deposit base. The core deposit intangible has a finite life and is amortized using an accelerated method over the estimated useful life of the deposits (estimated to be ten years).

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

	September 30, 2016
Balance at the beginning of the period	$6,352,653
Amortization expense	(60,834)
Balance at the end of the period	$6,291,819
Gross carrying amount	$6,352,653
Accumulated amortization	(60,834)
Net book value	$6,291,819

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Years ending December 31,	Amount
2016	$182,503
2017	723,955
2018	710,751
2019	694,374
2020	674,819
Thereafter	3,305,417
	$6,291,819

*There is another core deposit intangible on the balance sheet totaling $1,321,774 that is related to a previous acquisition.

During the first nine months of 2016, the Company incurred $2.4 million of expenses related to the acquisition, comprised primarily of legal, accounting, investment banking costs and personnel costs. These acquisition costs are presented on their own line within the consolidated statements of income. CSB results are included in the consolidated statements of income effective on the acquisition date. For the period 8/31/16 to 9/30/16, CSB reported revenues of $2.7 million and net income of $189 thousand, which included $473 thousand of after tax acquisition costs.

Unaudited pro forma combined operating results for the three and nine months ended September 30, 2016 and 2015, giving effect to the CSB acquisition as if it had occurred as of January 1, 2015, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands, except for per share data)			

Interest income	$27,615	$25,685	$80,755	$73,051
Noninterest income	$11,415	$8,074	$27,744	$23,167
Net income	$7,301	$8,216	$23,813	$15,324
Earnings per common share:				
Basic	$0.56	$0.64	$1.85	$1.38
Diluted	$0.55	$0.63	$1.82	$1.36

The pro forma results do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on January 1, 2015 or of future results of operations of the consolidated entities.

NOTE 10 – RELATED PARTY TRANSACTIONS

Management reviews transactions with related parties on a quarterly basis, as part of Disclosure Committee procedures.

During 2016, the Company entered into a material related party transaction with a company that is owned and controlled by a CRBT director. That company was chosen as the general contractor for the remodel of the Waterloo branch. The company was the original contractor for the branch and is recognized as a leader in Iowa and the Midwest market for the design and construction of financial services and professional office buildings. Based on the company's expertise, their experience as the original designer/builder of the branch location and a decline to bid from two other contractors, management chose the company as the general contractor. Management determined that the bids received from the company were at market rates.

The project total is estimated at $3.5 million. This is the full contract price, as subcontractors will be utilized to complete the work. It is estimated that the company will receive $2.1 million for their work as the general contractor, including payments for a portion of the actual construction costs as the company is completing a portion of the subcontracting work in addition to being the general contractor.

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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 for the three and nine months ending September 30, 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 a financial holding company and the parent company of QCBT, CRBT, CSB and RB&T.

QCBT, CRBT and CSB are Iowa-chartered commercial banks, and RB&T is an Illinois-chartered commercial bank. QCBT, CRBT and RB&T are members of the Federal Reserve system with depository accounts insured to the maximum amount permitted by law by the FDIC. CSB is not a Federal Reserve system member at this time, however, CSB intends to file a membership application as soon as possible. CSB's depository accounts are 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, 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).

CSB was acquired in the third quarter of 2016, as further described in Note 9 to the Consolidated Financial Statements. CSB provides full-service commercial and consumer banking to the Des Moines, Iowa area and adjacent communities through its 10 branch locations, including its main office located on North Ankeny Boulevard in Ankeny, Iowa.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

EXECUTIVE OVERVIEW

The Company reported net income of $6.1 million and diluted EPS of $0.46 for the quarter ended September 30, 2016. This included $1.5 million of acquisition costs (after-tax) related to the acquisition of CSB. By comparison, for the quarter ended June 30, 2016, the Company reported net income of $6.7 million and diluted EPS of $0.53. This included $231 thousand of acquisition costs (after-tax) related to CSB. For the third quarter of 2015, the Company reported net income of $6.5 million and diluted EPS of $0.55.

