QCR HOLDINGS INC
Form 10-Q
November 06, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from _____to________

Commission file number 0-22208

QCR HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**42-1397595**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 743-7724

(Registrant's telephone number, including area code)

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

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

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

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 3, 2015, the Registrant had outstanding 11,741,029 shares of common stock, $1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2015 and December 31, 2014

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$41,053,241	$38,235,019
Federal funds sold	34,330,000	46,780,000
Interest-bearing deposits at financial institutions	32,275,631	35,334,682
Securities held to maturity, at amortized cost	238,640,598	199,879,574
Securities available for sale, at fair value	352,134,351	451,659,630
Total securities	590,774,949	651,539,204
Loans receivable held for sale	533,225	553,000
Loans/leases receivable held for investment	1,755,139,144	1,629,450,070
Gross loans/leases receivable	1,755,672,369	1,630,003,070
Less allowance for estimated losses on loans/leases	(25,534,344)	(23,074,365)
Net loans/leases receivable	1,730,138,025	1,606,928,705
Premises and equipment, net	38,065,241	36,021,128
Bank-owned life insurance	55,042,457	53,723,548
Restricted investment securities	14,931,025	15,559,575
Other real estate owned, net	8,140,283	12,767,636
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,521,287	1,670,921
Other assets	26,359,890	23,174,994
Total assets	$2,575,854,717	$2,524,958,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$585,300,296	$511,991,864
Interest-bearing	1,270,018,691	1,167,676,149
Total deposits	1,855,318,987	1,679,668,013
Short-term borrowings	167,564,212	268,351,670
Federal Home Loan Bank advances	133,000,000	203,500,000
Other borrowings	115,000,000	150,282,492
Junior subordinated debentures	40,526,691	40,423,735
Other liabilities	43,329,588	38,653,681
Total liabilities	2,354,739,478	2,380,879,591

STOCKHOLDERS' EQUITY		
Common stock, $1 par value; shares authorized 20,000,000	11,728,911	8,074,443
September 2015 - 11,728,911 shares issued and outstanding		
December 2014 - 8,074,443 shares issued and 7,953,197 outstanding		
Additional paid-in capital	122,573,712	61,668,968
Retained earnings	86,649,405	77,876,824
Accumulated other comprehensive income (loss):		
Securities available for sale	1,010,014	(1,535,849)
Interest rate cap derivatives	(846,803)	(399,367)
Less treasury stock, at cost	-	(1,606,510)
September 2015 - 0 common shares		
December 2014 - 121,246 common shares		
Total stockholders' equity	221,115,239	144,078,509
Total liabilities and stockholders' equity	$2,575,854,717	$2,524,958,100

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended September 30,

	2015	2014
Interest and dividend income:		
Loans/leases, including fees	$19,278,335	$17,735,190
Securities:		
Taxable	1,639,534	2,327,836
Nontaxable	2,021,804	1,531,534
Interest-bearing deposits at financial institutions	66,604	66,397
Restricted investment securities	127,172	128,153
Federal funds sold	7,663	7,532
Total interest and dividend income	23,141,112	21,796,642
Interest expense:		
Deposits	1,140,419	1,168,385
Short-term borrowings	63,815	64,665
Federal Home Loan Bank advances	537,473	1,497,456
Other borrowings	944,903	1,279,626
Junior subordinated debentures	316,976	311,179
Total interest expense	3,003,586	4,321,311
Net interest income	20,137,526	17,475,331
Provision for loan/lease losses	1,635,263	1,063,323
Net interest income after provision for loan/lease losses	18,502,263	16,412,008
Noninterest income:		
Trust department fees	1,531,964	1,355,700
Investment advisory and management fees	782,442	726,908
Deposit service fees	1,186,701	1,168,961
Gains on sales of residential real estate loans	84,609	120,627
Gains on sales of government guaranteed portions of loans	759,668	158,736
Securities gains, net	56,580	19,429
Earnings on bank-owned life insurance	407,018	434,065
Swap fee income	62,700	-
Debit card fees	289,500	251,600
Correspondent banking fees	310,759	295,147
Participation service fees on commercial loan participations	201,822	218,268
Gains on other real estate owned, net	1,134,093	30,596
Other	841,070	381,636
Total noninterest income	7,648,926	5,161,673

