

QCR HOLDINGS INC  
Form 10-Q  
November 07, 2011

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

FORM 10-Q

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

For the quarterly period ending September 30, 2011

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 ID Number)

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

(309) 736-3580  
(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

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

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

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

Yes  No

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 1, 2011, the Registrant had outstanding 4,749,234 shares of common stock, \$1.00 par value per share.

---

## QCR HOLDINGS, INC. AND SUBSIDIARIES

## INDEX

|           |  | Page<br>Number(s) |
|-----------|--|-------------------|
| Part I    | FINANCIAL INFORMATION  |                   |
| Item 1.   | Consolidated Financial Statements (Unaudited)  |                   |
|           | Consolidated Balance Sheets<br>As of September 30, 2011 and December 31, 2010                                      | 2                 |
|           | Consolidated Statements of Income<br>For the Three Months Ended September 30, 2011 and 2010                        | 3                 |
|           | Consolidated Statements of Income<br>For the Nine Months Ended September 30, 2011 and 2010                         | 4                 |
|           | Consolidated Statement of Changes in Stockholders' Equity<br>For the Nine Months Ended September 30, 2011 and 2010 | 5-6               |
|           | Consolidated Statements of Cash Flows<br>For the Nine Months Ended September 30, 2011 and 2010                     | 7                 |
|           | Notes to the Consolidated Financial Statements   | 8-31              |
| Item 2.   | Management's Discussion and Analysis of Financial<br>Condition and<br>Results of Operations                        | 32-64             |
| Item 3.   | Quantitative and Qualitative Disclosures About Market Risk   | 65-66             |
| Item 4.   | Controls and Procedures  | 67                |
| Part II   | OTHER INFORMATION  |                   |
| Item 1.   | Legal Proceedings  | 68                |
| Item 1.A. | Risk Factors   | 68                |
| Item 2.   | Unregistered Sales of Equity Securities and Use of Proceeds  | 68                |
| Item 3.   | Defaults upon Senior Securities  | 68                |
| Item 4.   | [Removed and Reserved]   | 68                |

|            |                   |       |
|------------|-------------------|-------|
| Item 5.    | Other Information | 68    |
| Item 6.    | Exhibits          | 69    |
| Signatures |                   | 70-71 |

---

Part I  
Item 1

## QCR HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2011 and December 31, 2010

|   | September 30,<br>2011  | December 31,<br>2010   |
|---|------------------------|------------------------|
| <b>ASSETS</b>                                       |                        |                        |
| Cash and due from banks                             | \$45,431,711           | \$42,030,806           |
| Federal funds sold                                  | 5,790,000              | 61,960,000             |
| Interest-bearing deposits at financial institutions | 24,665,359             | 39,745,611             |
| Securities held to maturity, at amortized cost      | 200,000                | 300,000                |
| Securities available for sale, at fair value        | 525,711,786            | 424,546,767            |
| Total securities                                    | 525,911,786            | 424,846,767            |
| Loans receivable held for sale                      | 5,287,924              | 14,084,859             |
| Loans/leases receivable held for investment         | 1,192,293,786          | 1,158,453,744          |
| Gross loans/leases receivable                       | 1,197,581,710          | 1,172,538,603          |
| Less allowance for estimated losses on loans/leases | (19,578,486 )          | (20,364,656 )          |
| Net loans/leases receivable                         | 1,178,003,224          | 1,152,173,947          |
| Premises and equipment, net                         | 30,946,211             | 31,118,744             |
| Goodwill  | 3,222,688              | 3,222,688              |
| Accrued interest receivable                         | 6,812,857              | 6,435,989              |
| Bank-owned life insurance                           | 41,597,883             | 33,565,390             |
| Prepaid FDIC insurance                              | 3,998,438              | 5,361,314              |
| Restricted investment securities                    | 15,238,000             | 16,668,700             |
| Other real estate owned, net                        | 8,287,592              | 8,534,711              |
| Other assets  | 9,054,743              | 10,970,549             |
| <b>Total assets</b>                                 | <b>\$1,898,960,492</b> | <b>\$1,836,635,216</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>         |                        |                        |
| <b>LIABILITIES</b>                                  |                        |                        |
| <b>Deposits:</b>                                    |                        |                        |
| Noninterest-bearing                                 | \$326,710,313          | \$276,827,205          |
| Interest-bearing                                    | 880,758,933            | 837,988,652            |
| Total deposits                                      | 1,207,469,246          | 1,114,815,857          |
| Short-term borrowings                               | 143,586,491            | 141,154,499            |
| Federal Home Loan Bank advances                     | 204,750,000            | 238,750,000            |
| Other borrowings                                    | 140,129,755            | 150,070,785            |
| Junior subordinated debentures                      | 36,085,000             | 36,085,000             |
| Other liabilities                                   | 23,771,127             | 23,188,367             |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|  |                 |                 |
|--|-----------------|-----------------|
| Total liabilities  | 1,755,791,619   | 1,704,064,508   |
| <b>STOCKHOLDERS' EQUITY</b>  |                 |                 |
| Preferred stock, \$1 par value; shares authorized 250,000 September 2011 - 65,090 shares issued and outstanding December 2010 - 63,237 shares issued and outstanding                           | 65,090          | 63,237          |
| Common stock, \$1 par value; shares authorized 20,000,000 September 2011 - 4,868,480 shares issued and 4,747,234 outstanding December 2010 - 4,732,428 shares issued and 4,611,182 outstanding | 4,868,480       | 4,732,428       |
| Additional paid-in capital   | 90,673,628      | 86,478,269      |
| Retained earnings  | 43,071,950      | 40,550,900      |
| Accumulated other comprehensive income   | 4,172,634       | 704,165         |
| Noncontrolling interests   | 1,923,601       | 1,648,219       |
| Less treasury stock, September 2011 and December 2010 - 121,246 common shares, at cost   | (1,606,510 )    | (1,606,510 )    |
| Total stockholders' equity   | 143,168,873     | 132,570,708     |
| Total liabilities and stockholders' equity   | \$1,898,960,492 | \$1,836,635,216 |

See Notes to Consolidated Financial Statements

## QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)  
 Nine Months Ended September 30, 2011 and 2010

|  | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Noncontrolling<br>Interests | Treasury<br>Stock | Total         |
|--|--------------------|-----------------|----------------------------------|----------------------|---|-----------------------------|-------------------|---------------|
| Balance<br>December 31,<br>2010  | \$63,237           | \$4,732,428     | \$86,478,269                     | \$40,550,900         | \$704,165   | \$1,648,219                 | \$(1,606,510)     | \$132,570,000 |
| Comprehensive<br>income:   |                    |                 |                                  |                      |   |                             |                   |               |
| Net income   | -                  | -               | -                                | 2,124,960            | -   | 106,524                     | -                 | 2,231,484     |
| Other<br>comprehensive<br>loss, net of tax   | -                  | -               | -                                | -                    | (1,345,554)   | -                           | -                 | (1,345,554)   |
| Comprehensive<br>income  |                    |                 |                                  |                      |   |                             |                   | 885,930       |
| Preferred cash<br>dividends<br>declared and<br>accrued   | -                  | -               | -                                | (915,462)            | -   | -                           | -                 | (915,462)     |
| Discount<br>accretion on<br>cumulative<br>preferred stock  | -                  | -               | 116,909                          | (116,909)            | -   | -                           | -                 | -             |
| Proceeds from<br>issuance of 9,081<br>shares of<br>common stock as<br>a result of stock<br>purchased under<br>the Employee<br>Stock Purchase<br>Plan | -                  | 9,081           | 49,249                           | -                    | -   | -                           | -                 | 58,330        |
| Proceeds from<br>issuance of<br>24,300 shares of<br>common stock as<br>a result of stock<br>options exercised  | -                  | 24,300          | 146,067                          | -                    | -   | -                           | -                 | 170,367       |
| Exchange of<br>2,171 shares of<br>common stock in<br>connection with<br>stock options<br>exercised   | -                  | (2,171)         | (14,070)                         | -                    | -   | -                           | -                 | (16,241)      |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |          |             |              |              |              |             |               |               |
|---|----------|-------------|--------------|--------------|--------------|-------------|---------------|---------------|
| Stock compensation expense  | -        | -           | 206,569      |              |              |             |               | 206,569       |
| Restricted stock awards   | -        | 69,924      | (69,924 )    | -            | -            | -           | -             | -             |
| Other adjustments to noncontrolling interests   | -        | -           | -            | -            | -            | (2,065 )    | -             | (2,065 )      |
| Balance March 31, 2011  | \$63,237 | \$4,833,562 | \$86,913,069 | \$41,643,489 | \$(641,389 ) | \$1,752,678 | \$(1,606,510) | \$132,958,400 |
| Comprehensive income:   |          |             |              |              |              |             |               |               |
| Net income  | -        | -           | -            | 2,674,969    | -            | 98,245      | -             | 2,773,214     |
| Other comprehensive income, net of tax  | -        | -           | -            | -            | 2,409,728    | -           | -             | 2,409,728     |
| Comprehensive income  |          |             |              |              |              |             |               | 5,182,942     |
| Common cash dividends declared, \$0.04 per share  | -        | -           | -            | (185,863 )   | -            | -           | -             | (185,863 )    |
| Preferred cash dividends declared and accrued   | -        | -           | -            | (915,462 )   | -            | -           | -             | (915,462 )    |
| Discount accretion on cumulative preferred stock  | -        | -           | 120,280      | (120,280 )   | -            | -           | -             | -             |
| Proceeds from issuance of 11,355 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | -        | 11,355      | 61,582       | -            | -            | -           | -             | 72,937        |
| Proceeds from issuance of 10,967 shares of common stock as a result of stock options exercised                                | -        | 10,967      | 65,205       | -            | -            | -           | -             | 76,172        |
| Exchange of 379 shares of common stock in connection with   | -        | (379 )      | (3,033 )     | -            | -            | -           | -             | (3,412 )      |



Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|  |          |             |              |              |             |             |               |               |
|--|----------|-------------|--------------|--------------|-------------|-------------|---------------|---------------|
| stock options exercised  |          |             |              |              |             |             |               |               |
| Stock compensation expense   | -        | -           | 141,370      |              |             |             |               | 141,370       |
| Other adjustments to noncontrolling interests  | -        | -           | -            | -            | -           | (2,066)     | -             | (2,066)       |
| Balance June 30, 2011  | \$63,237 | \$4,855,505 | \$87,298,473 | \$43,096,853 | \$1,768,339 | \$1,848,857 | \$(1,606,510) | \$137,324,000 |
| Comprehensive income:  |          |             |              |              |             |             |               |               |
| Net income   | -        | -           | -            | 2,163,155    | -           | 103,446     | -             | 2,266,601     |
| Other comprehensive income, net of tax   | -        | -           | -            | -            | 2,404,295   | -           | -             | 2,404,295     |
| Comprehensive income   |          |             |              |              |             |             |               | 4,670,896     |
| Preferred cash dividends declared  | -        | -           | -            | (835,802)    | -           | -           | -             | (835,802)     |
| Discount accretion on cumulative preferred stock   | -        | -           | 1,352,256    | (1,352,256)  | -           | -           | -             | -             |
| Proceeds from the issuance of 40,090 shares of Series F Non-Cumulative Perpetual Preferred Stock                             | 40,090   | -           | 40,034,251   | -            | -           | -           | -             | 40,074,341    |
| Redemption of 38,237 shares of Series D Cumulative Perpetual Preferred Stock   | (38,237) | -           | (38,198,763) | -            | -           | -           | -             | (38,237,000)  |
| Proceeds from issuance of 7,975 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | -        | 7,975       | 43,251       | -            | -           | -           | -             | 51,226        |
| Stock compensation   | -        | -           | 149,160      |              |             |             |               | 149,160       |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |          |             |              |              |             |             |               |            |         |
|---|----------|-------------|--------------|--------------|-------------|-------------|---------------|------------|---------|
| expense                                       |          |             |              |              |             |             |               |            |         |
| Restricted stock awards                       | -        | 5,000       | (5,000       | )            |             |             |               |            | -       |
| Other adjustments to noncontrolling interests | -        | -           | -            | -            | -           | (28,702     | )             | -          | (28,702 |
| Balance September 30, 2011                    | \$65,090 | \$4,868,480 | \$90,673,628 | \$43,071,950 | \$4,172,634 | \$1,923,601 | \$(1,606,510) | \$143,168, |         |

(continued)

## QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED) (continued)  
Nine Months Ended September 30, 2011 and 2010

|  | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Noncontrolling<br>Interests | Treasury<br>Stock | Total         |
|--|--------------------|-----------------|----------------------------------|----------------------|---|-----------------------------|-------------------|---------------|
| Balance<br>December 31,<br>2009  | \$38,805           | \$4,674,536     | \$82,194,330                     | \$38,458,477         | \$135,608                                       | \$1,699,630                 | \$(1,606,510)     | \$125,594,876 |
| Comprehensive<br>income:   |                    |                 |                                  |                      |   |                             |                   |               |
| Net income   | -                  | -               | -                                | 1,292,009            | -   | (77,076 )                   | -                 | 1,214,933     |
| Other<br>comprehensive<br>income, net of<br>tax  | -                  | -               | -                                | -                    | 1,663,236                                       | -                           | -                 | 1,663,236     |
| Comprehensive<br>income  |                    |                 |                                  |                      |   |                             |                   | 2,878,169     |
| Preferred cash<br>dividends<br>declared and<br>accrued   | -                  | -               | -                                | (924,088 )           | -   | -                           | -                 | (924,088)     |
| Discount<br>accretion on<br>cumulative<br>preferred stock  | -                  | -               | 109,331                          | (109,331 )           | -   | -                           | -                 | -             |
| Proceeds from<br>issuance of<br>warrants to<br>purchase 54,000<br>shares of<br>common stock in<br>conjunction with<br>the issuance of<br>Series A<br>Subordinated<br>Notes | -                  | -               | 84,240                           | -                    | -   | -                           | -                 | 84,240        |
| Proceeds from<br>issuance of 6,270<br>shares of<br>common stock as<br>a result of stock<br>purchased under<br>the Employee<br>Stock Purchase<br>Plan                       | -                  | 6,270           | 40,849                           | -                    | -   | -                           | -                 | 47,119        |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|  |          |             |              |              |             |             |               |               |
|--|----------|-------------|--------------|--------------|-------------|-------------|---------------|---------------|
| Exchange of 367 shares of common stock in Tax benefit of nonqualified stock options exercised  |          |             | -            |              |             |             |               | -             |
| Stock compensation expense   | -        | -           | 181,489      |              |             |             |               | 181,489       |
| Restricted stock awards  | -        | 23,598      | (23,598 )    | -            | -           | -           | -             | -             |
| Other adjustments to noncontrolling interests  | -        | -           | -            | -            | -           | (2,065 )    | -             | (2,065 )      |
| Balance March 31, 2010   | \$38,805 | \$4,704,037 | \$82,583,911 | \$38,717,067 | \$1,798,844 | \$1,620,489 | \$(1,606,510) | \$127,856,643 |
| Comprehensive income:  |          |             |              |              |             |             |               |               |
| Net income   | -        | -           | -            | 1,737,501    | -           | 62,336      | -             | 1,799,837     |
| Other comprehensive income, net of tax   | -        | -           | -            | -            | 2,043,708   | -           | -             | 2,043,708     |
| Comprehensive income   |          |             |              |              |             |             |               | 3,843,545     |
| Common cash dividends declared, \$0.04 per share   | -        | -           | -            | (182,730 )   | -           | -           | -             | (182,730 )    |
| Preferred cash dividends declared and accrued  | -        | -           | -            | (924,088 )   | -           | -           | -             | (924,088 )    |
| Discount accretion on cumulative preferred stock   | -        | -           | 113,225      | (113,225 )   | -           | -           | -             | -             |
| Exchange of 268 shares of Series B Non-Cumulative Perpetual Preferred Stock for 13,400 shares of Series E Non-Cumulative Perpetual Convertible Preferred Stock | 13,132   | -           | (13,132 )    | -            | -           | -           | -             | -             |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |          |             |              |              |             |             |               |               |
|---|----------|-------------|--------------|--------------|-------------|-------------|---------------|---------------|
| Exchange of 300 shares of Series C Non-Cumulative Perpetual Preferred Stock for 7,500 shares of Series E Non-Cumulative Perpetual Convertible Preferred Stock | 7,200    | -           | (7,200)      | -            | -           | -           | -             | -             |
| Proceeds from issuance of 4,100 shares of Series E Non-Cumulative Perpetual Convertible Preferred Stock   | 4,100    | -           | 3,199,333    | -            | -           | -           | -             | 3,203,433     |
| Proceeds from issuance of 9,629 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan                                  | -        | 9,629       | 62,733       | -            | -           | -           | -             | 72,362        |
| Proceeds from the issuance of 1,504 shares of common stock in Stock compensation expense  | -        | -           | 112,693      | -            | -           | -           | -             | 112,693       |
| Other adjustments to noncontrolling interests   | -        | -           | -            | -            | -           | 4,706       | -             | 4,706         |
| Balance June 30, 2010   | \$63,237 | \$4,715,170 | \$86,063,278 | \$39,234,525 | \$3,842,552 | \$1,687,531 | \$(1,606,510) | \$133,999,783 |
| Comprehensive income:   |          |             |              |              |             |             |               |               |
| Net income  | -        | -           | -            | 2,014,086    | -           | 109,786     | -             | 2,123,872     |
| Other comprehensive income, net of tax  | -        | -           | -            | -            | 160,545     | -           | -             | 160,545       |
| Comprehensive income  |          |             |              |              |             |             |               | 2,284,417     |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|  |          |             |              |              |             |             |               |               |
|--|----------|-------------|--------------|--------------|-------------|-------------|---------------|---------------|
| Preferred cash dividends declared and accrued  | -        | -           | -            | (915,462 )   | -           | -           | -             | (915,462      |
| Discount accretion on cumulative preferred stock   | -        | -           | 113,224      | (113,224 )   | -           | -           | -             | -             |
| Proceeds from issuance of 6,420 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | -        | 6,420       | 41,827       | -            | -           | -           | -             | 48,247        |
| Proceeds from the issuance of 750 shares of common stock in connection with options exercised                                | -        | 750         | 4,907        | -            | -           | -           | -             | 5,657         |
| Additional issuance cost related to the Series E Non-Cumulative Perpetual Convertible Preferred Stock                        | -        | -           | (16,200 )    | -            | -           | -           | -             | (16,200       |
| Stock compensation expense   | -        | -           | 118,448      |              |             |             |               | 118,448       |
| Other adjustments to noncontrolling interests  | -        | -           | -            | -            | -           | (2,066 )    | -             | (2,066        |
| Balance September 30, 2010   | \$63,237 | \$4,722,340 | \$86,325,484 | \$40,219,925 | \$4,003,097 | \$1,795,251 | \$(1,606,510) | \$135,522,824 |