For the nine months ended September 30, 2016, the Company reported net income of $19.2 million and diluted EPS of $1.52. This included $1.7 million of acquisition costs (after-tax) related to the acquisition of CSB. By comparison, for the nine months ended September 30, 2015, the Company reported net income of $10.1 million and diluted EPS of $1.01. This included several nonrecurring items, including $4.5 million of losses on debt extinguishments (after-tax) related to the balance sheet restructuring that took place in the second quarter of 2015.

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

- The successful closing of the acquisition of CSB, headquartered in Ankeny, Iowa;
- Loan and lease growth at an annualized rate of 10.6% through the first nine months of the year (excluding the acquisition of CSB);
- Strong swap fee income and gains on the sale of government guaranteed portions of loans, totaling $4.1 million year-to-date;
- Further reductions in wholesale borrowings totaling $60 million in the third quarter; and
- NIM improvement of 9 basis points quarter-over-quarter.

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

	For the three months ended			For the nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	$6,107,501	$6,676,467	$6,488,987	$19,157,457	$10,143,058
Diluted earnings per common share	$0.46	$0.53	$0.55	$1.52	$1.01
Weighted average common and common equivalent shares outstanding*	13,269,703	12,516,474	11,875,930	12,580,042	10,024,441

*The increase in the weighted average common and common equivalent shares outstanding was primarily due to the common stock issuance discussed in Note 9 to the Consolidated Financial Statements.

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

	For the three months ended			For the nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net interest income	$23,630,777	$21,008,813	$20,137,526	$65,237,112	$56,410,579
Provision expense	1,607,986	1,197,850	1,635,263	4,878,821	5,694,384
Noninterest income	10,423,401	6,762,401	6,402,686	24,008,275	18,151,411
Noninterest expense	24,480,483	17,743,753	15,947,091	59,178,734	57,318,599
Federal and state income tax expense	1,858,208	2,153,144	2,468,871	6,030,375	1,405,949
Net income	$6,107,501	$6,676,467	$6,488,987	$19,157,457	$10,143,058

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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

Net interest income increased 12% compared to the second quarter of 2016 and increased 17% from the same period in 2015. Much of this increase was the result of the acquisition of CSB, which reported net interest income of $2.2 million for the partial quarter.

Provision increased 34% compared to the second quarter of 2016. Provision was flat from the same period of 2015. The increase in the third quarter was primarily the result of the acquisition of CSB, which reported provision expense of $270 thousand for the partial quarter.

Noninterest income increased 54% compared to the second quarter of 2016. Noninterest income increased 63% from the third quarter of 2015. The increase in noninterest income was primarily due to a one-time gain from the sale of an equity security totaling $4.0 million.

Noninterest expense increased 38% compared to the second quarter of 2016. Noninterest expense increased 54% from the third quarter of 2015. The third quarter of 2016 included $2.0 million of pre-tax acquisition costs related to CSB, as well as $4.1 million of losses on debt extinguishment. See Note 4 to the Consolidated Financial Statements for additional details.

Federal and state income tax expense decreased 14% compared to the second quarter of 2016. Federal and state income tax decreased 25% compared to the third 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/leases 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 m2 commercial loan and lease portfolio to $250 million;

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

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- 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 10% annually.

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

Goal	Key Metric	Target**	For the Quarter Ending September 30, 2016	June 30, 2016	September 30, 2015
Balance sheet efficiency	Gross loans and leases to total assets	70 - 75%	72%	72%	68%
	NIM	> 3.75%	3.71%	3.62%	3.51%
Profitability	ROAA	> 1.10%	0.85%	1.01%	1.01%
	Core ROAA (non-GAAP)		1.05%	1.04%	0.97%
	NPAs to total assets	< 0.75%	0.69%	0.70%	0.80%
Asset quality	Net charge-offs to average loans and leases*	< 0.25% annually	0.15%	0.12%	0.26%
Lower reliance on wholesale funding	Wholesale funding to total assets	< 15%	13%	18%	21%
Funding mix	Noninterest bearing deposits as a percentage of total assets	> 30%	23%	23%	23%
m2 commercial loans and leases	Total loans and leases	$250 million	$206.8 million	$205.9 million	$194.9 million
Consistent, high quality noninterest income revenue streams	Gains on sales of government guaranteed portions of loans and swap fee income*	> $4 million annually	$5.4 million	$7.1 million	$2.8 million
			(3%)	(7%)	6%

Grow wealth management segment net income*	> 10% annually

* Ratios and amounts provided for these measurements represent year-to-date actual amounts for the respective period, that are then annualized for comparison.