Noninterest expense:		
Salaries and employee benefits	10,583,361	10,358,783
Occupancy and equipment expense	1,863,648	1,798,030
Professional and data processing fees	1,742,268	1,530,139
FDIC and other insurance	702,136	711,792
Loan/lease expense	252,860	184,908
Advertising and marketing	460,411	555,076
Postage and telephone	220,895	146,759
Stationery and supplies	144,967	138,377
Bank service charges	392,352	337,067
Other	830,433	721,209
Total noninterest expense	17,193,331	16,482,140
Net income before income taxes	8,957,858	5,091,541
Federal and state income tax expense	2,468,871	1,028,876
Net income	$6,488,987	$4,062,665
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	$0.55	$0.51
Diluted	$0.55	$0.50
Weighted average common shares outstanding	11,713,993	7,931,944
Weighted average common and common equivalent shares outstanding	11,875,930	8,053,985
Cash dividends declared per common share	$-	$-

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Nine Months Ended September 30,

	2015	2014
Interest and dividend income:		
Loans/leases, including fees	$55,528,578	$51,379,586
Securities:		
Taxable	5,317,794	7,484,279
Nontaxable	5,642,692	4,434,005
Interest-bearing deposits at financial institutions	208,323	228,167
Restricted investment securities	377,651	396,648
Federal funds sold	18,416	14,544
Total interest and dividend income	67,093,454	63,937,229
Interest expense:		
Deposits	3,296,351	3,371,593
Short-term borrowings	181,084	177,172
Federal Home Loan Bank advances	2,982,834	4,549,412
Other borrowings	3,285,231	3,625,751
Junior subordinated debentures	937,375	923,386
Total interest expense	10,682,875	12,647,314
Net interest income	56,410,579	51,289,915
Provision for loan/lease losses	5,694,384	3,159,364
Net interest income after provision for loan/lease losses	50,716,195	48,130,551
Noninterest income:		
Trust department fees	4,676,535	4,300,456
Investment advisory and management fees	2,250,918	2,086,758
Deposit service fees	3,404,550	3,306,769
Gains on sales of residential real estate loans	266,284	317,085
Gains on sales of government guaranteed portions of loans	899,987	860,923
Securities gains, net	473,513	40,625
Earnings on bank-owned life insurance	1,318,909	1,276,901
Swap fee income	1,182,630	62,000
Debit card fees	782,500	763,005
Correspondent banking fees	915,759	745,794
Participation service fees on commercial loan participations	647,598	632,469
Gains (losses) on other real estate owned, net	1,204,016	(114,109)
Other	1,603,175	1,063,222
Total noninterest income	19,626,374	15,341,898
Noninterest expense:		
Salaries and employee benefits	32,709,765	30,298,892

Occupancy and equipment expense	5,507,533	5,515,448
Professional and data processing fees	4,683,480	4,518,460
FDIC and other insurance	2,151,756	2,121,907
Loan/lease expense	1,087,747	908,036
Advertising and marketing	1,368,152	1,394,211
Postage and telephone	683,993	695,555
Stationery and supplies	424,330	435,763
Bank service charges	1,088,806	959,496
Losses on debt extinguishment	6,894,185	-
Other	2,193,815	1,970,492
Total noninterest expense	58,793,562	48,818,260
Net income before income taxes	11,549,007	14,654,189
Federal and state income tax expense	1,405,949	2,694,473
Net income	$10,143,058	$11,959,716
Less: Preferred stock dividends	-	1,081,877
Net income attributable to QCR Holdings, Inc. common stockholders	$10,143,058	$10,877,839
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	$1.03	$1.37
Diluted	$1.01	$1.35
Weighted average common shares outstanding	9,878,882	7,919,201
Weighted average common and common equivalent shares outstanding	10,024,441	8,040,418
Cash dividends declared per common share	$0.04	$0.04

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and Nine Months Ended September 30, 2015 and 2014