See Notes to Consolidated Financial Statements

## QCR HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30,

|   | 2011            | 2010            |
|---|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                 |                 |
| Net income  | \$7,271,299     | \$5,138,642     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                 |
| Depreciation  | 1,866,403       | 1,926,876       |
| Provision for loan/lease losses   | 5,196,850       | 4,413,650       |
| Amortization of offering costs on subordinated debentures                         | 10,738          | 10,738          |
| Stock-based compensation expense  | 547,087         | 467,768         |
| Losses on sales of other real estate owned, net                                   | 90,492          | 632,806         |
| Amortization of premiums on securities, net                                       | 2,541,408       | 2,555,204       |
| Securities gains  | (1,472,528 )    | -               |
| Other-than-temporary impairment losses on securities                              | 118,847         | 113,800         |
| Loans originated for sale   | (65,240,469 )   | (103,689,462 )  |
| Proceeds on sales of loans  | 75,960,589      | 95,662,334      |
| Gains on sales of loans, net  | (1,923,185 )    | (1,831,856 )    |
| Prepayment fees on Federal Home Loan Bank advances                                | 832,099         | -               |
| Losses on lease residual values   | -               | 617,000         |
| (Decrease) increase in accrued interest receivable                                | (376,868 )      | 447,886         |
| Decrease in prepaid FDIC insurance  | 1,362,876       | 1,788,261       |
| Increase in cash value of bank-owned life insurance                               | (1,032,493 )    | (973,659 )      |
| Increase in other assets  | (278,687 )      | (651,803 )      |
| Increase in other liabilities   | 955,174         | 1,504,602       |
| Net cash provided by operating activities   | \$26,429,632    | \$8,132,787     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                 |                 |
| Net decrease (increase) in federal funds sold                                     | 56,170,000      | (15,356,667 )   |
| Net decrease (increase) in interest-bearing deposits at financial institutions    | 15,080,252      | (7,152,522 )    |
| Proceeds from sales of foreclosed assets  | 8,376,898       | 1,759,607       |
| Activity in securities portfolio:   |                 |                 |
| Purchases   | (458,081,700 )  | (294,445,750 )  |
| Calls, maturities and redemptions   | 302,145,002     | 243,389,938     |
| Paydowns  | 4,977,152       | 400,605         |
| Sales   | 54,326,191      | -               |
| Activity in restricted investment securities:                                     |                 |                 |
| Purchases   | (245,000 )      | (1,704,350 )    |
| Redemptions   | 1,675,700       | 204,800         |
| Activity in bank-owned life insurance:  |                 |                 |
| Purchases   | (7,000,000 )    | (3,150,000 )    |
| Surrender of policy   | -               | 609,772         |
| Net (increase) decrease in loans/leases originated and held for investment        | (48,043,333 )   | 51,105,615      |
| Purchase of premises and equipment  | (1,693,870 )    | (2,025,145 )    |
| Net cash used in investing activities   | \$(72,312,708 ) | \$(26,364,097 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                 |                 |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |               |               |
|---|---------------|---------------|
| Net increase (decrease) in deposit accounts   | 92,653,389    | (2,589,804 )  |
| Net increase (decrease) in short-term borrowings  | 2,431,992     | (14,481,044 ) |
| Activity in Federal Home Loan Bank advances:  |               |               |
| Advances  | 5,000,000     | 36,000,000    |
| Calls and maturities  | (24,000,000 ) | (13,100,000 ) |
| Prepayments   | (15,832,099 ) | -             |
| Net (decrease) increase in other borrowings   | (9,941,030 )  | 7,536,866     |
| Proceeds from issuance of Series A Subordinated Notes and detachable warrants to purchase 54,000 shares of common stock | -             | 2,700,000     |
| Payment of cash dividends on common and preferred stock   | (3,274,991 )  | (3,136,626 )  |
| Proceeds from issuance of Series E Noncumulative Convertible Perpetual Preferred Stock, net                             | -             | 3,187,233     |
| Proceeds from issuance of Series F Noncumulative Perpetual Preferred Stock  | 40,074,341    | -             |
| Redemption of Series D Cumulative Perpetual Preferred Stock   | (38,237,000 ) | -             |
| Proceeds from issuance of common stock, net   | 409,379       | 183,507       |
| Net cash provided by financing activities   | \$49,283,981  | \$16,300,132  |
|   |               |               |
| Net increase (decrease) in cash and due from banks  | 3,400,905     | (1,931,178 )  |
| Cash and due from banks, beginning  | 42,030,806    | 35,878,046    |
| Cash and due from banks, ending   | \$45,431,711  | \$33,946,868  |
|   |               |               |
| Supplemental disclosure of cash flow information, cash payments for:  |               |               |
| Interest  | \$18,521,222  | \$23,362,893  |
| Income/franchise taxes  | \$1,196,948   | \$1,497,611   |
|   |               |               |
| Supplemental schedule of noncash investing activities:  |               |               |
| Change in accumulated other comprehensive income, unrealized gains on securities available for sale, net                | \$3,468,469   | \$3,867,489   |
| Transfers of loans to other real estate owned   | \$8,220,271   | \$5,442,568   |

See Notes to Consolidated Financial Statements



QCR HOLDINGS, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2011

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, 2010, including QCR Holdings, Inc.'s (the "Company") Form 10-K filed with the Securities and Exchange Commission on March 7, 2011. Accordingly, footnote disclosures, which would substantially duplicate the disclosures contained in the audited consolidated financial statements, have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results of the interim period ended September 30, 2011, are not necessarily indicative of the results expected for the year ending December 31, 2011.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include three state-chartered commercial banks: Quad City Bank & Trust Company ("QCBT"), Cedar Rapids Bank & Trust Company ("CRBT"), and Rockford Bank & Trust Company ("RB&T"). The Company also engages in direct financing lease contracts through its 80% equity investment by QCBT in m2 Lease Funds, LLC ("m2 Lease Funds"), and in real estate holdings through its 91% equity investment in Velie Plantation Holding Company, LLC ("VPHC"). All material intercompany transactions and balances have been eliminated in consolidation.

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

Recent accounting developments: In April 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-2, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. ASU 2011-2 amends ASC Topic 310, Receivables, by clarifying guidance for creditors in determining whether a concession has been granted and whether a debtor is experiencing financial difficulties. The Company adopted ASU 2011-2 effective for the interim period ending September 30, 2011 and applied ASU 2011-2 retrospectively to January 1, 2011. Adoption did not have a material impact on the consolidated financial statements. See Note 3 for disclosure of the Company's troubled debt restructurings.

Part I  
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

In April 2011, FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements. ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2011, FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2011, FASB issued ASU 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income. ASU 2011-05 amends Topic 220, Comprehensive Income, to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's consolidated financial statements.

In September 2011, FASB issued ASU 2011-08, Intangibles – Goodwill and Other: Testing Goodwill for Impairment. ASU 2011-08 allows the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining the need to perform step one of the annual test for goodwill impairment. ASU 2011-08 is effective for annual periods beginning after December 15, 2011. Early adoption is permitted. The Company decided to early adopt ASU 2011-08 as of September 30, 2011 and the adoption did not have any effect on the Company's consolidated financial statements.

---

Part I  
Item 1

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

## NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of September 30, 2011 and December 31, 2010 are summarized as follows:

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair<br>Value  |
|--|-------------------|------------------------------|---------------------------------|----------------|
| September 30, 2011:                      |                   |                              |                                 |                |
| Securities held to maturity, other bonds | \$ 200,000        | \$ -                         | \$ -                            | \$ 200,000     |
| Securities available for sale:           |                   |                              |                                 |                |
| U.S. govt. sponsored agency securities   | \$ 412,874,368    | \$ 2,280,889                 | \$ (371,420 )                   | \$ 414,783,837 |
| Residential mortgage-backed securities   | 80,069,540        | 3,382,915                    | -                               | 83,452,455     |
| Municipal securities                     | 24,580,364        | 1,410,952                    | -                               | 25,991,316     |
| Trust preferred securities               | 86,200            | -                            | (14,400 )                       | 71,800         |
| Other securities                         | 1,346,972         | 106,442                      | (41,036 )                       | 1,412,378      |
|  | \$ 518,957,444    | \$ 7,181,198                 | \$ (426,856 )                   | \$ 525,711,786 |
| December 31, 2010:                       |                   |                              |                                 |                |
| Securities held to maturity, other bonds | \$ 300,000        | \$ -                         | \$ -                            | \$ 300,000     |
| Securities available for sale:           |                   |                              |                                 |                |
| U.S. govt. sponsored agency securities   | \$ 401,711,432    | \$ 3,218,843                 | \$ (2,704,919 )                 | \$ 402,225,356 |
| Residential mortgage-backed securities   | 64,912            | 5,526                        | -                               | 70,438         |
| Municipal securities                     | 20,134,611        | 579,215                      | (110,346 )                      | 20,603,480     |
| Trust preferred securities               | 86,200            | -                            | (8,200 )                        | 78,000         |
| Other securities                         | 1,414,661         | 168,331                      | (13,499 )                       | 1,569,493      |
|  | \$ 423,411,816    | \$ 3,971,915                 | \$ (2,836,964 )                 | \$ 424,546,767 |

Part I  
Item 1

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

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2011 and December 31, 2010, 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,<br>2011:                       |                     |                         |                   |                         |                |                         |
| Securities<br>available for sale:            |                     |                         |                   |                         |                |                         |
| U.S. govt.<br>sponsored agency<br>securities | \$ 102,397,415      | \$ (371,420 )           | \$ -              | \$ -                    | \$ 102,397,415 | \$ (371,420 )           |
| Trust preferred<br>securities                | 71,800              | (14,400 )               | -                 | -                       | 71,800         | (14,400 )               |
| Other securities                             | 301,176             | (40,510 )               | 2,725             | (526 )                  | 303,901        | (41,036 )               |
|  | \$ 102,770,391      | \$ (426,330 )           | \$ 2,725          | \$ (526 )               | \$ 102,773,116 | \$ (426,856 )           |
| December 31,<br>2010:                        |                     |                         |                   |                         |                |                         |
| Securities<br>available for sale:            |                     |                         |                   |                         |                |                         |
| U.S. govt.<br>sponsored agency<br>securities | \$ 159,302,061      | \$ (2,704,919)          | \$ -              | \$ -                    | \$ 159,302,061 | \$ (2,704,919)          |
| Municipal<br>securities                      | 4,333,786           | (47,884 )               | 678,378           | (62,462 )               | 5,012,164      | (110,346 )              |
| Trust preferred<br>securities                | 86,200              | (8,200 )                | -                 | -                       | 86,200         | (8,200 )                |
| Other securities                             | 226,250             | (12,671 )               | 2,872             | (828 )                  | 229,122        | (13,499 )               |
|  | \$ 163,948,297      | \$ (2,773,674)          | \$ 681,250        | \$ (63,290 )            | \$ 164,629,547 | \$ (2,836,964)          |

At September 30, 2011, the investment portfolio included 331 securities. Of this number, 54 securities had current unrealized losses with aggregate depreciation less than 1% from the amortized cost basis. Of these 54, one had unrealized losses 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, 2011 and December 31, 2010, equity securities represented less than 1% of the total portfolio.

The Company did not recognize other-than-temporary impairment on any debt securities for the three and nine months ended September 30, 2011. During the three months ended September 30, 2010, the Company's evaluation determined the decline in fair value for one individual issue trust preferred security was other-than-temporary. As a result, the Company wrote down the value of this security and recognized a loss totaling \$113,800. The Company does not have any other investments in trust preferred securities.

During the second quarter of 2011, the Company's evaluation determined that two privately held equity securities experienced declines in fair value that were other-than-temporary. As a result, the Company wrote down the value of these securities and recognized losses in the amount of \$118,847. The Company did not recognize other-than-temporary impairment on any of its equity securities during the first or third quarters of 2011. Additionally, the Company did not recognize other-than-temporary impairment on any of its equity securities for the three and nine months ended September 30, 2010.

---

Part I  
Item 1

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

All sales of securities, as applicable, for the three and nine months ended September 30, 2011 and 2010, respectively, were from securities identified as available for sale. Information on proceeds received, as well as pre-tax gross gains from sales of those securities is as follows:

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2011 | September<br>30, 2010 | September 30,<br>2011 | September<br>30, 2010 |
| Proceeds from sales of securities            | \$ 8,601,107          | \$ -                  | \$ 54,326,191         | \$ -                  |
| Pre-tax gross gains from sales of securities | 443,614               | -                     | 1,472,528             | -                     |

The amortized cost and fair value of securities as of September 30, 2011 by contractual maturity are shown below. A portion of the Company's U.S. government sponsored agency securities contain call options which allow the issuer, at its discretion, to call the security at predetermined dates prior to the contractual maturity date. Expected maturities of residential mortgage-backed securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" are excluded from the maturity categories as there is no fixed maturity date.

|  | Amortized<br>Cost | Fair Value     |
|--|-------------------|----------------|
| Securities held to maturity:           |                   |                |
| Due in one year or less                | \$ 50,000         | \$ 50,000      |
| Due after one year through five years  | 100,000           | 100,000        |
| Due after five years                   | 50,000            | 50,000         |
|  | \$ 200,000        | \$ 200,000     |
| Securities available for sale:         |                   |                |
| Due in one year or less                | \$ 2,803,210      | \$ 2,811,980   |
| Due after one year through five years  | 68,117,087        | 68,470,834     |
| Due after five years                   | 366,620,635       | 369,564,139    |
|  | \$ 437,540,932    | \$ 440,846,953 |
| Residential mortgage-backed securities | 80,069,540        | 83,452,455     |
| Other securities                       | 1,346,972         | 1,412,378      |
|  | \$ 518,957,444    | \$ 525,711,786 |

Part I  
Item 1

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

## NOTE 3 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of September 30, 2011 and December 31, 2010 is presented as follows:

|   | As of September 30,<br>2011 | As of December 31,<br>2010 |
|---|-----------------------------|----------------------------|
| Commercial and industrial loans                           | \$ 363,997,365              | \$ 365,625,271             |
| Commercial real estate loans                              |                             |                            |
| Owner-occupied commercial real estate                     | 160,485,944                 | 141,411,027                |
| Commercial construction, land development, and other land | 63,582,594                  | 65,529,058                 |
| Other non owner-occupied commercial real estate           | 344,418,820                 | 346,777,179                |
|   | 568,487,358                 | 553,717,264                |
| Direct financing leases *                                 | 88,893,130                  | 83,009,647                 |
| Residential real estate loans **                          | 94,073,045                  | 82,196,622                 |
| Installment and other consumer loans                      | 79,892,870                  | 86,239,944                 |
|   | 1,195,343,768               | 1,170,788,748              |
| Plus deferred loan/lease origination costs, net of fees   | 2,237,942                   | 1,749,855                  |
|   | 1,197,581,710               | 1,172,538,603              |
| Less allowance for estimated losses on loans/leases       | (19,578,486 )               | (20,364,656 )              |
|   | \$ 1,178,003,224            | \$ 1,152,173,947           |
| * Direct financing leases:                                |                             |                            |
| Net minimum lease payments to be received                 | \$ 101,466,699              | \$ 94,921,417              |
| Estimated unguaranteed residual values of leased assets   | 1,108,701                   | 1,204,865                  |
| Unearned lease/residual income                            | (13,682,270 )               | (13,116,635 )              |
|   | 88,893,130                  | 83,009,647                 |
| Plus deferred lease origination costs, net of fees        | 2,800,256                   | 2,341,628                  |
|   | 91,693,386                  | 85,351,275                 |
| Less allowance for estimated losses on leases             | (1,051,960 )                | (1,530,572 )               |
|   | \$ 90,641,426               | \$ 83,820,703              |

\*\*Includes residential real estate loans held for sale totaling \$5,287,924 and \$14,084,859 as of September 30, 2011 and December 31, 2010, respectively.

Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors and management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal.





Part I  
Item 1

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

For the three and nine months ended September 30, 2011, and for the three months ended September 30, 2010, there were no losses on residual values. During the first quarter of 2010, the Company recognized losses totaling \$617,000 in residual values for two direct financing equipment leases. At September 30, 2011, the Company had 43 leases remaining with residual values totaling \$1,108,701 that were not protected with a lease end options rider. At December 31, 2010, the Company had 54 leases remaining with residual values totaling \$1,204,865 that were not protected with a lease end options rider. Management has performed specific evaluations of these residual values and determined that the valuations are appropriate.

The aging of the loan/lease portfolio by classes of loans/leases as of September 30, 2011 is presented as follows:

| Classes of Loans/Leases                                   | Current          | 30-59 Days Past Due | 60-89 Days Past Due | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases | Total            |
|---|------------------|---------------------|---------------------|-----------------------------------|-------------------------|------------------|
| Commercial and Industrial                                 | \$ 357,960,272   | \$ 384,752          | \$ 101,500          | \$ -                              | \$ 5,550,841            | \$ 363,997,365   |
| Commercial Real Estate                                    |                  |                     |                     |                                   |                         |                  |
| Owner-Occupied Commercial Real Estate                     | 157,028,882      | 860,990             | -                   | -                                 | 2,596,072               | 160,485,944      |
| Commercial Construction, Land Development, and Other Land | 53,798,001       | -                   | 1,039,528           | -                                 | 8,745,065               | 63,582,594       |
| Other Non Owner-Occupied Commercial Real Estate           | 323,363,602      | 5,763,492           | 5,824,332           | 321,605                           | 9,145,789               | 344,418,820      |
| Direct Financing Leases                                   | 86,897,793       | 1,158,023           | 120,825             | -                                 | 716,489                 | 88,893,130       |
| Residential Real Estate                                   | 92,747,679       | -                   | 131,302             | -                                 | 1,194,064               | 94,073,045       |
| Installment and Other Consumer                            | 78,113,490       | 289,418             | 420,426             | 11,886                            | 1,057,650               | 79,892,870       |
|   | \$ 1,149,909,719 | \$ 8,456,675        | \$ 7,637,913        | \$ 333,491                        | \$ 29,005,970           | \$ 1,195,343,768 |
| As a percentage of total loan/lease portfolio             | 96.20            | % 0.71              | % 0.64              | % 0.03                            | % 2.43                  | % 100.00         |

The aging of the loan/lease portfolio by classes of loans/leases as of December 31, 2010 is presented as follows:

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

| Classes of Loans/Leases                                   | Current          | 30-59 Days Past Due | 60-89 Days Past Due | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases | Total            |
|---|------------------|---------------------|---------------------|-----------------------------------|-------------------------|------------------|
| Commercial and Industrial                                 | \$ 353,437,063   | \$ 300,224          | \$ 203,722          | \$ -                              | \$ 11,684,262           | \$ 365,625,271   |
| Commercial Real Estate                                    |                  |                     |                     |                                   |                         |                  |
| Owner-Occupied Commercial Real Estate                     | 139,880,634      | 236,910             | -                   | 103,015                           | 1,190,468               | 141,411,027      |
| Commercial Construction, Land Development, and Other Land | 55,552,352       | 746,545             | -                   | -                                 | 9,230,161               | 65,529,058       |
| Other Non Owner-Occupied Commercial Real Estate           | 335,171,858      | 275,000             | 546,019             | 70,125                            | 10,714,177              | 346,777,179      |
| Direct Financing Leases                                   | 79,708,979       | 1,605,836           | 92,244              | -                                 | 1,602,588               | 83,009,647       |
| Residential Real Estate                                   | 79,910,279       | 876,509             | -                   | 123,557                           | 1,286,277               | 82,196,622       |
| Installment and Other Consumer                            | 84,214,010       | 101,770             | 182,349             | 23,139                            | 1,718,676               | 86,239,944       |
|   | \$ 1,127,875,175 | \$ 4,142,794        | \$ 1,024,334        | \$ 319,836                        | \$ 37,426,609           | \$ 1,170,788,748 |
| As a percentage of total loan/lease portfolio             | 96.33            | % 0.35              | % 0.09              | % 0.03                            | % 3.20                  | % 100.00         |

Part I  
Item 1

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

Nonperforming loans/leases by classes of loans/leases as of September 30, 2011 is presented as follows:

| Classes of Loans/Leases                                      | Accruing<br>Past Due 90<br>Days or<br>More | Nonaccrual<br>Loans/Leases * | Troubled<br>Debt<br>Restructurings<br>- Accruing | Total<br>Nonperforming<br>Loans/Leases | Percentage<br>of Total<br>Nonperforming<br>Loans/Leases |
|--|--|------------------------------|--|--|---|
| Commercial and Industrial<br>Commercial Real Estate          | \$ -                                       | \$ 5,550,841                 | \$ -   | \$ 5,550,841                           | 17.34 %   |
| Owner-Occupied Commercial<br>Real Estate                     | -  | 2,596,072                    | -  | 2,596,072                              | 8.11 %  |
| Commercial Construction, Land<br>Development, and Other Land | -  | 8,745,065                    | 1,114,956  | 9,860,021                              | 30.80 %   |
| Other Non Owner-Occupied<br>Commercial Real Estate           | 321,605                                    | 9,145,789                    | 941,140  | 10,408,534                             | 32.51 %   |
| Direct Financing Leases                                      | -  | 716,489                      | 619,114  | 1,335,603                              | 4.17 %  |
| Residential Real Estate                                      | -  | 1,194,064                    | -  | 1,194,064                              | 3.73 %  |
| Installment and Other Consumer                               | 11,886                                     | 1,057,650                    | -  | 1,069,536                              | 3.34 %  |
|  | \$ 333,491                                 | \$ 29,005,970                | \$ 2,675,210                                     | \$ 32,014,671                          | 100.00 %  |

\*Nonaccrual loans/leases includes \$8,640,421 of troubled debt restructurings, including \$219,220 in commercial and industrial loans, and \$7,956,866 in commercial real estate loans.

Nonperforming loans/leases by classes of loans/leases as of December 31, 2010 is presented as follows:

| Classes of Loans/Leases                                      | Accruing<br>Past Due 90<br>Days or<br>More | Nonaccrual<br>Loans/Leases<br>** | Troubled<br>Debt<br>Restructurings<br>- Accruing | Total<br>Nonperforming<br>Loans/Leases | Percentage<br>of Total<br>Nonperforming<br>Loans/Leases |
|--|--|----------------------------------|--|--|---|
| Commercial and Industrial<br>Commercial Real Estate          | \$ -                                       | \$ 11,684,262                    | \$ 180,228                                       | \$ 11,864,490                          | 28.83 %   |
| Owner-Occupied Commercial<br>Real Estate                     | 103,015                                    | 1,190,468                        | -  | 1,293,483                              | 3.14 %  |
| Commercial Construction, Land<br>Development, and Other Land | -  | 9,230,161                        | 961,879  | 10,192,040                             | 24.77 %   |
| Other Non Owner-Occupied<br>Commercial Real Estate           | 70,125                                     | 10,714,177                       | 2,100,837  | 12,885,139                             | 31.31 %   |
| Direct Financing Leases                                      | -  | 1,602,588                        | 162,502  | 1,765,090                              | 4.29 %  |
| Residential Real Estate                                      | 123,557                                    | 1,286,277                        | -  | 1,409,834                              | 3.43 %  |
| Installment and Other Consumer                               | 23,139                                     | 1,718,676                        | -  | 1,741,815                              | 4.23 %  |
|  | \$ 319,836                                 | \$ 37,426,609                    | \$ 3,405,446                                     | \$ 41,151,891                          | 100.00 %  |

\*\*Nonaccrual loans/leases includes \$12,631,343 of troubled debt restructurings, including \$2,200,986 in commercial and industrial loans and \$9,407,276 in commercial real estate loans.



Part I  
Item 1

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

Changes in the allowance for estimated losses on loans/leases by portfolio segment for the three and nine months ended September 30, 2011 and 2010, respectively, are presented as follows:

## Three Months Ended September 30, 2011

|   | Commercial<br>and Industrial | Commercial<br>Real Estate | Direct<br>Financing<br>Leases | Residential<br>Real Estate | Installment<br>and Other<br>Consumer | Total         |
|---|------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|---------------|
| Balance, beginning                                | \$ 7,124,444                 | \$ 8,602,639              | \$ 1,591,309                  | \$ 757,075                 | \$ 1,727,165                         | \$ 19,802,632 |
| Provisions charged to expense                     | (211,491 )                   | 2,645,457                 | 159,965                       | 92,032                     | (228,998 )                           | 2,456,965     |
| Loans/leases charged off                          | (1,465,577)                  | (852,174 )                | (701,658 )                    | -                          | (84,358 )                            | (3,103,767 )  |
| Recoveries on loans/leases previously charged off | 174,013                      | 212,683                   | 2,344                         | -                          | 33,616                               | 422,656       |
| Balance, ending                                   | \$ 5,621,389                 | \$ 10,608,605             | \$ 1,051,960                  | \$ 849,107                 | \$ 1,447,425                         | \$ 19,578,486 |

## Three Months Ended September 30, 2010

|   | Commercial<br>and Industrial | Commercial<br>Real Estate | Direct<br>Financing<br>Leases | Residential<br>Real Estate | Installment<br>and Other<br>Consumer | Total         |
|---|------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|---------------|
| Balance, beginning                                | \$ 5,875,508                 | \$ 11,907,867             | \$ 1,707,762                  | \$ 567,491                 | \$ 1,502,335                         | \$ 21,560,963 |
| Provisions charged to expense                     | 839,037                      | 205,290                   | 210,232                       | 109,850                    | 69,823                               | 1,434,232     |
| Loans/leases charged off                          | (1,151,574)                  | (1,631,524 )              | (695,176 )                    | -                          | (100,919 )                           | (3,579,193 )  |
| Recoveries on loans/leases previously charged off | 13,995                       | 278,594                   | 156,288                       | -                          | 17,947                               | 466,824       |
| Balance, ending                                   | \$ 5,576,966                 | \$ 10,760,227             | \$ 1,379,106                  | \$ 677,341                 | \$ 1,489,186                         | \$ 19,882,826 |

## Nine Months Ended September 30, 2011

|                               | Commercial<br>and Industrial | Commercial<br>Real Estate | Direct<br>Financing<br>Leases | Residential<br>Real Estate | Installment<br>and Other<br>Consumer | Total         |
|-------------------------------|------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|---------------|
| Balance, beginning            | \$ 7,548,922                 | \$ 9,087,315              | \$ 1,530,572                  | \$ 748,028                 | \$ 1,449,819                         | \$ 20,364,656 |
| Provisions charged to expense | 1,005,002                    | 3,038,359                 | 463,850                       | 101,079                    | 588,560                              | 5,196,850     |
|                               | (3,256,194)                  | (1,773,711 )              | (945,104 )                    | -                          | (701,390 )                           | (6,676,399 )  |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |              |               |              |            |              |               |
|---|--------------|---------------|--------------|------------|--------------|---------------|
| Loans/leases charged off                          |              |               |              |            |              |               |
| Recoveries on loans/leases previously charged off | 323,659      | 256,642       | 2,642        | -          | 110,436      | 693,379       |
| Balance, ending                                   | \$ 5,621,389 | \$ 10,608,605 | \$ 1,051,960 | \$ 849,107 | \$ 1,447,425 | \$ 19,578,486 |

Nine Months Ended September 30, 2010

|   | Commercial and Industrial | Commercial Real Estate | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | Total         |
|---|---------------------------|------------------------|-------------------------|-------------------------|--------------------------------|---------------|
| Balance, beginning                                | \$ 5,425,624              | \$ 12,665,721          | \$ 1,681,376            | \$ 685,732              | \$ 2,046,281                   | \$ 22,504,734 |
| Provisions charged to expense                     | 3,033,353                 | 721,158                | 468,651                 | (8,391 )                | 198,879                        | 4,413,650     |
| Loans/leases charged off                          | (2,993,277)               | (3,030,503 )           | (928,019 )              | -                       | (891,008 )                     | (7,842,807 )  |
| Recoveries on loans/leases previously charged off | 111,266                   | 403,851                | 157,098                 | -                       | 135,034                        | 807,249       |
| Balance, ending                                   | \$ 5,576,966              | \$ 10,760,227          | \$ 1,379,106            | \$ 677,341              | \$ 1,489,186                   | \$ 19,882,826 |

Part I  
Item 1

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

The allowance for estimated losses on loans/leases by impairment evaluation and by portfolio segment as of September 30, 2011 is presented as follows:

|  | Commercial<br>and Industrial | Commercial<br>Real Estate | Direct<br>Financing<br>Leases | Residential<br>Real Estate | Installment<br>and Other<br>Consumer | Total            |
|--|------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|------------------|
| Allowance for<br>loans/leases<br>individually<br>evaluated for<br>impairment                   | \$ 945,475                   | \$ 4,741,965              | \$ 8,000                      | \$ 66,035                  | \$ 108,724                           | \$ 5,870,199     |
| Allowance for<br>loans/leases<br>collectively<br>evaluated for<br>impairment                   | 4,675,914                    | 5,866,640                 | 1,043,960                     | 783,072                    | 1,338,701                            | 13,708,287       |
|  | \$ 5,621,389                 | \$ 10,608,605             | \$ 1,051,960                  | \$ 849,107                 | \$ 1,447,425                         | \$ 19,578,486    |
| Loans/leases<br>individually<br>evaluated for<br>impairment                                    | \$ 3,420,793                 | \$ 22,539,729             | \$ 1,335,603                  | \$ 1,194,063               | \$ 721,943                           | \$ 29,212,131    |
| Loans/leases<br>collectively<br>evaluated for<br>impairment                                    | 360,576,572                  | 545,947,629               | 87,557,527                    | 92,878,982                 | 79,170,927                           | 1,166,131,637    |
|  | \$ 363,997,365               | \$ 568,487,358            | \$ 88,893,130                 | \$ 94,073,045              | \$ 79,892,870                        | \$ 1,195,343,768 |
| Allowance as<br>a percentage<br>of loans/leases<br>individually<br>evaluated for<br>impairment | 27.64                        | % 21.04                   | % 0.60                        | % 5.53                     | % 15.06                              | % 20.10          |
| Allowance as<br>a percentage<br>of loans/leases<br>collectively<br>evaluated for<br>impairment | 1.30                         | % 1.07                    | % 1.19                        | % 0.84                     | % 1.69                               | % 1.18           |
|  | 1.54                         | % 1.87                    | % 1.18                        | % 0.90                     | % 1.81                               | % 1.63           |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