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

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 year-to-date was 10.6% when annualized (excluding CSB). This is within the Company’s target organic growth rate of 10-12%. A majority of this growth was in the C&I and CRE loan categories. Strong loan and lease growth continues to keep the Company’s loan and leases to asset ratio within the targeted range of 70-75%.

The Company intends to participate as an acquirer in the consolidation taking place in our markets to further boost ROAA and improve the Company’s efficiency ratio. In the third quarter of 2016, the Company acquired CSB, headquartered in Ankeny, Iowa. See Note 9 of the Consolidated Financial Statements for additional details.

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 0.69% at September 30, 2016. Although NPAs increased as a result of the acquisition of CSB, the NPAs to total assets ratio decreased slightly as compared to the prior quarter and the Company remains committed to further improving asset quality ratios in 2016.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

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Management continued to focus on reducing the Company's reliance on wholesale funding. The restructuring executed in the first and third quarters of 2016 (as described in Note 4 of the Consolidated Financial Statements) has further reduced the Company's reliance on long-term wholesale funding. These prepayments, along with the addition of CSB, which has a very strong core funding base with minimal wholesale borrowings, assisted in lowering the Company's reliance on wholesale funding as a percentage of assets down to 13% in the current quarter. Management continues to closely evaluate opportunities for continued reduction in wholesale funding.

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 179 downstream banks with average total noninterest bearing deposits of $343.1 million during the third quarter of 2016. This line of business provides a strong source of noninterest bearing deposits, fee income, high-quality loan participations and bank stock loans.

The Company provides commercial leasing services through its wholly-owned subsidiary, m2 Lease Funds, which has lease specialists in Iowa, Wisconsin, Minnesota, North Carolina, South Carolina, Florida, California, Colorado, Texas and Pennsylvania. Historically, this portfolio has been high yielding, with an average gross yield in 2016 approximating 8.2%. 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 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 September 30, 2016 the Company had $1.85 billion of total financial assets in trust (and related) accounts and $727 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

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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. In compliance with applicable rules of the SEC, this non-GAAP measure is reconciled to stockholders’ equity and total assets, which are the most directly comparable GAAP financial measures.

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. In compliance with applicable rules of the SEC, these non-GAAP measures are reconciled to net income, which is the most directly comparable GAAP financial measure.

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

GAAP TO NON-GAAP RECONCILIATIONS	As of September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
	(dollars in thousands, except per share data)				
TCE / TA RATIO					
Stockholders' equity (GAAP)	$280,857	$275,117	$235,143	$225,886	$221,115
Less: Intangible assets	22,755	4,595	4,645	4,694	4,744
TCE (non-GAAP)	$258,102	$270,522	$230,498	$221,192	$216,371
Total assets (GAAP)	$3,280,986	$2,683,434	$2,640,673	$2,593,198	$2,575,855
Less: Intangible assets	22,755	4,595	4,645	4,694	4,744
TA (non-GAAP)	$3,258,231	$2,678,839	$2,636,028	$2,588,504	$2,571,111
TCE / TA ratio (non-GAAP)	**7.92** %	**10.10** %	**8.74** %	**8.55** %	**8.42** %

	For the Quarter Ended					For the Nine Months Ended	
CORE NET INCOME	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	September 30, 2016	September 30, 2015
Net income (GAAP)	$6,108	$6,676	$6,373	$6,785	$6,489	$19,157	$10,143
Less nonrecurring items (post-tax) (*):							
Income:							
Securities gains, net	$2,764	$12	$233	$211	$37	$3,009	$308
	-	-	-	-	252		252