	Three Months Ended September 30,	
	2015	2014
Net income	$6,488,987	$4,062,665
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	4,155,252	(1,455,231)
Less reclassification adjustment for gains included in net income before tax	56,580	19,429
	4,098,672	(1,474,660)
Unrealized gains (losses) on interest rate cap derivatives:		
Unrealized holding gains (losses) arising during the period before tax	(419,219)	87,756
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	20,099	(10,968)
	(439,318)	98,724
Other comprehensive income (loss), before tax	3,659,354	(1,375,936)
Tax expense (benefit)	1,402,871	(563,761)
Other comprehensive income (loss), net of tax	2,256,483	(812,175)
Comprehensive income attributable to QCR Holdings, Inc.	$8,745,470	$3,250,490

	Nine Months Ended September 30,	
	2015	2014
Net income	$10,143,058	$11,959,716
Other comprehensive income:		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period before tax	4,598,599	14,691,007
Less reclassification adjustment for gains included in net income before tax	473,513	40,625
	4,125,086	14,650,382
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(672,169)	(163,393)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	30,562	(10,968)
	(702,731)	(152,425)

Other comprehensive income, before tax	3,422,355	14,497,957
Tax expense	1,323,928	5,603,334
Other comprehensive income, net of tax	2,098,427	8,894,623
Comprehensive income attributable to QCR Holdings, Inc.	$12,241,485	$20,854,339

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Three and Nine Months Ended September 30, 2015 and 2014

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2014	**$8,074,443**	**$61,668,968**	**$77,876,824**	**$ (1,935,216)**	**$(1,606,510)**	**$144,078,509**
Net income	-	-	4,177,889	-	-	4,177,889
Other comprehensive income, net of tax	-	-	-	2,220,865	-	2,220,865
Proceeds from issuance of 5,679 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,679	82,641	-	-	-	88,320
Proceeds from issuance of 9,688 shares of common stock as a result of stock options exercised	9,688	94,728	-	-	-	104,416
Stock compensation expense	-	367,775				367,775
Tax benefit of nonqualified stock options exercised	-	15,651	-	-	-	15,651
Restricted stock awards	26,502	(26,502)	-	-	-	-
Exchange of 3,272 shares of common stock in connection with restricted stock vested, net	(3,272)	(54,188)	-	-	-	(57,460)
Balance March 31, 2015	**$8,113,040**	**$62,149,073**	**$82,054,713**	**$ 285,649**	**$(1,606,510)**	**$150,995,965**
Net loss	-	-	(523,818)	-	-	(523,818)
Other comprehensive loss, net of tax	-	-	-	(2,378,921)	-	(2,378,921)
Common cash dividends declared, $0.04 per share	-	-	(464,706)	-	-	(464,706)
Proceeds from issuance of 3,680,000 shares of	3,680,000	59,804,123	-	-	-	63,484,123

common stock, net of issuance costs						
Proceeds from issuance of 8,558 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	8,558	128,927	-	-	-	137,485
Proceeds from issuance of 17,240 shares of common stock as a result of stock options exercised	17,240	238,717	-	-	-	255,957
Tax benefit of nonqualified stock options exercised	-	15,827	-	-	-	15,827
Exchange of 630 shares of common stock in connection with stock options exercised	(630)	(10,616)	-	-	-	(11,246)
Stock compensation expense	-	186,751	-	-	-	186,751
Restricted stock awards	1,616	(1,616)	-	-	-	-
Balance June 30, 2015	**$11,819,824**	**$122,511,186**	**$81,066,189**	**$ (2,093,272)**	**$(1,606,510)**	**$211,697,417**
Net income	-	-	6,488,987	-	-	6,488,987
Other comprehensive income, net of tax	-	-	-	2,256,483	-	2,256,483
Adjustment to common cash dividends declared	-	-	(1,393)	-	-	(1,393)
Proceeds from issuance of 5,394 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,394	81,309	-	-	-	86,703
Proceeds from issuance of 24,711 shares of common stock as a result of stock options exercised	24,711	318,732	-	-	-	343,443
Tax benefit of nonqualified stock options exercised	-	39,632	-	-	-	39,632
Retirement of treasury stock, 121,246 shares of common stock	(121,246)	(580,886)	(904,378)	-	1,606,510	-
Stock compensation expense	-	203,967	-	-	-	203,967
Restricted stock awards	228	(228)	-	-	-	-
Balance September 30, 2015	**$11,728,911**	**$122,573,712**	**$86,649,405**	**$ 163,211**	**$-**	**$221,115,239**