The allowance for estimated losses on loans/leases by impairment evaluation and by portfolio segment as of December 31, 2010 is presented as follows:

|  | Commercial<br>and Industrial | Commercial<br>Real Estate | Direct<br>Financing<br>Leases | Residential<br>Real Estate | Installment<br>and Other<br>Consumer | Total            |   |
|--|------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|------------------|---|
| Allowance for<br>loans/leases<br>individually<br>evaluated for<br>impairment                   | \$ 3,331,437                 | \$ 3,709,177              | \$ 335,000                    | \$ 27,355                  | \$ 49,777                            | \$ 7,452,746     |   |
| Allowance for<br>loans/leases<br>collectively<br>evaluated for<br>impairment                   | 4,217,485                    | 5,378,138                 | 1,195,572                     | 720,673                    | 1,400,042                            | 12,911,910       |   |
|  | \$ 7,548,922                 | \$ 9,087,315              | \$ 1,530,572                  | \$ 748,028                 | \$ 1,449,819                         | \$ 20,364,656    |   |
| Loans/leases<br>individually<br>evaluated for<br>impairment                                    | \$ 8,824,670                 | \$ 24,770,032             | \$ 1,765,090                  | \$ 1,286,277               | \$ 1,611,098                         | \$ 38,257,167    |   |
| Loans/leases<br>collectively<br>evaluated for<br>impairment                                    | 356,800,601                  | 528,947,232               | 81,244,557                    | 80,910,345                 | 84,628,846                           | 1,132,531,581    |   |
|  | \$ 365,625,271               | \$ 553,717,264            | \$ 83,009,647                 | \$ 82,196,622              | \$ 86,239,944                        | \$ 1,170,788,748 |   |
| Allowance as<br>a percentage<br>of loans/leases<br>individually<br>evaluated for<br>impairment | 37.75                        | % 14.97                   | % 18.98                       | % 2.13                     | % 3.09                               | % 19.48          | % |
| Allowance as<br>a percentage<br>of loans/leases<br>collectively<br>evaluated for<br>impairment | 1.18                         | % 1.02                    | % 1.47                        | % 0.89                     | % 1.65                               | % 1.14           | % |
|  | 2.06                         | % 1.64                    | % 1.84                        | % 0.91                     | % 1.68                               | % 1.74           | % |



Part I  
Item 1

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

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

Information for impaired loans/leases by classes of financing receivable as of and for the nine months ended September 30, 2011 is as follows:

| Classes of Loans/Leases   | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized | Interest Income Recognized for Cash Payments Received |
|---|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|---|
| <b>Impaired Loans/Leases with No Specific Allowance Recorded:</b> |                     |                          |                   |                             |                            |   |
| Commercial and Industrial   | \$ 771,177          | \$ 1,446,065             | \$ -              | \$ 4,363,221                | \$ 15,961                  | \$ 15,961   |
| <b>Commercial Real Estate</b>                                     |                     |                          |                   |                             |                            |   |
| <b>Owner-Occupied</b>   |                     |                          |                   |                             |                            |   |
| Commercial Real Estate  | 1,572,641           | 1,625,409                | -                 | 2,009,518                   | 54,314                     | 54,314  |
| <b>Commercial Construction, Land Development, and Other Land</b>  |                     |                          |                   |                             |                            |   |
| Other Land  | 234,890             | 234,890                  | -                 | 1,524,700                   | -                          | -   |
| <b>Other Non Owner-Occupied</b>                                   |                     |                          |                   |                             |                            |   |
| Commercial Real Estate  | 1,730,764           | 1,730,764                | -                 | 3,665,415                   | -                          | -   |
| Direct Financing Leases   | 1,231,385           | 1,231,385                | -                 | 529,106                     | -                          | -   |
| Residential Real Estate   | 932,813             | 932,813                  | -                 | 1,008,968                   | -                          | -   |
| <b>Installment and Other Consumer</b>                             |                     |                          |                   |                             |                            |   |
| Consumer  | 613,219             | 613,219                  | -                 | 835,483                     | -                          | -   |
|   | \$ 7,086,889        | \$ 7,814,545             | \$ -              | \$ 13,936,411               | \$ 70,275                  | \$ 70,275   |
| <b>Impaired Loans/Leases with Specific Allowance Recorded:</b>    |                     |                          |                   |                             |                            |   |
| Commercial and Industrial   | \$ 2,649,616        | \$ 2,649,616             | \$ 945,475        | \$ 1,515,521                | \$ -                       | \$ -  |
| <b>Commercial Real Estate</b>                                     |                     |                          |                   |                             |                            |   |
| <b>Owner-Occupied</b>   |                     |                          |                   |                             |                            |   |
| Commercial Real Estate  | 1,390,681           | 1,390,681                | 611,350           | 160,397                     | -                          | -   |
| <b>Commercial Construction, Land Development, and Other Land</b>  |                     |                          |                   |                             |                            |   |
| Other Land  | 9,625,131           | 9,663,955                | 3,356,291         | 4,927,747                   | 473                        | 473   |
| Other Non Owner-Occupied  | 7,985,622           | 8,485,622                | 774,324           | 6,894,571                   | -                          | -   |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |               |               |              |               |           |           |
|---|---------------|---------------|--------------|---------------|-----------|-----------|
| Commercial Real Estate                            |               |               |              |               |           |           |
| Direct Financing Leases                           | 104,218       | 104,218       | 8,000        | 1,021,241     | -         | -         |
| Residential Real Estate                           | 261,250       | 295,928       | 66,035       | 168,233       | -         | -         |
| Installment and Other                             |               |               |              |               |           |           |
| Consumer  | 108,724       | 110,527       | 108,724      | 64,922        | -         | -         |
|   | \$ 22,125,242 | \$ 22,700,547 | \$ 5,870,199 | \$ 14,752,632 | \$ 473    | \$ 473    |
| Total Impaired                                    |               |               |              |               |           |           |
| Loans/Leases:                                     |               |               |              |               |           |           |
| Commercial and Industrial                         | \$ 3,420,793  | \$ 4,095,681  | \$ 945,475   | \$ 5,878,742  | \$ 15,961 | \$ 15,961 |
| Commercial Real Estate                            |               |               |              |               |           |           |
| Owner-Occupied                                    |               |               |              |               |           |           |
| Commercial Real Estate                            | 2,963,322     | 3,016,090     | 611,350      | 2,169,915     | 54,314    | 54,314    |
| Commercial Construction,<br>Land Development, and |               |               |              |               |           |           |
| Other Land  | 9,860,021     | 9,898,845     | 3,356,291    | 6,452,447     | 473       | 473       |
| Other Non   |               |               |              |               |           |           |
| Owner-Occupied                                    |               |               |              |               |           |           |
| Commercial Real Estate                            | 9,716,386     | 10,216,386    | 774,324      | 10,559,986    | -         | -         |
| Direct Financing Leases                           | 1,335,603     | 1,335,603     | 8,000        | 1,550,347     | -         | -         |
| Residential Real Estate                           | 1,194,063     | 1,228,741     | 66,035       | 1,177,201     | -         | -         |
| Installment and Other                             |               |               |              |               |           |           |
| Consumer  | 721,943       | 723,746       | 108,724      | 900,405       | -         | -         |
|   | \$ 29,212,131 | \$ 30,515,092 | \$ 5,870,199 | \$ 28,689,043 | \$ 70,748 | \$ 70,748 |

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

Part I  
Item 1

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

Information for impaired loans/leases by classes of financing receivable for the three months ended September 30, 2011 is as follows:

| Classes of Loans/Leases   | Average Recorded Investment | Interest Income Recognized | Interest Income Recognized for Cash Payments Received |
|---|-----------------------------|----------------------------|---|
| <b>Impaired Loans/Leases with No Specific Allowance Recorded:</b> |                             |                            |   |
| Commercial and Industrial Commercial Real Estate                  | \$ 2,236,289                | \$ -                       | \$ -  |
| Owner-Occupied Commercial Real Estate                             | 1,774,342                   | 11,909                     | 11,909  |
| Commercial Construction, Land Development, and Other Land         | 286,339                     | -                          | -   |
| Other Non Owner-Occupied Commercial Real Estate                   | 1,730,764                   | -                          | -   |
| Direct Financing Leases   | 668,944                     | -                          | -   |
| Residential Real Estate   | 942,011                     | -                          | -   |
| Installment and Other Consumer                                    | 710,560                     | -                          | -   |
|   | \$ 8,349,249                | \$ 11,909                  | \$ 11,909   |
| <b>Impaired Loans/Leases with Specific Allowance Recorded:</b>    |                             |                            |   |
| Commercial and Industrial Commercial Real Estate                  | \$ 1,534,968                | \$ -                       | \$ -  |
| Owner-Occupied Commercial Real Estate                             | 360,894                     | -                          | -   |
| Commercial Construction, Land Development, and Other Land         | 5,595,484                   | 473                        | 473   |
| Other Non Owner-Occupied Commercial Real Estate                   | 7,488,032                   | -                          | -   |
| Direct Financing Leases   | 983,131                     | -                          | -   |
| Residential Real Estate   | 200,625                     | -                          | -   |
| Installment and Other Consumer                                    | 108,859                     | -                          | -   |
|   | \$ 16,271,993               | \$ 473                     | \$ 473  |
| <b>Total Impaired Loans/Leases:</b>                               |                             |                            |   |
| Commercial and Industrial Commercial Real Estate                  | \$ 3,771,257                | \$ -                       | \$ -  |
| Owner-Occupied Commercial Real Estate                             | 2,135,236                   | 11,909                     | 11,909  |
| Commercial Construction, Land Development, and Other Land         | 5,881,823                   | 473                        | 473   |
| Other Non Owner-Occupied Commercial Real Estate                   | 9,218,796                   | -                          | -   |
| Direct Financing Leases   | 1,652,075                   | -                          | -   |
| Residential Real Estate   | 1,142,636                   | -                          | -   |
| Installment and Other Consumer                                    | 819,419                     | -                          | -   |
|   | \$ 24,621,242               | \$ 12,382                  | \$ 12,382   |

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

---

Part I  
Item 1

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

Information for impaired loans/leases by classes of financing receivable as of December 31, 2010 is as follows:

| Classes of Loans/Leases   | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---------------------|--------------------------|-------------------|
| <b>Impaired Loans/Leases with No Specific Allowance Recorded:</b> |                     |                          |                   |
| Commercial and Industrial   | \$1,459,790         | \$3,350,036              | \$-               |
| Commercial Real Estate  |                     |                          |                   |
| Owner-Occupied Commercial Real Estate                             | 681,727             | 681,727                  | -                 |
| Commercial Construction, Land Development, and Other Land         | 2,538,621           | 2,872,083                | -                 |
| Other Non Owner-Occupied Commercial Real Estate                   | 2,942,189           | 3,792,226                | -                 |
| Direct Financing Leases   | 953,994             | 953,994                  | -                 |
| Residential Real Estate   | 758,031             | 758,031                  | -                 |
| Installment and Other Consumer                                    | 1,561,322           | 1,561,322                | -                 |
|   | \$10,895,674        | \$13,969,419             | \$-               |
| <b>Impaired Loans/Leases with Specific Allowance Recorded:</b>    |                     |                          |                   |
| Commercial and Industrial   | \$7,364,880         | \$7,866,634              | \$3,331,436       |
| Commercial Real Estate  |                     |                          |                   |
| Owner-Occupied Commercial Real Estate                             | 1,074,210           | 1,074,210                | 232,194           |
| Commercial Construction, Land Development, and Other Land         | 7,660,458           | 7,660,458                | 1,818,193         |
| Other Non Owner-Occupied Commercial Real Estate                   | 9,872,826           | 10,091,777               | 1,658,791         |
| Direct Financing Leases   | 811,096             | 811,096                  | 335,000           |
| Residential Real Estate   | 528,246             | 528,246                  | 27,355            |
| Installment and Other Consumer                                    | 49,777              | 49,777                   | 49,777            |
|   | \$27,361,493        | \$28,082,198             | \$7,452,746       |
| <b>Total Impaired Loans/Leases:</b>                               |                     |                          |                   |
| Commercial and Industrial   | \$8,824,670         | \$11,216,670             | \$3,331,436       |
| Commercial Real Estate  |                     |                          |                   |
| Owner-Occupied Commercial Real Estate                             | 1,755,937           | 1,755,937                | 232,194           |
| Commercial Construction, Land Development, and Other Land         | 10,199,079          | 10,532,541               | 1,818,193         |
| Other Non Owner-Occupied Commercial Real Estate                   | 12,815,015          | 13,884,003               | 1,658,791         |
| Direct Financing Leases   | 1,765,090           | 1,765,090                | 335,000           |
| Residential Real Estate   | 1,286,277           | 1,286,277                | 27,355            |
| Installment and Other Consumer                                    | 1,611,099           | 1,611,099                | 49,777            |
|   | \$38,257,167        | \$42,051,617             | \$7,452,746       |

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

Part I  
Item 1

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

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of September 30, 2011:

| Internally Assigned<br>Risk Rating | Commercial and<br>Industrial | Commercial Real Estate<br>Non Owner-Occupied |   |                                    | Total          |
|------------------------------------|------------------------------|--|---|------------------------------------|----------------|
|                                    |                              | Owner-Occupied<br>Commercial<br>Real Estate  | Commercial<br>Construction,<br>Land<br>Development,<br>and Other Land | Other<br>Commercial<br>Real Estate |                |
| Pass (Ratings 1<br>through 5)      | \$ 326,845,312               | \$ 146,744,108                               | \$ 50,025,363   | \$ 303,472,012                     | \$ 827,086,795 |
| Special Mention<br>(Rating 6)      | 9,211,829                    | 2,704,551                                    | 505,706   | 19,546,611                         | 31,968,697     |
| Substandard<br>(Rating 7)          | 27,940,224                   | 11,037,285                                   | 13,051,525  | 21,400,197                         | 73,429,231     |
| Doubtful (Rating 8)                | -                            | -  | -   | -                                  | -              |
|                                    | \$ 363,997,365               | \$ 160,485,944                               | \$ 63,582,594   | \$ 344,418,820                     | \$ 932,484,723 |

As of September 30, 2011

| Delinquency Status<br>* | Direct<br>Financing<br>Leases | Residential Real<br>Estate | Installment and<br>Other<br>Consumer | Total          |
|-------------------------|-------------------------------|----------------------------|--------------------------------------|----------------|
| Performing              | \$ 87,557,527                 | \$ 92,878,981              | \$ 78,823,334                        | \$ 259,259,842 |
| Nonperforming           | 1,335,603                     | 1,194,064                  | 1,069,536                            | 3,599,203      |
|                         | \$ 88,893,130                 | \$ 94,073,045              | \$ 79,892,870                        | \$ 262,859,045 |

\*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, or troubled debt restructurings.

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of December 31, 2010:

| Internally Assigned<br>Risk Rating | Commercial and<br>Industrial | Commercial Real Estate<br>Non Owner-Occupied |   |                                    | Total          |
|------------------------------------|------------------------------|--|---|------------------------------------|----------------|
|                                    |                              | Owner-Occupied<br>Commercial<br>Real Estate  | Commercial<br>Construction,<br>Land<br>Development,<br>and Other Land | Other<br>Commercial<br>Real Estate |                |
|                                    | \$ 327,875,886               | \$ 120,271,507                               | \$ 43,881,561   | \$ 308,631,488                     | \$ 800,660,442 |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|                            |                |                |               |                |                |
|----------------------------|----------------|----------------|---------------|----------------|----------------|
| Pass (Ratings 1 through 5) |                |                |               |                |                |
| Special Mention (Rating 6) | 10,457,805     | 7,510,519      | 10,338,187    | 15,244,142     | 43,550,653     |
| Substandard (Rating 7)     | 27,270,474     | 13,629,001     | 11,309,310    | 22,901,549     | 75,110,334     |
| Doubtful (Rating 8)        | 21,106         | -              | -             | -              | 21,106         |
|                            | \$ 365,625,271 | \$ 141,411,027 | \$ 65,529,058 | \$ 346,777,179 | \$ 919,342,535 |

As of December 31, 2010

| Delinquency Status * | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | Total          |
|----------------------|-------------------------|-------------------------|--------------------------------|----------------|
| Performing           | \$ 81,244,557           | \$ 80,786,788           | \$ 84,498,129                  | \$ 246,529,474 |
| Nonperforming        | 1,765,090               | 1,409,834               | 1,741,815                      | 4,916,739      |
|                      | \$ 83,009,647           | \$ 82,196,622           | \$ 86,239,944                  | \$ 251,446,213 |

\*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, or troubled debt restructurings.

Part I  
Item 1

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

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

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

As a result of adopting ASU 2011-2, the Company reassessed all loan/lease modifications that occurred on or after January 1, 2011 for identification as a troubled debt restructuring. The Company identified no additional loans/leases as troubled debt restructurings.