Lawsuit settlement							
Total nonrecurring income (non-GAAP)	$2,764	$12	$233	$211	$289	$3,009	$560
Expense:							
Losses on debt extinguishment	$2,689	$-	$54	$189	$-	$2,743	$4,481
Acquisition costs	1,506	231	-	-	-	1,737	-
Other non-recurring expenses	-	-	-	-	-	-	513
Accrual adjustments	-	-	-	(487)	-	-	-
Total nonrecurring expense (non-GAAP)	$4,195	$231	$54	$(298)	$-	$4,480	$4,994
Core net income (non-GAAP)	**$7,539**	**$6,895**	**$6,194**	**$6,276**	**$6,200**	**$20,628**	**$14,577**
CORE EPS							
Core net income (non-GAAP) (from above)	$7,539	$6,895	$6,194	$6,276	$6,200	$20,628	$14,577
Weighted average common shares outstanding	13,066,777	12,335,077	11,793,620	11,744,495	11,713,993	12,398,491	9,878,88
Weighted average common and common equivalent shares outstanding	13,269,703	12,516,474	11,953,949	11,926,038	11,875,930	12,580,042	10,024,44
Core EPS (non-GAAP):							
Basic	**$0.58**	**$0.56**	**$0.53**	**$0.53**	**$0.53**	**$1.66**	**$1.48**
Diluted	**$0.57**	**$0.55**	**$0.52**	**$0.53**	**$0.52**	**$1.64**	**$1.45**

CORE ROAA

Core net income (non-GAAP) (from above)	$7,539	$6,895	$6,194	$6,276	$6,200	$20,628	$14,577
Average Assets	$2,865,947	$2,640,678	$2,602,350	$2,611,276	$2,563,739	$2,702,992	$2,529,469
Core ROAA (annualized) (non-GAAP)	**1.05 %**	**1.04 %**	**0.95 %**	**0.96 %**	**0.97 %**	**1.02 %**	**0.77**

* Nonrecurring items (after-tax) are calculated using an estimated effective tax rate of 35%.

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NET INTEREST INCOME - (TAX EQUIVALENT BASIS)

Net interest income, on a tax equivalent basis, increased 18% to $25.2 million for the quarter ended September 30, 2016, compared to the same quarter of the prior year. For the nine months ended September 30, 2016, net interest income, on a tax equivalent basis, increased 16% to $69.5 million, compared to the same period of 2015. Net interest income improved due to several factors:

- The Company’s strategy to redeploy funds from the taxable securities portfolio into higher yielding loans and leases;
- Organic loan and lease growth has been strong over the past twelve months, as evidenced by average gross loan/lease growth of 15% in that period;
- The recent acquisition of CSB, whose strong margin will significantly contribute to the Company’s results; and
- The Company’s balance sheet restructuring and deleveraging strategies executed throughout 2015 and 2016.

A comparison of yields, spread and margin from the third quarter of 2016 to the third quarter of 2015 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets increased 18 basis points.
- The average cost of interest-bearing liabilities decreased 2 basis points.
- The net interest spread increased 20 basis points from 3.29% to 3.49%.
- The NIM improved 20 basis points from 3.51% to 3.71%.

A comparison of yields, spread and margin from the first nine months of 2016 to the first nine months of 2015 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets increased 15 basis points.
- The average cost of interest-bearing liabilities decreased 15 basis points.
- The net interest spread increased 30 basis points from 3.13% to 3.43%.
- The NIM improved 28 basis points from 3.37% to 3.65%.

The Company's management closely monitors and manages NIM. From a profitability standpoint, an important challenge for the Company's subsidiary banks and leasing company is the improvement of their NIM. Management continually addresses this issue with pricing and other balance sheet management strategies.