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

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

Three and Nine Months Ended September 30, 2015 and 2014

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2013	**$29,867**	**$8,005,708**	**$90,154,528**	**$64,637,173**	**$(13,643,986)**	**$(1,606,510)**	**$147,576,780**
Net income	-	-	-	3,889,215	-	-	3,889,215
Other comprehensive income, net of tax	-	-	-	-	5,230,784	-	5,230,784
Preferred cash dividends declared	-	-	-	(708,008)	-	-	(708,008)
Redemption of 15,000 shares of Series F Noncumulative Perpetual Preferred Stock	(15,000)	-	(14,985,000)	-	-	-	(15,000,000)
Proceeds from issuance of 6,189 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	6,189	78,256	-	-	-	84,445
Proceeds from issuance of 9,814 shares of common stock as a result of stock options exercised	-	9,814	85,582	-	-	-	95,396
	-	-	347,752				347,752

Stock compensation expense							
Tax benefit of nonqualified stock options exercised	-	-	18,647	-	-	-	18,647
Restricted stock awards	-	27,197	(27,197)	-	-	-	-
Exchange of 10,300 shares of common stock in connection with restricted stock vested, net	-	(10,300)	(167,684)	-	-	-	(177,984)
Balance March 31, 2014	**$14,867**	**$8,038,608**	**$75,504,884**	**$67,818,380**	**$(8,413,202)**	**$(1,606,510)**	**$141,357,027**
Net income	-	-	-	4,007,836	-	-	4,007,836
Other comprehensive income, net of tax	-	-	-	-	4,476,014	-	4,476,014
Common cash dividends declared, $0.04 per share	-	-	-	(315,053)	-	-	(315,053)
Preferred cash dividends declared	-	-	-	(373,869)	-	-	(373,869)
Redemption of 14,867 shares of Series F Noncumulative Perpetual Preferred Stock	(14,867)	-	(14,809,055)	-	-	-	(14,823,922)
Proceeds from issuance of 8,361 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	8,361	119,797	-	-	-	128,158
Proceeds from issuance of 630 shares of common stock as a result of stock options	-	630	5,159	-	-	-	5,789

exercised							
Stock compensation expense	-	-	179,265				179,265
Tax benefit of nonqualified stock options exercised	-	-	1,284	-	-	-	1,284
Restricted stock awards	-	2,290	(2,290)	-	-	-	-
Balance June 30, 2014	**$-**	**$8,049,889**	**$60,999,044**	**$71,137,294**	**$(3,937,188)**	**$(1,606,510)**	**$134,642,529**
Net income	-	-	-	4,062,665	-	-	4,062,665
Other comprehensive loss, net of tax	-	-	-	-	(812,175)	-	(812,175)
Proceeds from issuance of 5,481 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	5,481	78,533	-	-	-	84,014
Proceeds from issuance of 2,400 shares of common stock as a result of stock options exercised	-	2,400	19,097	-	-	-	21,497
Tax benefit of nonqualified stock options exercised			5,189				5,189
Stock compensation expense	-	-	176,257				176,257
Restricted stock awards	-	289	(289)	-	-	-	-
Balance September 30, 2014	**$-**	**$8,058,059**	**$61,277,831**	**$75,199,959**	**$(4,749,363)**	**$(1,606,510)**	**$138,179,976**