For each class of financing receivable, the following presents the number and recorded investment of troubled debt restructurings, by type of concession, that were restructured during the three and nine months ended September 30, 2011.

| Classes of Loans/Leases   | For the three months ended<br>September 30, 2011 |  |   | For the nine months ended September 30,<br>2011 |  |   |
|---|--|--|---|---|--|---|
|   | Number<br>of<br>TDRs                             | Pre-Modification<br>Recorded<br>Investment | Post-Modification<br>Recorded<br>Investment | Number<br>of<br>TDRs                            | Pre-Modification<br>Recorded<br>Investment | Post-Modification<br>Recorded<br>Investment |
| <b>CONCESSION - Extension<br/>of maturity</b>                   |  |  |   |   |  |   |
| Commercial and Industrial                                       | -  | \$ -                                       | \$ -  | -   | \$ -                                       | \$ -  |
| Commercial Real Estate  |  |  |   |   |  |   |
| Owner-Occupied  |  |  |   |   |  |   |
| Commercial Real Estate  | -  | -  | -   | -   | -  | -   |
| Commercial Construction,<br>Land Development, and<br>Other Land | -  | -  | -   | -   | -  | -   |
| Other Non Owner-Occupied  |  |  |   |   |  |   |
| Commercial Real Estate  | -  | -  | -   | 1   | 2,500,530                                  | 2,500,530                                   |
| Direct Financing Leases   | -  | -  | -   | -   | -  | -   |
| Residential Real Estate   | -  | -  | -   | -   | -  | -   |
| Installment and Other<br>Consumer                               | -  | -  | -   | -   | -  | -   |
|   | -  | \$ -                                       | \$ -  | 1   | \$ 2,500,530                               | \$ 2,500,530                                |
| <b>CONCESSION - Significant<br/>payment delay</b>               |  |  |   |   |  |   |
| Commercial and Industrial                                       | -  | \$ -                                       | \$ -  | -   | \$ -                                       | \$ -  |
| Commercial Real Estate  |  |  |   |   |  |   |
|   | -  | -  | -   | -   | -  | -   |



Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |   |      |      |   |            |            |
|---|---|------|------|---|------------|------------|
| Owner-Occupied  |   |      |      |   |            |            |
| Commercial Real Estate  |   |      |      |   |            |            |
| Commercial Construction,<br>Land Development, and<br>Other Land | - | -    | -    | - | -          | -          |
| Other Non Owner-Occupied  |   |      |      |   |            |            |
| Commercial Real Estate  | - | -    | -    | - | -          | -          |
| Direct Financing Leases   | - | -    | -    | 2 | 619,114    | 619,114    |
| Residential Real Estate<br>Installment and Other                | - | -    | -    | - | -          | -          |
| Consumer  | - | -    | -    | - | -          | -          |
|   | - | \$ - | \$ - | 2 | \$ 619,114 | \$ 619,114 |

Part I  
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

There was no financial impact for charge-offs, principal forgiveness, or foregone interest for the troubled debt restructurings included in the previous table. The financial impact for specific reserves was not significant for the troubled debt restructurings included in the previous table.

For the nine months ended September 30, 2011, none of the Company's troubled debt restructurings have redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

NOTE 4 – FEDERAL HOME LOAN BANK ADVANCES

The subsidiary banks are members of the Federal Home Loan Bank ("FHLB") of Des Moines or Chicago. As of September 30, 2011 and December 31, 2010, the subsidiary banks held \$11,549,000 and \$12,980,200, respectively, of FHLB stock, which is included in restricted investment securities on the consolidated balance sheet.

During the first quarter of 2011, the Company's largest subsidiary bank, QCBT, prepaid \$15,000,000 of FHLB advances with a weighted average interest rate of 4.87% and a weighted average maturity of May 2012. In addition, QCBT modified \$20,350,000 of fixed rate FHLB advances with a weighted average interest rate of 4.33% and a weighted average maturity of October 2013 into new fixed rate FHLB advances with a weighted average interest rate of 3.35% and a weighted average maturity of February 2014.

---

Part I  
Item 1

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

Maturity and interest rate information on FHLB advances for the Company as of September 30, 2011 and December 31, 2010 is as follows:

|                          | Amount Due     | September 30, 2011                            |   | Amount Due with Putable Option * | Weighted Average Interest Rate at Quarter-End |   |
|--------------------------|----------------|---|---|----------------------------------|---|---|
|                          |                | Weighted Average Interest Rate at Quarter-End | % |                                  | Weighted Average Interest Rate at Quarter-End | % |
| Maturity:                |                |   |   |                                  |   |   |
| Year ending December 31: |                |   |   |                                  |   |   |
| 2012                     | \$ 19,400,000  | 3.94  | % | \$ 5,000,000                     | 4.93  | % |
| 2013                     | 24,000,000     | 2.64  |   | -                                | -   |   |
| 2014                     | 23,850,000     | 3.37  |   | -                                | -   |   |
| 2015                     | 14,000,000     | 1.68  |   | -                                | -   |   |
| Thereafter               | 123,500,000    | 4.09  |   | 103,500,000                      | 4.25  |   |
| Total FHLB advances      | \$ 204,750,000 | 3.74  |   | \$ 108,500,000                   | 4.28  |   |

|                          | Amount Due     | December 31, 2010                          |   | Amount Due with Putable Option * | Weighted Average Interest Rate at Year-End |   |
|--------------------------|----------------|--|---|----------------------------------|--|---|
|                          |                | Weighted Average Interest Rate at Year-End | % |                                  | Weighted Average Interest Rate at Year-End | % |
| Maturity:                |                |  |   |                                  |  |   |
| Year ending December 31: |                |  |   |                                  |  |   |
| 2011                     | \$ 19,000,000  | 2.99                                       | % | \$ 7,500,000                     | 5.12                                       | % |
| 2012                     | 49,750,000     | 4.43                                       |   | 35,000,000                       | 4.77                                       |   |
| 2013                     | 24,000,000     | 2.64                                       |   | 2,000,000                        | 3.48                                       |   |
| 2014                     | 3,500,000      | 2.19                                       |   | -                                | -  |   |
| 2015                     | 14,000,000     | 1.68                                       |   | -                                | -  |   |
| Thereafter               | 128,500,000    | 4.11                                       |   | 118,500,000                      | 4.13                                       |   |
| Total FHLB advances      | \$ 238,750,000 | 3.84                                       |   | \$ 163,000,000                   | 4.30                                       |   |

\*Of the advances outstanding, a large portion have putable options which allow the FHLB, at its discretion, to terminate the advances and require the subsidiary banks to repay at predetermined dates prior to the stated maturity date of the advances.

Advances are collateralized by securities with a carrying value of \$22,185,875 and \$65,376,627 as of September 30, 2011 and December 31, 2010, respectively, and by loans pledged of \$419,940,309 and \$386,087,610, respectively, in aggregate. On pledged loans, the FHLB applies varying collateral maintenance levels from 125% to 333% based on the loan type.



Part I  
Item 1

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

## NOTE 5 - EARNINGS PER SHARE

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

|   | Three months ended<br>September 30, |              | Nine months<br>ended<br>September 30, |              |
|---|-------------------------------------|--------------|---------------------------------------|--------------|
|   | 2011                                | 2010         | 2011                                  | 2010         |
| Net income  | \$ 2,266,601                        | \$ 2,123,872 | \$ 7,271,299                          | \$ 5,138,642 |
| Less: Net income attributable to noncontrolling interests   | 103,446                             | 109,786      | 308,215                               | 95,046       |
| Net income attributable to QCR Holdings, Inc.   | \$ 2,163,155                        | \$ 2,014,086 | \$ 6,963,084                          | \$ 5,043,596 |
| Less: Preferred stock dividends and discount accretion  | 2,188,058 **                        | 1,028,686    | 4,256,171 **                          | 3,099,418    |
| Net income (loss) attributable to QCR Holdings, Inc. common stockholders  | \$ (24,903 )                        | \$ 985,400   | \$ 2,706,913                          | \$ 1,944,178 |
| Earnings (loss) per common share attributable to QCR Holdings, Inc. common stockholders                           |                                     |              |                                       |              |
| Basic   | \$ (0.01 )                          | \$ 0.21      | \$ 0.56                               | \$ 0.42      |
| Diluted   | \$ (0.01 )                          | \$ 0.21      | \$ 0.56                               | \$ 0.42      |
| Weighted average common shares outstanding  | 4,866,692                           | 4,598,566    | 4,795,382                             | 4,587,883    |
| Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan | - *                                 | 21,008       | 52,051                                | 29,219       |
| Weighted average common and common equivalent shares outstanding  | 4,866,692 *                         | 4,619,574    | 4,847,433                             | 4,617,102    |

\*In accordance with U.S. GAAP, the common equivalent shares are not considered in the calculation of diluted earnings per share as the numerator is a net loss.

\*\*For the three and nine months ended September 30, 2011, includes approximately \$1.2 million of accelerated accretion of discount on the Treasury Capital Purchase Program preferred shares repurchased during the third quarter of 2011. See Note 8 for additional information.

## NOTE 6 – BUSINESS SEGMENT INFORMATION

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

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

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

---

Part I  
Item 1

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

The Company's All Other segment includes the operations of all other consolidated subsidiaries and/or defined operating segments that fall below the segment reporting thresholds. This segment includes the corporate operations of the parent company and the 91% owned real estate holding operations of VPHC.

Selected financial information on the Company's business segments is presented as follows for the three and nine months ended September 30, 2011 and 2010.

|   | Commercial Banking        |                              |                          |                      |               | Intercompany    | Consolidated    |
|---|---------------------------|------------------------------|--------------------------|----------------------|---------------|-----------------|-----------------|
|   | Quad City<br>Bank & Trust | Cedar Rapids<br>Bank & Trust | Rockford<br>Bank & Trust | Wealth<br>Management | All other     | Eliminations    | Total           |
| Three Months Ended<br>September 30, 2011      |                           |                              |                          |                      |               |                 |                 |
| Total revenue                                 | \$12,147,213              | \$7,110,970                  | \$3,377,454              | \$1,311,647          | \$3,319,882   | \$(3,362,429)   | \$23,904,737    |
| Net interest income                           | \$7,944,108               | \$3,873,339                  | \$2,355,471              | \$-                  | \$(344,214)   | \$-             | \$13,828,704    |
| Net income attributable to QCR Holdings, Inc. | \$1,854,914               | \$1,375,114                  | \$(243,710)              | \$257,611            | \$2,192,761   | \$(3,273,535)   | \$2,163,155     |
| Total assets                                  | \$1,056,656,935           | \$565,822,310                | \$287,574,174            | \$-                  | \$193,059,135 | \$(204,152,062) | \$1,898,960,492 |
| Provision for loan/lease losses               | \$1,158,965               | \$250,000                    | \$1,048,000              | \$-                  | \$-           | \$-             | \$2,456,965     |
| Goodwill                                      | \$3,222,688               | \$-                          | \$-                      | \$-                  | \$-           | \$-             | \$3,222,688     |
| Three Months Ended<br>September 30, 2010      |                           |                              |                          |                      |               |                 |                 |
| Total revenue                                 | \$11,655,728              | \$7,455,990                  | \$3,575,942              | \$1,490,742          | \$3,194,862   | \$(3,274,722)   | \$24,098,542    |
| Net interest income                           | \$6,979,173               | \$3,763,143                  | \$2,042,785              | \$-                  | \$(621,526)   | \$-             | \$12,163,575    |
| Net income attributable to QCR Holdings, Inc. | \$1,601,579               | \$881,372                    | \$235,095                | \$442,634            | \$2,038,028   | \$(3,184,622)   | \$2,014,086     |
| Total assets                                  | \$982,315,353             | \$548,462,235                | \$274,910,743            | \$-                  | \$185,977,307 | \$(184,740,323) | \$1,806,925,315 |
| Provision for                                 | \$241,232                 | \$950,000                    | \$243,000                | \$-                  | \$-           | \$-             | \$1,434,232     |

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

|   |                 |               |               |             |               |                 |                 |
|---|-----------------|---------------|---------------|-------------|---------------|-----------------|-----------------|
| loan/lease losses                             |                 |               |               |             |               |                 |                 |
| Goodwill                                      | \$3,222,688     | \$-           | \$-           | \$-         | \$-           | \$-             | \$3,222,688     |
| Nine Months Ended September 30, 2011          |                 |               |               |             |               |                 |                 |
| Total revenue                                 | \$35,990,157    | \$21,482,485  | \$10,046,334  | \$4,238,644 | \$10,776,476  | \$(10,885,546)  | \$71,648,550    |
| Net interest income                           | \$22,772,375    | \$11,859,003  | \$6,641,533   | \$-         | \$(1,284,350) | \$-             | \$39,988,561    |
| Net income attributable to QCR Holdings, Inc. | \$5,777,707     | \$3,964,627   | \$45,697      | \$741,263   | \$7,054,192   | \$(10,620,402)  | \$6,963,084     |
| Total assets                                  | \$1,056,656,935 | \$565,822,310 | \$287,574,174 | \$-         | \$193,059,135 | \$(204,152,062) | \$1,898,960,492 |
| Provision for loan/lease losses               | \$2,236,850     | \$1,035,000   | \$1,925,000   | \$-         | \$-           | \$-             | \$5,196,850     |
| Goodwill                                      | \$3,222,688     | \$-           | \$-           | \$-         | \$-           | \$-             | \$3,222,688     |
| Nine Months Ended September 30, 2010          |                 |               |               |             |               |                 |                 |
| Total revenue                                 | \$35,704,318    | \$21,609,584  | \$10,437,241  | \$3,764,384 | \$8,712,310   | \$(8,923,912)   | \$71,303,925    |
| Net interest income                           | \$21,597,716    | \$11,786,684  | \$5,933,622   | \$-         | \$(1,802,787) | \$-             | \$37,515,235    |
| Net income attributable to QCR Holdings, Inc. | \$4,569,482     | \$2,517,463   | \$768,950     | \$679,350   | \$5,181,035   | \$(8,672,684)   | \$5,043,596     |
| Total assets                                  | \$982,315,353   | \$548,462,235 | \$274,910,743 | \$-         | \$185,977,307 | \$(184,740,323) | \$1,806,925,315 |
| Provision for loan/lease losses               | \$1,243,650     | \$2,900,000   | \$270,000     | \$-         | \$-           | \$-             | \$4,413,650     |
| Goodwill                                      | \$3,222,688     | \$-           | \$-           | \$-         | \$-           | \$-             | \$3,222,688     |



Part I  
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 7 – FAIR VALUE

The measurement of fair value under U.S. GAAP 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:

1. Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;
2. 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
3. Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the nine months ended September 30, 2011 or 2010.

---

Part I  
Item 1

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

Assets measured at fair value on a recurring basis comprise the following at September 30, 2011 and December 31, 2010:

|  | Fair Value     | Fair Value Measurements at Reporting Date Using                               |   |  |
|--|----------------|---|---|--|
|  |                | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| September 30, 2011:                    |                |   |   |  |
| Securities available for sale:         |                |   |   |  |
| U.S. govt. sponsored agency securities | \$ 414,783,837 | \$ -  | \$ 414,783,837  | \$ -   |
| Residential mortgage-backed securities | 83,452,455     | -   | 83,452,455  | -  |
| Municipal securities                   | 25,991,316     | -   | 25,991,316  | -  |
| Trust preferred securities             | 71,800         | -   | 71,800  | -  |
| Other securities                       | 1,412,378      | 176,068   | 1,236,310   | -  |
|  | \$ 525,711,786 | \$ 176,068  | \$ 525,535,718  | \$ -   |
| December 31, 2010:                     |                |   |   |  |
| Securities available for sale:         |                |   |   |  |
| U.S. govt. sponsored agency securities | \$ 402,225,356 | \$ -  | \$ 402,225,356  | \$ -   |
| Residential mortgage-backed securities | 70,438         | -   | 70,438  | -  |
| Municipal securities                   | 20,603,480     | -   | 20,603,480  | -  |
| Trust preferred securities             | 78,000         | -   | 78,000  | -  |
| Other securities                       | 1,569,493      | 209,680   | 1,359,813   | -  |
|  | \$ 424,546,767 | \$ 209,680  | \$ 424,337,087  | \$ -   |

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

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

Part I  
Item 1

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

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

Assets measured at fair value on a non-recurring basis comprise the following at September 30, 2011 and December 31, 2010:

|                         |               | Fair Value Measurements at Reporting Date Using                                  |   |  |
|-------------------------|---------------|--|---|--|
|                         |               | Quoted<br>Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                         | Fair Value    |  |   |  |
| September 30, 2011:     |               |  |   |  |
| Impaired loans/leases   | \$ 17,555,446 | \$ -   | \$ -  | \$ 17,555,446                                      |
| Other real estate owned | 8,950,599     | -  | -   | 8,950,599  |
|                         | \$ 26,506,045 | \$ -   | \$ -  | \$ 26,506,045                                      |
| December 31, 2010:      |               |  |   |  |
| Impaired loans/leases   | \$ 21,501,447 | \$ -   | \$ -  | \$ 21,501,447                                      |
| Other real estate owned | 9,217,488     | -  | -   | 9,217,488  |
|                         | \$ 30,718,935 | \$ -   | \$ -  | \$ 30,718,935                                      |

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 a Level 3 in the fair value hierarchy. Fair value is measured based on the value of the collateral securing these loans/leases. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Other real estate owned in the table above consists of property acquired through foreclosures and settlements of loans. Property acquired is carried at the lower of the principal amount of loans outstanding, or the estimated fair value of the property, less disposal costs, and is classified as a Level 3 in the fair value hierarchy.