The improvement in margin in the third quarter of 2016 was primarily the result of the acquisition of CSB. Excluding CSB, the Company's margin was flat from the second quarter of 2016. CSB's margin will fluctuate based on the amortization and accretion of purchase accounting adjustments, mostly notably, the discount on the loan portfolio. This benefit can fluctuate based on prepayments of both PCI and performing loans. As loans prepay, the associated discount/premium is accelerated.

The Company continues to place an emphasis on shifting its balance sheet mix. With a stated goal of increasing loans/leases as a percentage of assets to a range of 70-75%, the Company funded its loan/lease growth with a mixture of short-term borrowings and cash from the investment securities portfolio. Cash from called securities and the targeted sales of securities was redeployed into the loan portfolio, resulting in a significant increase in yield, while minimizing any extension of duration. Additionally, the Company has recognized net gains on these sales due to the current rate environment. As rates rise, the Company should also have less market volatility in the investment securities portfolio, as this becomes a smaller portion of the balance sheet.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The Company continues to monitor and evaluate both prepayment and debt restructuring opportunities within the wholesale funding portion of the balance sheet, as executing on such a strategy could potentially increase NIM more quickly than holding the debt until maturity.

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

	For the three months ended September 30,					
	2016			**2015**		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
	(dollars in thousands)					
ASSETS						
Interest earning assets:						
Federal funds sold	$17,685	$13	0.29 %	$22,435	$8	0.14 %
Interest-bearing deposits at financial institutions	67,807	103	0.60 %	51,380	67	0.52 %
Investment securities (1)	525,417	4,826	3.65 %	591,538	4,683	3.14 %
Restricted investment securities	14,877	132	3.53 %	14,224	127	3.54 %
Gross loans/leases receivable (1) (2) (3)	2,077,376	23,330	4.47 %	1,744,043	19,564	4.45 %
Total interest earning assets	$2,703,162	$28,404	4.18 %	$2,423,620	$24,449	4.00 %
Noninterest-earning assets:						
Cash and due from banks	$52,678			$44,679		
Premises and equipment	42,986			38,318		
Less allowance	(30,927)			(26,417)		
Other	98,048			83,539		

Total assets	$2,865,947				$2,563,739					
LIABILITIES AND STOCKHOLDERS' EQUITY										
Interest-bearing liabilities:										
Interest-bearing deposits	$1,116,325	717	0.26	%	$822,178	465	0.22	%		
Time deposits	422,603	755	0.71	%	414,393	675	0.65	%		
Short-term borrowings	30,208	12	0.16	%	147,880	64	0.17	%		
FHLB advances	118,564	421	1.41	%	131,343	537	1.62	%		
Junior subordinated debentures	33,430	306	3.64	%	40,510	317	3.10	%		
Other borrowings	116,856	975	3.32	%	115,017	945	3.26	%		
Total interest-bearing liabilities	$1,837,986	$3,186	0.69	%	$1,671,321	$3,003	0.71	%		
Noninterest-bearing demand deposits	$704,469				$645,033					
Other noninterest-bearing liabilities	45,123				30,932					
Total liabilities	$2,587,578				$2,347,286					
Stockholders' equity	278,369				216,453					
Total liabilities and stockholders' equity	$2,865,947				$2,563,739					
Net interest income		$25,218				$21,446				
Net interest spread			3.49	%			3.29	%		
Net interest margin			3.71	%			3.51	%		
Ratio of average interest-earning assets to average interest bearing liabilities	147.07 %				145.01 %					

(1) Interest earned and yields on nontaxable investment securities and nontaxable loans are determined on a tax equivalent basis using a 35% tax rate.

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Analysis of Changes of Interest Income/Interest Expense

For the three months ended September 30, 2016

	Inc./(Dec.) from Prior Period	Components of Change (1)	
		Rate	Volume
	2016 vs. 2015		
	(dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$5	$16	$(11)
Interest-bearing deposits at financial institutions	36	12	24
Investment securities (2)	143	2,551	(2,408)
Restricted investment securities	5	(3)	8
Gross loans/leases receivable (2) (3) (4)	3,766	75	3,691
Total change in interest income	$3,955	$2,651	$1,304
INTEREST EXPENSE			