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$10,143,058	$11,959,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,283,558	2,092,992
Provision for loan/lease losses	5,694,384	3,159,364
Stock-based compensation expense	758,493	703,274
Deferred compensation expense accrued	767,292	996,941
Losses (gains) on other real estate owned, net	(1,204,016)	114,109
Amortization of premiums on securities, net	756,876	1,470,641
Securities gains, net	(473,513)	(40,625)
Loans originated for sale	(29,968,289)	(32,643,486)
Proceeds on sales of loans	31,154,335	33,537,484
Gains on sales of residential real estate loans	(266,284)	(317,085)
Gains on sales of government guaranteed portions of loans	(899,987)	(860,923)
Losses on debt extinguishment	6,894,185	-
Amortization of core deposit intangible	149,634	149,634
Accretion of acquisition fair value adjustments, net	(334,990)	(549,604)
Increase in cash value of bank-owned life insurance	(1,318,909)	(1,276,901)
Increase in other assets	(5,211,555)	(346,977)
Increase in other liabilities	4,269,482	712,565
Net cash provided by operating activities	$23,193,754	$18,861,119
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold	12,450,000	9,675,000
Net decrease (increase) in interest-bearing deposits at financial institutions	3,059,051	(1,586,856)
Proceeds from sales of other real estate owned	6,774,151	1,172,365
Purchase of derivative instruments	-	(2,071,650)
Activity in securities portfolio:		
Purchases	(200,249,686)	(48,493,532)
Calls, maturities and redemptions	187,029,003	30,827,423
Paydowns	11,859,406	19,147,455
Sales	65,889,838	65,754,467
Activity in restricted investment securities:		
Purchases	(2,806,650)	(1,653,450)
Redemptions	3,435,200	3,377,900
Net increase in loans/leases originated and held for investment	(129,356,790)	(115,589,620)
Purchase of premises and equipment	(4,327,671)	(1,587,828)
Net cash used in investing activities	$(46,244,148)	$(41,028,326)

CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	175,656,866	66,893,213
Net increase (decrease) in short-term borrowings	(100,787,458)	12,893,731
Activity in Federal Home Loan Bank advances:		
Term advances	5,000,000	2,000,000
Calls and maturities	(24,000,000)	(23,850,000)
Net change in short-term and overnight advances	24,000,000	(13,000,000)
Prepayments	(81,192,185)	-
Activity in other borrowings:		
Proceeds from other borrowings	-	10,000,000
Calls, maturities and scheduled principal payments	(7,350,000)	-
Prepayments	(29,177,000)	(1,000,000)
Payment of cash dividends on common and preferred stock	(782,054)	(1,964,607)
Net proceeds from common stock offering, 3,680,000 shares issued	63,484,123	-
Redemption of 15,000 shares of Series F Noncumulative Perpetual Preferred Stock, net	-	(15,000,000)
Redemption of 14,867 shares of Series F Noncumulative Perpetual Preferred Stock, net	-	(14,823,922)
Proceeds from issuance of common stock, net	1,016,324	394,179
Net cash provided by financing activities	$25,868,616	$22,542,594
Net increase in cash and due from banks	2,818,222	375,387
Cash and due from banks, beginning	38,235,019	41,950,790
Cash and due from banks, ending	$41,053,241	$42,326,177

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Nine Months Ended September 30, 2015 and 2014

	2015	2014
Supplemental disclosure of cash flow information, cash payments for:		
Interest	$10,880,589	$12,445,044
Income/franchise taxes	$1,985,275	$3,457,500
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains on securities available for sale and derivative instruments, net	$2,098,427	$8,894,623
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	$(68,706)	$(177,984)
Tax benefit of nonqualified stock options exercised	$71,110	$25,120
Transfers of loans to other real estate owned	$942,782	$2,237,268

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2015

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, 2014, included in QCR Holdings, Inc.'s (the "Company") Form 10-K filed with the Securities and Exchange Commission on March 12, 2015. 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, 2015, are not necessarily indicative of the results expected for the year ending December 31, 2015.

The acronyms and abbreviations identified below are used in the Notes to the Consolidated Financial Statements as well as in Management's Discussion & Analysis of Financial Condition & Results of Operations. It may be helpful to refer back to this page as you read this report.

Allowance: Allowance for estimated losses on loans/leases	NIM: Net interest margin
AOCI: Accumulated other comprehensive income (loss)	NPA: Nonperforming asset
ASU: Accounting Standards Update	NPL: Nonperforming loan
BOLI: Bank-owned life insurance	OREO: Other real estate owned
Community National: Community National Bancorporation	OTTI: Other-than-temporary impairment

CRBT: Cedar Rapids Bank & Trust Company

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act

EPS: Earnings per share

Exchange Act: Securities Exchange Act of 1934, as amended

FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation

FHLB: Federal Home Loan Bank

m2: m2 Lease Funds, LLC

Provision: Provision for loan/lease losses
QCBT: Quad City Bank & Trust Company
RB&T: Rockford Bank & Trust Company
SBA: U.S. Small Business Administration
SEC: Securities and Exchange Commission
TA: Tangible assets
TCE: Tangible common equity
TDRs: Troubled debt restructurings
USDA: U.S. Department of Agriculture