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

There have been no changes in valuation techniques used for any assets measured at fair value during the nine months ended September 30, 2011 or 2010.



Part I  
Item 1

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

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

|   | As of September 30, 2011 |                      | As of December 31, 2010 |                      |
|---|--------------------------|----------------------|-------------------------|----------------------|
|   | Carrying Value           | Estimated Fair Value | Carrying Value          | Estimated Fair Value |
| Cash and due from banks                             | \$ 45,431,711            | \$ 45,431,711        | \$ 42,030,806           | \$ 42,030,806        |
| Federal funds sold                                  | 5,790,000                | 5,790,000            | 61,960,000              | 61,960,000           |
| Interest-bearing deposits at financial institutions | 24,665,359               | 24,665,359           | 39,745,611              | 39,745,611           |
| Investment securities:                              |                          |                      |                         |                      |
| Held to maturity                                    | 200,000                  | 200,000              | 300,000                 | 300,000              |
| Available for sale                                  | 525,711,786              | 525,711,786          | 424,546,767             | 424,546,767          |
| Loans/leases receivable, net                        | 1,178,003,224            | 1,202,671,000        | 1,152,173,947           | 1,169,015,000        |
| Accrued interest receivable                         | 6,812,857                | 6,812,857            | 6,435,989               | 6,435,989            |
| Deposits  | 1,207,469,246            | 1,211,463,000        | 1,114,815,857           | 1,118,245,000        |
| Short-term borrowings                               | 143,586,491              | 143,586,491          | 141,154,499             | 141,154,499          |
| Federal Home Loan Bank advances                     | 204,750,000              | 223,371,000          | 238,750,000             | 254,307,000          |
| Other borrowings                                    | 140,129,755              | 156,046,000          | 150,070,785             | 161,454,000          |
| Accrued interest payable                            | 1,740,603                | 1,740,603            | 2,167,648               | 2,167,648            |

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

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

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

**Federal Home Loan Bank advances:** The fair value of these instruments is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.



Part I  
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Junior subordinated debentures: It is not practicable to estimate the fair value of the Company's junior subordinated debentures as instruments with similar terms are not readily available in the market place.

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

NOTE 8 – SERIES F NONCUMULATIVE PERPETUAL PREFERRED STOCK

On September 15, 2011, the Company issued 40,090 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series F ("Series F Preferred Stock") to the U.S. Department of the Treasury ("Treasury") for an aggregate purchase price of \$40,090,000. The sale of Series F Preferred Stock is the result of an investment by Treasury from the Small Business Lending Fund ("SBLF"). As a requirement of the SBLF, simultaneously, the Company redeemed the 38,327 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series D ("Series D Preferred Stock"), at an aggregate price of \$38,237,000. The Series D Preferred Stock was issued on February 13, 2009 as a result of the Company's participation in Treasury's voluntary Capital Purchase Program ("CPP"). In accordance with the CPP, in February 2009 the Company also issued warrants which allow Treasury to purchase up to 521,888 of the Company's common stock at an exercise price of \$10.99. As of the date of this report, the Company and Treasury are in negotiations for the Company to repurchase the warrants.

The Series F Preferred Stock qualifies as Tier 1 capital and pays noncumulative dividends at a rate of 5% per annum for 10 quarters with the ability to reduce the dividend rate down to as low as 1% if the Company can grow qualified small business lending at certain levels as defined by the SBLF. During those first 10 quarters, the dividend rate resets each quarter depending on the levels of qualified small business lending. After 10 quarters, the dividend rate is locked in for the next 8 quarters at the rate paid during that 10th quarter. Should the Company report a cumulative net reduction of qualified small business lending after 10 quarters, then the dividend rate will be 7% for the next 8 quarters. After 18 quarters, the rate will increase to 9% regardless of the Company's qualified small business lending levels.

The Series F Preferred Stock may be redeemed at any time at the option of the Company, subject to the approval of the appropriate federal banking agency. All redemptions must be in amounts equal to at least 25% of the number of originally issued shares, or 100% of the then-outstanding shares (if less than 25% of the originally issued shares).

In accordance with SBLF, the Company may pay dividends on all stock assuming Tier 1 capital levels remain at least 90% of the level existing upon the date of issuance, or September 15, 2011.

The Series F Preferred Stock is nonvoting, other than for consent rights granted to Treasury with respect to (i) any authorization or issuance of shares ranking senior to the Series F Preferred Stock, (ii) any amendment to the rights of the Series F Preferred Stock, and (iii) any merger, exchange, dissolution, or similar transaction that would affect the rights of the Series F Preferred Stock.





Part I  
Item 2

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

GENERAL

QCR Holdings, Inc. is the parent company of Quad City Bank & Trust, Cedar Rapids Bank & Trust, and Rockford Bank & Trust.

Quad City Bank & Trust and Cedar Rapids Bank & Trust are Iowa-chartered commercial banks, and Rockford Bank & Trust is an Illinois-chartered commercial bank. All are members of the Federal Reserve System with depository accounts insured to the maximum amount permitted by law by the Federal Deposit Insurance Corporation ("FDIC").

- Quad City Bank & Trust 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. Quad City Bank & Trust also provides leasing services through its 80%-owned subsidiary, m2 Lease Funds, located in Brookfield, Wisconsin. In addition, Quad City Bank & Trust owns 100% of Quad City Investment Advisors, LLC (formerly known as CMG Investment Advisors, LLC), which is an investment management and advisory company.
- Cedar Rapids Bank & Trust 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 Rapids Bank & Trust also provides residential real estate mortgage lending services through its 50%-owned joint venture, Cedar Rapids Mortgage Company.
- Rockford Bank & Trust commenced operations in January 2005 and provides full-service commercial and consumer banking, and trust and asset management services, to Rockford, Illinois and adjacent communities through its main office located in downtown Rockford and its branch facility on Guilford Road at Alpine Road in Rockford.

The Company engages in real estate holdings through its 91% equity investment in Velie Plantation Holding Company, LLC, based in Moline, Illinois.

---

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

## OVERVIEW

The Company recognized net income of \$2.3 million for the quarter ended September 30, 2011, and net income attributable to QCR Holdings, Inc. of \$2.2 million, which excludes the net income attributable to noncontrolling interests of \$103 thousand. After preferred stock dividends and discount accretion of \$2.2 million, the Company reported a net loss attributable to common stockholders of \$25 thousand, or diluted loss per common share of (\$0.01). The preferred stock dividends included \$1.2 million of accelerated accretion of the discount on the repurchased CPP preferred shares from Treasury. This one-time deemed dividend was the result of the Company's repurchase of all of the preferred shares issued to Treasury under the CPP in connection with its participation in the SBLF. For the same period in 2010, the Company recognized net income of \$2.1 million and net income attributable to QCR Holdings, Inc. of \$2.0 million, which excludes the net income attributable to noncontrolling interests of \$110 thousand. After preferred stock dividends and discount accretion of \$1.0 million, the Company reported net income attributable to common stockholders of \$985 thousand, or diluted earnings per common share of \$0.21.

For the nine months ended September 30, 2011, the Company reported net income of \$7.3 million, and net income attributable to QCR Holdings, Inc. of \$7.0 million, which excludes the net income attributable to noncontrolling interests of \$308 thousand. After preferred stock dividends and discount accretion of \$4.3 million, the Company reported net income attributable to common stockholders of \$2.7 million, or diluted earnings per common share of \$0.56. As mentioned above, the preferred stock dividends included \$1.2 million of accelerated accretion of the discount on the repurchased CPP preferred shares. For the same period in 2010, the Company recognized net income of \$5.1 million and net income attributable to QCR Holdings, Inc. of \$5.0 million, which excludes the net income attributable to noncontrolling interests of \$95 thousand. After preferred stock dividends and discount accretion of \$3.1 million, the Company reported net income attributable to common stockholders of \$1.9 million, or diluted earnings per common share of \$0.42.

Following is a table that represents the various net income measurements for the three and nine months ended September 30, 2011 and 2010, respectively.

|  | Three Months Ended September 30, |              | Nine Months Ended September 30, |              |
|--|----------------------------------|--------------|---------------------------------|--------------|
|  | 2011                             | 2010         | 2011                            | 2010         |
| Net income   | \$ 2,266,601                     | \$ 2,123,872 | \$ 7,271,299                    | \$ 5,138,642 |
| Less: Net income attributable to noncontrolling interests                | 103,446                          | 109,786      | 308,215                         | 95,046       |
| Net income attributable to QCR Holdings, Inc.                            | \$ 2,163,155                     | \$ 2,014,086 | \$ 6,963,084                    | \$ 5,043,596 |
| Less: Preferred stock dividends and discount accretion                   | 2,188,058                        | 1,028,686    | 4,256,171                       | 3,099,418    |
| Net income (loss) attributable to QCR Holdings, Inc. common stockholders | \$ (24,903 )                     | \$ 985,400   | \$ 2,706,913                    | \$ 1,944,178 |
|  | \$ (0.01 )                       | \$ 0.21      | \$ 0.56                         | \$ 0.42      |

Diluted earnings (loss) per common share

|  |           |   |           |           |           |
|--|-----------|---|-----------|-----------|-----------|
| Weighted average common and common equivalent shares outstanding | 4,866,692 | * | 4,619,574 | 4,847,433 | 4,617,102 |
|--|-----------|---|-----------|-----------|-----------|

\*In accordance with U.S. GAAP, the common equivalent shares are not considered in the calculation of diluted earnings per share as the numerator is a net loss.

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

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

|                                 | Three Months Ended    |               |                       | Nine Months Ended     |                       |
|---------------------------------|-----------------------|---------------|-----------------------|-----------------------|-----------------------|
|                                 | September 30,<br>2011 | June 30, 2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Net interest income             | \$ 13,828,704         | \$ 13,951,055 | \$ 12,163,575         | \$ 39,988,561         | \$ 37,515,235         |
| Provision for loan/lease losses | (2,456,965 )          | (1,672,221 )  | (1,434,232 )          | (5,196,850 )          | (4,413,650 )          |
| Noninterest income              | 4,335,307             | 4,173,381     | 4,358,286             | 13,565,812            | 10,727,993            |
| Noninterest expense             | (12,773,149)          | (12,555,547)  | (12,133,765)          | (38,340,967)          | (36,790,273)          |
| Federal and state income tax    | (667,296 )            | (1,123,454 )  | (829,992 )            | (2,745,257 )          | (1,900,663 )          |
| Net income                      | \$ 2,266,601          | \$ 2,773,214  | \$ 2,123,872          | \$ 7,271,299          | \$ 5,138,642          |

## NET INTEREST INCOME

Net interest income, on a tax equivalent basis, increased \$1.7 million, or 14%, to \$14.0 million for the quarter ended September 30, 2011, from \$12.3 million for the third quarter of 2010. For the third quarter of 2011, average earning assets increased \$47.2 million, or 3%, while average interest-bearing liabilities declined \$14.6 million, or 1%, when compared with average balances for the third quarter of 2010. Offsetting this decline and primarily funding the growth in average earnings assets, average noninterest-bearing deposits grew \$70.8 million, or 29%, from the third quarter 2010 to the same period of 2011. A comparison of yields, spread and margin from the third quarter of 2011 to the third quarter of 2010 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 16 basis points.
- The average cost of interest-bearing liabilities decreased 49 basis points.
- The net interest spread improved 33 basis points from 2.52% to 2.85%.
- The net interest margin improved 31 basis points from 2.85% to 3.16%.

Net interest income, on a tax equivalent basis, increased \$2.5 million, or 7%, to \$40.4 million for the nine months ended September 30, 2011, from \$37.8 million for the first nine months of 2010. For the first nine months of 2011, average earning assets increased \$49.7 million, or 3%, while average interest-bearing liabilities declined \$29.9 million, or 2%, when compared with average balances for the first nine months of 2010. Offsetting this decline and primarily funding the growth in average earning assets, average noninterest-bearing deposits grew \$81.4 million, or 37%, from the first nine months of 2010 to the same period of 2011. A comparison of yields, spread and margin from the first nine months of 2011 to the first nine months of 2010 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 32 basis points.
- The average cost of interest-bearing liabilities decreased 42 basis points.
- The net interest spread improved 10 basis points from 2.62% to 2.72%.
- The net interest margin improved 11 basis points from 2.94% to 3.11%.



Part I  
Item 2

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

The Company's management closely monitors and manages net interest margin. From a profitability standpoint, an important challenge for the Company's subsidiary banks and majority-owned leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing and other balance sheet management strategies, including, but not limited to, the use of alternative funding sources.

For example, the Company's largest subsidiary bank, QCBT, executed a balance sheet restructuring during the first quarter of 2011. Specifically, the bank utilized excess liquidity and prepaid \$15.0 million of FHLB advances with a weighted average interest rate of 4.87% and a weighted average maturity of May 2012. The fees for prepayment totaled \$832 thousand. The Company sold \$37.4 million of government sponsored agency securities and recognized pre-tax gains of \$880 thousand which more than offset the prepayment fees. The proceeds from the sales of the government sponsored agency securities were reinvested into government guaranteed residential mortgage-backed securities with reduced risk-weighting for regulatory capital purposes and yields that were comparable to the sold securities. The resulting impacts were significant and include:

- Significantly reduced interest expense and improved net interest margin in subsequent quarters
  - Stronger regulatory capital
  - Reduced reliance on wholesale funding

Separately, during the first quarter of 2011, QCBT modified \$20.4 million of fixed rate FHLB advances with a weighted average interest rate of 4.33% and a weighted average maturity of October 2013 into new fixed rate advances with a weighted average interest rate of 3.35% and a weighted average maturity of February 2014. The modification reduces interest expense and improves net interest margin, and minimizes the exposure to rising rates through duration extension of fixed rate liabilities.