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of September 30, 2015 and December 31, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2015				
Securities held to maturity:				
Municipal securities	$237,590,598	$2,429,898	$(1,649,655)	$238,370,841
Other securities	1,050,000	-	-	1,050,000
	$238,640,598	$2,429,898	$(1,649,655)	$239,420,841
Securities available for sale:				
U.S. govt. sponsored agency securities	$247,911,701	$577,904	$(865,014)	$247,624,591
Residential mortgage-backed and related securities	74,444,924	938,379	(481,744)	74,901,559
Municipal securities	26,815,175	925,922	(39,445)	27,701,652
Other securities	1,344,814	633,415	(71,680)	1,906,549
	$350,516,614	$3,075,620	$(1,457,883)	$352,134,351
December 31, 2014:				
Securities held to maturity:				
Municipal securities	$198,829,574	$2,420,298	$(1,186,076)	$200,063,796
Other securities	1,050,000	-	-	1,050,000
	$199,879,574	$2,420,298	$(1,186,076)	$201,113,796
Securities available for sale:				
U.S. govt. sponsored agency securities	$312,959,760	$173,685	$(5,263,873)	$307,869,572
Residential mortgage-backed and related securities	110,455,925	1,508,331	(541,032)	111,423,224
Municipal securities	29,408,740	1,053,713	(62,472)	30,399,981
Other securities	1,342,554	625,145	(846)	1,966,853
	$454,166,979	$3,360,874	$(5,868,223)	$451,659,630

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2015 and December 31, 2014, 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, 2015:						
Securities held to maturity:						
Municipal securities	$53,289,140	$(1,053,551)	$15,450,731	$(596,104)	$68,739,871	$(1,649,655)
Securities available for sale:						
U.S. govt. sponsored agency securities	$54,246,955	$(229,249)	$74,289,108	$(635,765)	$128,536,063	$(865,014)
Residential mortgage-backed and related securities	18,732,443	(126,214)	20,731,733	(355,530)	39,464,176	(481,744)
Municipal securities	1,621,304	(11,388)	852,734	(28,057)	2,474,038	(39,445)
Other securities	71,751	(71,680)	-	-	71,751	(71,680)
	$74,672,453	$(438,531)	$95,873,575	$(1,019,352)	$170,546,028	$(1,457,883)
December 31, 2014:						
Securities held to maturity:						
Municipal securities	$20,419,052	$(587,992)	$38,779,545	$(598,084)	$59,198,597	$(1,186,076)
Securities available for sale:						
U.S. govt. sponsored agency securities	$23,970,085	$(102,695)	$255,743,056	$(5,161,178)	$279,713,141	$(5,263,873)
Residential mortgage-backed and related securities	10,710,671	(10,139)	37,570,774	(530,893)	48,281,445	(541,032)
Municipal securities	920,935	(1,773)	4,425,337	(60,699)	5,346,272	(62,472)
Other securities	243,004	(846)	-	-	243,004	(846)
	$35,844,695	$(115,453)	$297,739,167	$(5,752,770)	$333,583,862	$(5,868,223)

At September 30, 2015, the investment portfolio included 483 securities. Of this number, 128 securities were in an unrealized loss position. The aggregate losses of these securities totaled less than 1% of the total amortized cost of the portfolio. Of these 128 securities, 48 securities had an unrealized loss for twelve months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery. At September 30, 2015 and December 31, 2014, equity securities represented less than 1% of the total portfolio.

The Company did not recognize OTTI on any debt or equity securities for the three or nine months ended September 30, 2015 and 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and nine months ended September 30, 2015 and 2014, respectively, were from securities identified as available for sale. Information on proceeds received, as well as pre-tax gross gains and losses from sales on those securities are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Proceeds from sales of securities	$11,922,915	$39,876,889	$65,889,838	$65,754,467
Pre-tax gross gains from sales of securities	102,766	357,934	672,317	379,130
Pre-tax gross losses from sales of securities	(46,186)	(338,505)	(198,804)	(338,505)

The amortized cost and fair value of securities as of September 30, 2015 by contractual maturity are shown below. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed and related securities may be prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. “Other securities” available for sale are excluded from the maturity categories as there is no fixed maturity date for those securities.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	$4,391,209	$4,396,637
Due after one year through five years	17,965,982	18,089,831
Due after five years	216,283,407	216,934,373
	$238,640,598	$239,420,841
Securities available for sale:		
Due in one year or less	$1,356,439	$1,360,215
Due after one year through five years	120,148,336	120,643,573
Due after five years	153,222,101	153,322,455
	$274,726,876	$275,326,243
Residential mortgage-backed and related securities	74,444,924	74,901,559

Other securities	1,344,814	1,906,549
	$350,516,614	$352,134,351

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

	Amortized Cost	Fair Value
Securities held to maturity:		
Municipal securities	$131,904,972	$132,612,402
Securities available for sale:		
U.S. govt. sponsored agency securities	159,441,770	158,761,957
Municipal securities	16,774,804	17,200,807
	$176,216,574	$175,962,764

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of September 30, 2015, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 81 issuers with fair values totaling $64.7 million and revenue bonds issued by 87 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling $201.4 million. The Company held investments in general obligation bonds in 19 states, including four states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in eight states, including four states in which the aggregate fair value exceeded $5.0 million.

As of December 31, 2014, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 77 issuers with fair values totaling $68.8 million and revenue bonds issued by 64 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling $161.7 million. The Company held investments in general obligation bonds in 19 states, including three states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in eight states, including four states in which the aggregate fair value exceeded $5.0 million.

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

September 30, 2015:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	15	$20,225,477	$20,363,737	$1,357,582
Illinois	10	11,851,955	12,191,238	1,219,124
Missouri	12	7,930,365	7,968,565	664,047
North Dakota	3	6,675,000	6,767,961	2,255,987

Other	41	17,122,829	17,398,100	424,344
Total general obligation bonds	81	$63,805,626	$64,689,601	$798,637

December 31, 2014:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	14	$20,156,969	$20,446,655	$1,460,475
Illinois	10	22,447,799	22,784,638	2,278,464
Missouri	11	8,424,928	8,426,047	766,004
Other	42	16,838,719	17,110,831	407,401
Total general obligation bonds	77	$67,868,415	$68,768,171	$893,093

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

September 30, 2015:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	40	$75,016,470	$75,197,907	$1,879,948
Iowa	26	71,365,816	71,890,381	2,765,015
Indiana	14	34,701,481	34,707,516	2,479,108
Kansas	3	11,751,560	11,688,179	3,896,060
Other	4	7,764,820	7,898,909	1,974,727
Total revenue bonds	87	$200,600,147	$201,382,892	$2,314,746

December 31, 2014:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	30	$62,358,276	$62,584,516	$2,086,151
Iowa	20	59,417,246	60,402,941	3,020,147
Indiana	8	17,991,200	17,925,721	2,240,715

Kansas	2	12,307,866	12,332,528	6,166,264
Other	4	8,295,311	8,449,900	2,112,475
Total revenue bonds	64	$160,369,899	$161,695,606	$2,526,494

Both general obligation and revenue bonds are diversified across many issuers. As of September 30, 2015 and December 31, 2014, the Company did not hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded 5% and 10%, respectively, of the Company's stockholders' equity. Of the general obligation and revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated bonds were underwritten according to loan underwriting standards and have an average loan risk rating of 2, indicating very high quality. Additionally, many of these bonds are funding essential municipal services such as water, sewer, education, and medical facilities.

The Company's municipal securities are owned by each of the three charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually, and as of September 30, 2015, all were well within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of total risk-based capital.