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:

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

|   | For the three months ended September 30, |                               |                             |                     |                               |                             |
|---|--|-------------------------------|-----------------------------|---------------------|-------------------------------|-----------------------------|
|   | 2011                                     |                               |                             | 2010                |                               |                             |
|   | Average<br>Balance                       | Interest<br>Earned<br>or Paid | Average<br>Yield or<br>Cost | Average<br>Balance  | Interest<br>Earned<br>or Paid | Average<br>Yield or<br>Cost |
| (dollars in thousands)                                    |  |                               |                             |                     |                               |                             |
| <b>ASSETS</b>   |  |                               |                             |                     |                               |                             |
| <b>Interest earning assets:</b>                           |  |                               |                             |                     |                               |                             |
| Federal funds sold  | \$ 18,996                                | \$ 8                          | 0.17 %                      | \$ 60,217           | \$ 39                         | 0.26 %                      |
| Interest-bearing deposits at<br>financial institutions    | 26,124                                   | 98                            | 1.50 %                      | 31,504              | 55                            | 0.70 %                      |
| Investment securities (1)                                 | 516,617                                  | 3,243                         | 2.51 %                      | 416,263             | 2,931                         | 2.82 %                      |
| Restricted investment<br>securities                       | 15,305                                   | 126                           | 3.29 %                      | 16,639              | 116                           | 2.79 %                      |
| Gross loans/leases<br>receivable (2) (3) (4)              | 1,190,313                                | 16,216                        | 5.45 %                      | 1,195,525           | 16,710                        | 5.59 %                      |
| <b>Total interest earning assets</b>                      | <b>\$ 1,767,355</b>                      | <b>19,691</b>                 | <b>4.46 %</b>               | <b>\$ 1,720,148</b> | <b>19,851</b>                 | <b>4.62 %</b>               |
| <b>Noninterest-earning assets:</b>                        |  |                               |                             |                     |                               |                             |
| Cash and due from banks                                   | \$ 46,947                                |                               |                             | \$ 34,080           |                               |                             |
| Premises and equipment                                    | 30,446                                   |                               |                             | 31,754              |                               |                             |
| Less allowance for<br>estimated losses on<br>loans/leases | (19,693 )                                |                               |                             | (21,400 )           |                               |                             |
| Other   | 79,293                                   |                               |                             | 75,602              |                               |                             |
| <b>Total assets</b>                                       | <b>\$ 1,904,348</b>                      |                               |                             | <b>\$ 1,840,184</b> |                               |                             |
| <b>LIABILITIES AND<br/>STOCKHOLDERS'<br/>EQUITY</b>       |  |                               |                             |                     |                               |                             |
| <b>Interest-bearing liabilities:</b>                      |  |                               |                             |                     |                               |                             |
| Interest-bearing demand<br>deposits                       | \$ 498,764                               | 991                           | 0.79 %                      | \$ 388,685          | 1,009                         | 1.04 %                      |
| Savings deposits  | 39,123                                   | 15                            | 0.15 %                      | 34,996              | 24                            | 0.27 %                      |
| Time deposits   | 363,181                                  | 1,195                         | 1.32 %                      | 452,607             | 2,118                         | 1.87 %                      |
| Short-term borrowings                                     | 145,147                                  | 66                            | 0.18 %                      | 141,679             | 132                           | 0.37 %                      |
| Federal Home Loan Bank<br>advances                        | 204,911                                  | 1,931                         | 3.77 %                      | 237,760             | 2,346                         | 3.95 %                      |
| Junior subordinated<br>debentures                         | 36,085                                   | 242                           | 2.68 %                      | 36,085              | 495                           | 5.49 %                      |
| Other borrowings (4)                                      | 140,774                                  | 1,301                         | 3.70 %                      | 150,740             | 1,453                         | 3.86 %                      |

|  |              |           |        |              |           |        |
|--|--------------|-----------|--------|--------------|-----------|--------|
| Total interest-bearing liabilities   | \$ 1,427,985 | 5,741     | 1.61 % | \$ 1,442,552 | 7,577     | 2.10 % |
| Noninterest-bearing demand deposits  | \$ 311,044   |           |        | \$ 240,254   |           |        |
| Other noninterest-bearing liabilities  | 26,315       |           |        | 23,503       |           |        |
| Total liabilities  | \$ 1,765,344 |           |        | \$ 1,706,309 |           |        |
| Stockholders' equity   | 139,004      |           |        | 133,875      |           |        |
| Total liabilities and stockholders' equity                                       | \$ 1,904,348 |           |        | \$ 1,840,184 |           |        |
| Net interest income  |              | \$ 13,950 |        |              | \$ 12,274 |        |
| Net interest spread  |              |           | 2.85 % |              |           | 2.52 % |
| Net interest margin  |              |           | 3.16 % |              |           | 2.85 % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 123.77 %     |           |        | 119.24 %     |           |        |

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

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

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

(4) In accordance with ASC 860, effective January 1, 2010, the Company accounts for some participations sold, including sales of SBA-guaranteed portions of loans during the recourse period, as secured borrowings. As such, these amounts are included in the average balance for gross loans/leases receivable and other borrowings. For the three months ended September 30, 2011 and 2010, this totaled \$0.5 million and \$9.9 million, respectively. During the second quarter of 2011, SBA removed the recourse provision for sales which allowed for sale accounting treatment at the time of sale; thus, the decline in average balance.



## CRITICAL ACCOUNTING POLICIES

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

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for estimated losses on loans/leases. The Company's allowance for estimated losses on loans/leases methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for estimated losses on loans/leases that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans/leases, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest, and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. Management may report a materially different amount for the provision for loan/lease losses in the statement of operations to change the allowance for estimated losses on loans/leases if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion in the section entitled "Financial Condition" of this Management's Discussion and Analysis that discusses the allowance for estimated losses on loans/leases. Although management believes the level of the allowance as of September 30, 2011 is adequate to absorb losses inherent in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

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

## RESULTS OF OPERATIONS

### INTEREST INCOME

Interest income experienced a decline of \$171 thousand, or 1%, from \$19.7 million for the third quarter of 2010 to \$19.6 million for the third quarter of 2011, primarily as a result of the continued shift in interest-earning asset mix and the extended historical low interest rate environment. The Company's average interest-earning assets increased \$47.2 million, or 3%, from the third quarter of 2010 to the third quarter of 2011. Most notably, the Company grew its securities portfolio as the average balance of investment securities increased \$100.4 million, or 24%. Partially offsetting this growth, the average balance of federal funds sold decreased \$41.2 million, or 68%. The average

balance of loan/leases declined slightly. This continued shift in interest-earning asset mix is the result of weak loan/lease demand and the Company's strategy to invest some of its excess liquidity in government sponsored agency securities and government guaranteed residential mortgage-backed securities.

For the nine months ended September 30, 2011, the Company recognized \$58.1 million of interest income compared to \$60.6 million of interest income for the same period in 2010. As mentioned above, the Company's continued shift in interest-earning asset mix and the extended historical low interest rate environment has led to the decline in interest income.

#### INTEREST EXPENSE

Interest expense declined \$1.8 million, or 24%, from \$7.6 million for the third quarter of 2010 to \$5.7 million for the third quarter of 2011. The Company's average balance of interest-bearing liabilities declined \$14.6 million, or 1%, from the third quarter of 2010 to the same quarter of 2011. Also contributing to the decline in interest expense, the Company has been successful in shifting the mix of funding from wholesale borrowings and brokered time deposits to core deposits. The aforementioned balance sheet restructuring at QCBT is a major contributor to the shift in mix and the decline in interest expense. Lastly, management continues to focus on driving down deposit pricing.

For the nine months ended September 30, 2011, the Company reported interest expense of \$18.1 million which is a reduction of \$5.0 million, or 22%, from \$23.1 million for the same period in 2010. As mentioned above, the continued shift in mix and the sustained focus on managing down deposit pricing has led to this significant decline in interest expense.

#### PROVISION FOR LOAN/LEASE LOSSES

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

The Company's provision for loan/lease losses totaled \$2.5 million for the third quarter of 2011, an increase of \$785 thousand over the prior quarter, and an increase of \$1.0 million from the third quarter of 2010. The increases were primarily the result of a specific provision related to one new nonperforming commercial real estate loan that deteriorated during the current quarter. Net loan/lease growth of \$13.7 million, or 1%, for the current quarter also contributed to the increased provision.

For the nine months ended September 30, 2011, provision for loan/lease losses totaled \$5.2 million which is an increase of \$783 thousand, or 18%, from \$4.4 million for the same period in 2010. Similar to above, the increase is primarily the result of a specific provision related to a single nonperforming credit that deteriorated during the current quarter.

With net charge-offs totaling \$2.7 million mostly offset by provision for loan/lease losses of \$2.5 million, the Company's allowance for estimated losses on loan/lease losses to total loans/leases declined to 1.63% at September 30, 2011 from 1.67% at June 30, 2011, and from 1.74% at December 31, 2010. A more detailed discussion of the Company's allowance for estimated losses on loans/leases can be found in the "Financial Condition" section of this report.

#### NONINTEREST INCOME

The following tables set forth the various categories of noninterest income for the three and nine months ended September 30, 2011 and 2010.

Trust department fees continue to be a significant contributor to noninterest income. This fee income decreased \$41 thousand, or 5%, from the third quarter of 2010 to the third quarter of 2011, but increased \$169 thousand, or 7%, from the first nine months of 2010 to the same period in 2011. The majority of the trust department fees are determined based on the value of the investments within the managed trusts. As markets have experienced volatility with the national economy's recovery from recession, the Company's fee income has experienced similar volatility and fluctuation.

Over the past year, the Company has placed a stronger emphasis on growing its investment advisory and management services. Fee income for investment advisory and management services increased \$130 thousand, or 31%, for the third quarter of 2011 compared to the same quarter of 2010, and increased \$305 thousand, or 23%, for the first nine months of 2011 compared to the same period in 2010. Similar to trust department fees, these fees are partially determined based on the value of the investments managed. The increases are largely the result of growth in assets under advisory and management.

Although deposit service fees were down slightly comparing the third quarter of 2011 to the same quarter of 2010, the Company grew deposit fees \$37 thousand, or 1%, from the first nine months of 2010 to the first nine months of 2011. In general, deposit services fees have increased steadily over the past several years. The Company continues to place an emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits. With this shift in mix, the Company has increased the number of demand deposit accounts which tend to be lower in interest cost and higher in service fees.

Gains on sales of loans, net, declined \$701 thousand, or 63%, from the third quarter of 2010 to the third quarter of 2011, while gains on sales of loans, net increased \$91 thousand, or 5%, from the first nine months of 2010 to the first nine months of 2011. This consists of sales of residential mortgages and the government guaranteed portions of small business loans. Regarding sales of residential mortgages, the Company experienced a decline in sales activity quarter-over-quarter and year-over-year. This is consistent across the industry as the fluctuation in interest rates have slowed residential mortgage refinancing transactions and a sluggish housing market continues to keep new loan origination and sales activity at low levels. The Company continues to focus on small business lending by taking advantage of programs offered by the Small Business Administration (SBA) and United States Department of Agriculture (USDA). In some cases, it is more beneficial for the Company to sell the government guaranteed portion at a premium. The Company recognized gains on sales of the government guaranteed portions of SBA and USDA loans totaling \$1.4 million for the first nine months of 2011 compared to \$979 thousand of gains recognized for the first nine months of 2010. Part of the year-over-year increase is a result of the timing on implementing this strategy. The Company introduced selling of government guaranteed loans in the first half of 2010 and, at that time, SBA and USDA required execution with a 90-day recourse period which prompted required accounting treatment of deferring any gains until expiration of the recourse period. Effective in the second quarter of 2011, SBA and USDA removed the recourse provisions for future sales which allows for sale accounting treatment at the time of sale. As a result, the Company was able to recognize gains at the time of sale for all of the sales in the second and third quarters of 2011.

During the third quarter of 2011, as a result of favorable market conditions, QCBT sold \$8.6 million of government agency securities for a pre-tax gain totaling \$444 thousand. The related sales proceeds were reinvested into residential mortgage-backed securities with higher yields and similar credit risk to the sold securities. During the second quarter of 2011, as a result of favorable market conditions, RB&T sold \$8.3 million of government agency securities for a pre-tax gain totaling \$149 thousand. Additionally, the sales proceeds were utilized to diversify RB&T's securities portfolio and fund loan growth. Separately, during the first quarter of 2011, in an effort to offset the \$832 thousand of fees for prepaying \$15.0 million of FHLB advances, QCBT sold \$37.4 million of government agency securities for a pre-tax gain totaling \$880 thousand. See detailed discussion of this restructuring transaction in the Net Interest Income section earlier in Management's Discussion and Analysis.

#### NONINTEREST EXPENSE

The following table sets forth the various categories of noninterest expense for the three and nine months ended September 30, 2011 and 2010.

Salaries and employee benefits, which is the largest component of noninterest expense, increased \$742 thousand, or 11%, from the third quarter of 2010 to the same quarter of 2011, and increased \$1.6 million, or 8%, from the first nine months of 2010 to the first nine months of 2011. These increases are largely the result of:

- Customary annual salary and benefits increases for the majority of the Company's employee base in 2011. For 2010, the Company did not generally increase salaries across the employee base.
- Continued increase in health insurance-related employee benefits for the majority of the Company's employee base.
  - Higher accrued incentive compensation based on improved performance through the first nine months of 2011.
- Increase in the Company's employee base as full-time equivalents increased from 345 at September 30, 2010 to 358 at September 30, 2011.

FDIC and other insurance expense decreased 35% from the third quarter of 2010 to the third quarter of 2011, and decreased 17% from the first nine months of 2010 to the first nine months of 2011. FDIC insurance premiums are calculated using a variety of factors, including, but not limited to, balance sheet levels, funding mix, and regulatory compliance. The subsidiary banks have been successful in managing these factors and driving down FDIC insurance cost. In addition, the FDIC modified the calculation for premiums effective during the second quarter of 2011. The modification was favorable for the Company's subsidiary banks.

Loan/lease expense increased \$161 thousand, or 24%, from the third quarter of 2010 to the third quarter of 2011; and, loan/lease expense increased \$114 thousand, or 7%, from the first nine months of 2010 to the same period in 2011. Generally, loan/lease expense has a direct relationship with the level of nonperforming loans/leases; however, it may deviate as it depends upon the individual nonperforming loans/leases. Over the past few years, the Company has experienced elevated levels of loan/lease expense.

The Company incurred additional expenses for advertising and marketing over the first nine months of 2011. Specifically, the subsidiary banks and the leasing company are pursuing opportunities to reach new customers in their respective markets as a result of the continued uncertainty with some of their competition.

Bank service charges, which include costs incurred to provide services to QCBT's correspondent banking customer portfolio, have increased over the first nine months of 2011. The increase is due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio over the past year.

In an effort to utilize some of its excess liquidity and improve net interest margin by eliminating some of its higher cost wholesale funding, QCBT prepaid \$15.0 million of FHLB advances during the first quarter of 2011. As a result, QCBT incurred a prepayment fee totaling \$832 thousand. To offset these fees, QCBT sold \$37.4 million of government sponsored agency securities for a pre-tax gain totaling \$880 thousand. See detailed discussion of this restructuring transaction in the Net Interest Income section earlier in Management's Discussion and Analysis.

During the first quarter of 2010, the Company recognized losses in residual values for two direct financing equipment leases. The sharp declines in value were isolated and attributable to changes in unique market conditions during the quarter related to the specific equipment. Specifically, one of the affected leases related to auto-industry equipment. During the first quarter of 2010, several like equipment dealers declared bankruptcy which led to disruption in the specific market. As a result, pricing for new like equipment declined sharply. Similarly, for the other affected lease, the underlying equipment was a commercial printer. The commercial printing industry has experienced some challenges and pricing for this particular equipment experienced sharp declines during the first quarter of 2010. In both cases, management determined the amount of the loss by comparing the recorded estimated residual value of the affected leases to the estimated value at the end of the lease term, as adjusted for the declined

pricing for new like equipment. And, in both cases, the equipment was sold in the second quarter of 2010 without any further losses realized. For the three and nine months ended September 30, 2011, there were no losses on residual values. Management continues to perform periodic and specific reviews of its residual values, and has identified modest residual risk remaining in the lease portfolio.

During the second quarter of 2011, the Company's evaluation of its securities portfolio for other-than-temporary impairment determined that two privately held equity securities experienced declines in fair value that were other-than-temporary. As a result, the Company wrote down the value of these securities and recognized losses in the amount of \$119 thousand. For 2010, the Company identified a single issue trust preferred security that experienced a decline in fair value determined to be other-than-temporary. As a result, the Company wrote down the value of this security and recognized a loss totaling \$114 thousand. The Company does not own any other trust preferred securities.

## INCOME TAXES

The provision for income taxes totaled \$667 thousand, or an effective tax rate of 23%, for the third quarter of 2011 compared to \$830 thousand, or an effective tax rate of 28%, for the same quarter in 2010. The Company's provision for income taxes and effective tax rate declined due to the acquisition and application of tax credits during the third quarter of 2011.

The provision for income taxes totaled \$2.7 million, or an effective tax rate of 27%, for the first nine months of 2011 compared to \$1.9 million, or an effective tax rate of 27%, for the same period in 2010.

## FINANCIAL CONDITION

During the first nine months of 2011, the Company's total assets increased 3% from \$1.84 billion at December 31, 2010 to \$1.90 billion at September 30, 2011. The Company grew its securities portfolio \$101.1 million, or 24%, over the first nine months of 2011. Additionally, the Company experienced net growth of loan/leases in the amount of \$25.8 million, or 2%, over the first nine months of 2011. The growth was partially offset by a decline in federal funds sold and interest-bearing deposits at financial institutions as the Company invested some of its excess liquidity. The net increase in assets during the first nine months of 2011 was funded by strong and continued growth of the Company's deposit portfolio as balances grew \$92.7 million, or 8%. Partially offsetting the deposit growth, the Company reduced its reliance on borrowings by \$41.5 million, or 7%, over the first nine months of 2011.

The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on asset-liability position and maximizing return. With the strong growth in deposits and the continued weak loan demand, the Company has carried excess liquidity on the balance sheet over the past year. During the first nine months of 2011, the Company invested a portion of its excess liquidity in government guaranteed residential mortgage-backed securities and additional government sponsored agency securities. The former is a shift in mix for the Company's securities portfolio in an effort to diversify and adapt to the changing balance sheet. As a result, the Company grew its securities portfolio \$101.1 million, or 24%, during the first nine months of 2011. The Company has not invested in commercial mortgage-backed securities or pooled trust preferred securities.

The following tables summarize the amortized cost and fair value of investment securities as of September 30, 2011 and December 31, 2010.

The following tables present the maturities of securities held as of September 30, 2011 and the weighted average stated coupon rates by major type and range of maturity. Note the yields below are calculated on a tax equivalent basis.

The following tables present the maturities of securities held as of December 31, 2010 and the weighted average stated coupon rates by major type and range of maturity. Note the yields below are calculated on a tax equivalent basis.

See Note 2 for additional information regarding the Company's securities portfolio.

Gross loans/leases receivable experienced net growth of \$25.0 million, or 2%, during the first nine months of 2011. Additionally, for the third quarter of 2011, the Company grew gross loans/leases \$13.7 million, or 1%, over the second quarter of 2011. This marked consecutive quarters of net growth as the Company grew loans/leases \$28.1 million, or 2%, in the second quarter of 2011, as compared to the first quarter of 2011. Prior to the second quarter of 2011, the Company had not had a quarter-over-quarter increase in gross loans/leases since the fourth quarter of 2009. Specifically, the Company originated \$310.0 million of new loans/leases to new and existing customers during the first nine months of 2011, including \$92.7 million for the third quarter of 2011.

The mix of the loan/lease types within the Company's loan/lease portfolio is presented in the table along with a rollforward of activity for the nine months ended September 30, 2011.

As commercial real estate loans are the largest loan type, management places a strong emphasis on monitoring the composition of the Company's commercial real estate loan portfolio. Management tracks the level of owner-occupied commercial real estate loans versus non owner-occupied loans. Owner-occupied loans are generally considered to have less risk. As of September 30, 2011 and December 31, 2010, approximately 28% and 26% of the commercial real estate loan portfolio was owner-occupied.

Following is a listing of significant industries within the Company's commercial real estate loan portfolio as of September 30, 2011 and December 31, 2010:

\* "Other" consists of all other industries. None of these had concentrations greater than \$15 million, or 2.6% of total commercial real estate loans.

During the first nine months of 2011, the Company originated and held a limited amount of 15-year fixed rate residential real estate loans that met certain credit guidelines. Specifically, the Company grew residential real estate loans by \$11.9 million, or 14%, thus far in 2011. The remaining residential real estate loans originated by the Company were sold on the secondary market to avoid the interest rate risk associated with longer term fixed rate loans. Loans originated for this purpose were classified as held for sale and are included in the residential real estate loans above. In addition, the Company has not originated any subprime, Alt-A, no documentation, or stated income residential real estate loans throughout its history.

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

Changes in the allowance for estimated losses on loans/leases for the three and nine months ended September 30, 2011 and 2010 are presented as follows:

The allowance for estimated losses on loans/leases was \$19.6 million at September 30, 2011 compared to \$20.4 million at December 31, 2010 and \$19.9 million at September 30, 2010. The allowance for estimated losses on loans/leases was determined based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, past loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, governmental guarantees and other factors that, in management's judgment, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on a number of factors, including the increase/decrease in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed monthly with specific detailed reviews completed on all loans risk-rated worse than "fair quality" and carrying aggregate exposure in excess of \$100 thousand. The adequacy of the allowance for estimated losses on loans/leases was monitored by the loan review staff and reported to management and the board of directors. The Company's allowance for estimated losses on loans/leases to gross loans/leases was 1.63% at

September 30, 2011 which is a decrease from 1.74% at December 31, 2010, and from 1.67% at September 30, 2010. The Company's nonperforming loans/leases grew \$4.8 million, or 18%, during the third quarter 2011. Previously, the Company experienced a declining trend in nonperforming loans/leases. Despite the net increase in the current quarter, the Company's nonperforming loans/leases are down \$15.2 million, or 32%, from the peak position at September 30, 2010. This general decline has outpaced the decrease in the allowance for loan/lease losses over the first nine months of 2011 and strengthened the Company's allowance to nonperforming loans/leases from 49% at December 31, 2010 to 61% at September 30, 2011.

Although management believes that the allowance for estimated losses on loans/leases at September 30, 2011 was at a level adequate to absorb losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require further increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks and leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

See Note 3 for additional information regarding the Company's allowance for estimated losses on loans/leases. The table below presents the amounts of nonperforming assets.

- (1) Includes government guaranteed portion of loan.
- (2) Includes troubled debt restructurings of \$8.6 million at September 30, 2011, \$11.0 million at June 30, 2011, \$12.6 million at December 31, 2010, and \$2.8 million at September 30, 2010.
- (3) Texas Ratio = Nonperforming Assets (excluding Other Repossessed Assets) / Tangible Equity plus Allowance for Estimated Losses on Loans/Leases. Texas Ratio is a non-GAAP financial measure. Management included this ratio as this is considered to be a critical metric with which to analyze and evaluate asset quality. Other companies may calculate this ratio differently.

The large majority of the nonperforming assets consist of nonaccrual loans/leases and other real estate owned. For nonaccrual loans/leases, management has thoroughly reviewed these loans/leases and has provided specific allowances as appropriate. Other real estate owned is carried at the fair value less costs to sell.

Nonperforming assets at September 30, 2011 were \$40.5 million which is an increase of \$2.6 million, or 7%, from June 30, 2011. Thus far in 2011, the Company's nonperforming assets are down \$9.6 million, or 25%, from December 31, 2010. Further, nonperforming assets have declined \$18.9 million, or 32%, from its peak position of \$59.4 million at September 30, 2010. A combination of improved performance and charge-offs contributed to the general decrease throughout 2011, while deterioration of a single commercial real estate credit during the third quarter of 2011 contributed to the current quarter increase.

Bank-owned life insurance increased \$8.0 million, or 24%, during the first nine months of 2011 as the Company purchased additional insurance. The Company has earned approximate yields (unadjusted for tax effect) on bank-owned life insurance of 3.67% and 4.13% for the nine months ended September 30, 2011 and 2010, respectively.

Deposits grew \$92.7 million, or 8%, during the first nine months of 2011, and deposits grew \$120.7 million, or 11%, from September 30, 2010 to September 30, 2011. The table below presents the composition of the Company's deposit portfolio.

The Company has been successful in shifting the deposit mix over the past year with an increase in noninterest bearing deposits and declines in brokered and retail time deposits. Specifically, QCBT continues to have success growing its correspondent banking business as noninterest bearing correspondent deposits grew \$64.9 million, or 80%, to \$145.7 million during the first nine months of 2011. These increases and the Company's overall strong liquidity position have allowed the Company to reduce the level of brokered and other time deposits which has helped drive down the Company's average cost of deposits.

Short-term borrowings increased \$2.4 million, or 2%, during the first nine months of 2011. The subsidiary banks offer short-term repurchase agreements to some of their significant customers. Also, the subsidiary banks purchase federal funds for short-term funding needs from the Federal Reserve Bank or from their correspondent banks. The table below presents the composition of the Company's short-term borrowings.

FHLB advances decreased by \$34.0 million, or 14%, during the first nine months of 2011. The decline was the combination of prepayment (\$15.0 million) and maturities (\$19.0 million). As a result of their memberships in either the FHLB of Des Moines or Chicago, the subsidiary banks have the ability to borrow funds for short or long-term purposes under a variety of programs. FHLB advances are utilized for loan matching as a hedge against the possibility of rising interest rates, and when these advances provide a less costly or more readily available source of funds than customer deposits. See Note 4 for additional information on FHLB advances.

Other borrowings decreased \$9.9 million, or 7%, from \$150.1 million at December 31, 2010 to \$140.1 million at September 30, 2011. Other borrowings consist largely of structured wholesale repurchase agreements which are utilized as an alternative funding source to FHLB advances and customer deposits. The table below presents the composition of the Company's other borrowings.

As of December 31, 2010, secured borrowings for loan participations sold largely represented sales of the government guaranteed portion of certain SBA and USDA loans. At that time, the sales required execution with a 90-day recourse period which prompted required accounting treatment as secured borrowings and deferral of any gains until expiration of the recourse period. During the second quarter of 2011, SBA and USDA removed the recourse provisions for future sales which allows for sale accounting treatment at the time of sale.

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

Stockholders' equity increased \$10.6 million, or 8%, during the first nine months of 2011. Net income of \$6.9 million for the first nine months of 2011 increased retained earnings; however, this was partially offset by declaration and accrual of preferred stock dividends and discount accretion totaling \$4.3 million, and declaration of common stock dividends of \$186 thousand. Specifically regarding the preferred stock dividends, the following details the dividend activity for the first nine months of 2011:

- \$1.8 million for the quarterly dividends on the outstanding shares of Series D Cumulative Perpetual Preferred Stock at a stated rate of 5.00%, including the related discount accretion, paid up through redemption which occurred on September 15, 2011,
- \$1.2 million for the accelerated accretion of the remaining discount on the redeemed Series D Cumulative Perpetual Preferred Stock, and
- \$1.3 million for the three quarterly dividends on the outstanding shares of Series E Non-Cumulative Perpetual Preferred Stock at a stated dividend rate of 7.00%.

It is the Company's intention to consider the payment of common stock dividends on a semi-annual basis.



The net proceeds from the issuance of the Series F Preferred Stock and the simultaneous redemption of the Series D Preferred Stock totaled \$1.7 million which helped contribute to the increase in stockholder's equity. See Note 8 for additional information on the Series F Preferred Stock.

Lastly, the available for sale portion of the securities portfolio experienced an increase in fair value of \$3.5 million, net of tax, for the first nine months of 2011 as a result of fluctuation in certain market interest rates.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers' credit needs. The Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which totaled \$75.9 million at September 30, 2011 and \$143.7 million at December 31, 2010. The decline is a direct result of the Company's investment of its excess on-balance sheet liquidity throughout 2011.

The Company has a variety of sources of short-term liquidity available, including federal funds purchased from correspondent banks, FHLB advances, structured wholesale repurchase agreements, brokered certificates of deposit, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities available for sale, and loan/lease participations or sales. At September 30, 2011, the subsidiary banks had 19 lines of credit totaling \$200.0 million, of which \$75.5 million was secured and \$124.5 million was unsecured. At September 30, 2011, all of the \$200.0 million was available. Additionally, the Company has a single \$20.0 million secured revolving line of credit with a maturity date of April 1, 2012. As of September 30, 2011, the Company had \$17.5 million available as the line of credit carried an outstanding balance of \$2.5 million.

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

The following table presents the details of the trust preferred securities issued and outstanding as of September 30, 2011.

\*Rate was fixed at 6.93% until March 31, 2011 when it became variable based on 3-month LIBOR plus 2.85%, reset quarterly.

\*\*Rate was fixed until April 7, 2011, when it became variable based on 3-month LIBOR plus 1.55%, reset quarterly.

The following table presents the details of the preferred stock issued and outstanding as of September 30, 2011.

\*Company pays noncumulative dividends at a rate of 5.00% per annum for the first 10 quarters and can reduce the rate down to as low as 1.00% if certain levels of qualified small business lending are achieved, as defined by the SBLF. After 10 quarters, the dividend rate paid is locked in for the next 8 quarters. If the Company has not grown qualified small business lending, then the dividend rate paid for those 8 quarters would be 7.00%. After 18 quarters, the dividend rate resets to 9.00% per annum thereafter regardless of qualified small business lending levels. See Note 8 for additional discussion on the Series F Preferred Stock.

As of September 30, 2011, the Company reported its qualified small business lending in accordance with SBLF guidelines and calculated a net decline from the baseline of \$62.4 million, or 14%. SBLF defines the baseline as the average of the Company's qualified small business loans for the last two quarters of 2009 and the first two quarters of 2010. As a result of the decline, the dividend rate on the Series F Preferred Stock remains at 5%. The decline is primarily a function of the residual impact of the economic downturn on the communities the Company serves over

the recent years. Specifically, small business loan demand weakened whereby originations were outpaced by payments and maturities.

The Company and the subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. 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. As of September 30, 2011, the regulatory capital ratios of each of our subsidiary banks exceeded the minimum levels required for them to qualify as “well-capitalized” under the regulatory framework for prompt corrective action. The Company and the subsidiary banks’ actual capital amounts and ratios as of September 30, 2011 and December 31, 2010 are presented in the following tables (dollars in thousands):

#### SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

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

One method used to quantify interest rate risk is a short-term earnings at risk summary, which is a detailed and dynamic simulation model used to quantify the estimated exposure of net interest income to sustained interest rate changes. This simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest sensitive assets and liabilities reflected on the Company's consolidated balance sheet. This sensitivity analysis demonstrates net interest income exposure annually over a five-year horizon, assuming no balance sheet growth and various interest rate scenarios including no change in rates; 200, 300, 400, and 500 basis point upward shifts; and a 100 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date. The model assumes parallel and pro rata shifts in interest rates over a twelve-month period for the 200 basis point upward shift and 100 basis point downward shift. For the 400 basis point upward shift, the model assumes a parallel and pro rata shift in interest rates over a twenty-four (24) month period. For the 500 basis point upward shift, the model assumes a flattening and pro rata shift in interest rates over a twelve-month period where the short-end of the yield curve shifts upward greater than the long-end of the yield curve. Effective with the modeling for the second quarter of 2010, the Company added an interest rate scenario where interest rates experience a parallel and instantaneous shift upward 300 basis points. The asset/liability management committee of the board of directors has established policy limits of a 10% decline in net interest income for the 200 and the newly added 300 basis point upward shifts and the 100 basis point downward shift.

Application of the simulation model analysis at the most recent quarter-end available is presented in the following table. Please note the simulation model analysis as of September 30, 2011 is not yet available.

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

Interest rate risk is considered to be one of the most significant market risks affecting the Company. For that reason, the Company engages the assistance of a national consulting firm and its risk management system to monitor and

control the Company's interest rate risk exposure. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities.

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of September 30, 2011. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports filed and submitted under the Exchange Act was recorded, processed, summarized and reported as and when required.

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

## Part II

### QCR HOLDINGS, INC. AND SUBSIDIARIES

#### PART II - OTHER INFORMATION

##### Item 1 Legal Proceedings

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

##### Item 1.A. Risk Factors

There have been no material changes in the risk factors applicable to the Company from those disclosed in Part I, Item 1.A. "Risk Factors," in the Company's 2010 Annual Report on Form 10-K. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

##### Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

On September 15, 2011, the Company entered into a Securities Purchase Agreement with the U.S. Secretary of the Treasury ("Treasury"), pursuant to which the Company issued and sold to Treasury 40,090 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series F ("Series F Preferred Stock"), having a liquidation preference of \$1,000 per share, for aggregate proceeds of \$40,090,000. The Series F Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

##### Item 3 Defaults Upon Senior Securities

None

##### Item 4 [REMOVED AND RESERVED]

Item 5 Other Information

None

Part II

QCR HOLDINGS, INC.  
AND SUBSIDIARIES

PART II - OTHER INFORMATION - continued

Item 6 Exhibits

3.1 Certificate of Incorporation of QCR Holdings, Inc., as amended.

4.1 Form of Stock Certificate for Senior Non-Cumulative Perpetual Preferred Stock, Series F (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on September 16, 2011).

10.1 Securities Purchase Agreement, dated September 15, 2011, between the Company and the Secretary of the Treasury, with respect to the issuance and sale of Senior Non-Cumulative Perpetual Preferred Stock, Series F (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on September 16, 2011).

10.2 Repurchase Document, dated September 15, 2011, between the Company and the United States Department of the Treasury, with respect to the repurchase of Fixed Rate Cumulative Perpetual Preferred Stock, Series D (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on September 16, 2011).

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

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

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

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

101\* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2011 and June 30, 2010; (iii) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2011 and September 30, 2010; (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

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

SIGNATURES

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

QCR HOLDINGS, INC.  
(Registrant)

Date November 7, 2011  
Hultquist, President  
Chief Executive Officer

/s/ Douglas M. Hultquist Douglas M.

Date November 7, 2011  
Todd A. Gipple, Executive Vice President  
Chief Operating Officer  
Chief Financial Officer

/s/ Todd A. Gipple

SIGNATURES

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

QCR HOLDINGS, INC.  
(Registrant)

Date November 7, 2011  
M. Hultquist, President  
Chief Executive Officer

Douglas

Date November 7,  
2011  
Todd A. Gipple, Executive Vice President  
Chief Operating Officer  
Chief Financial Officer

—