As of September 30, 2015, the Company's standard monitoring of its municipal securities portfolio had not uncovered any facts or circumstances resulting in significantly different credit ratings than those assigned by a nationally recognized statistical rating organization, or in the case of unrated bonds, the rating assigned using the credit underwriting standards.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of September 30, 2015 and December 31, 2014 is presented as follows:

	As of September 30, 2015	As of December 31, 2014
Commercial and industrial loans	$647,398,566	$523,927,140
Commercial real estate loans		
Owner-occupied commercial real estate	247,779,183	260,069,080
Commercial construction, land development, and other land	45,011,361	68,118,989
Other non owner-occupied commercial real estate	399,778,590	373,952,353
	692,569,134	702,140,422
Direct financing leases *	173,304,223	166,032,416
Residential real estate loans **	165,060,663	158,632,492
Installment and other consumer loans	69,862,991	72,606,480
	1,748,195,577	1,623,338,950
Plus deferred loan/lease origination costs, net of fees	7,476,792	6,664,120
	1,755,672,369	1,630,003,070
Less allowance for estimated losses on loans/leases	(25,534,344)	(23,074,365)
	$1,730,138,025	$1,606,928,705

* Direct financing leases:		
Net minimum lease payments to be received	$195,626,557	$188,181,432
Estimated unguaranteed residual values of leased assets	1,165,706	1,488,342
Unearned lease/residual income	(23,488,040)	(23,637,358)
	173,304,223	166,032,416
Plus deferred lease origination costs, net of fees	6,710,311	6,639,244
	180,014,534	172,671,660
Less allowance for estimated losses on leases	(3,248,633)	(3,442,915)
	$176,765,901	$169,228,745

*Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors, which is combined with management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider, which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal. There were no losses related to residual values for the three or nine months ended September 30, 2015 and 2014.

**Includes residential real estate loans held for sale totaling $533,225 and $553,000 as of September 30, 2015, and December 31, 2014, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The aging of the loan/lease portfolio by classes of loans/leases as of September 30, 2015 and December 31, 2014 is presented as follows:

	As of September 30, 2015					
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	$637,545,096	$4,169,089	$148,932	$ -	$5,535,449	$647,398,566
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	246,787,360	80,056	-	-	911,767	247,779,183
Commercial Construction, Land Development, and Other Land	44,788,952	-	-	-	222,409	45,011,361
Other Non Owner-Occupied Commercial Real Estate	397,650,373	163,163	349,588	-	1,615,466	399,778,590
Direct Financing Leases	171,036,424	892,496	279,815	-	1,095,488	173,304,223
Residential Real Estate	163,433,860	46,638	46,626	-	1,533,539	165,060,663
Installment and Other Consumer	69,333,416	121,009	51,505	2,411	354,650	69,862,991
	$1,730,575,481	$5,472,451	$876,466	$2,411	$11,268,768	$1,748,195,577
As a percentage of total loan/lease portfolio	99.00 %	0.31 %	0.05 %	0.00 %	0.64 %	100.00 %

Classes of Loans/Leases	As of December 31, 2014 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	$515,616,752	$323,145	$-	$822	$7,986,421	$523,927,140
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	259,166,743	239,771	-	-	662,566	260,069,080
Commercial Construction, Land Development, and Other Land	67,021,157	729,983	111,837	-	256,012	68,118,989
Other Non Owner-Occupied Commercial Real Estate	360,970,551	3,448,902	2,840,862	60,000	6,632,038	373,952,353
Direct Financing Leases	164,059,914	573,575	293,212	-	1,105,715	166,032,416
Residential Real Estate	154,303,644	2,528,287	475,343	25,673	1,299,545	158,632,492
Installment and Other Consumer	71,534,329	172,872	246,882	6,916	645,481	72,606,480
	$1,592,673,090	$8,016,535	$3,968,136	$93,411	$18,587,778	$1,623,338,950
As a percentage of total loan/lease portfolio	98.11 %	0.49 %	0.24 %	0.01 %	1.15 %	100.00 %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NPLs by classes of loans/leases as of September 30, 2015 and December 31, 2014 are presented as follows:

Classes of Loans/Leases	As of September 30, 2015 Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *	Accruing TDRs	Total NPLs	Percentage of Total NPLs
Commercial and Industrial	$ -	$ 5,535,449	$ 174,071	$ 5,709,520	46.37 %
Commercial Real Estate					
Owner-Occupied Commercial Real Estate	-	911,767	-	911,767	7.41 %
Commercial Construction, Land Development, and Other Land	-	222,409	-	222,409	1.81 %
Other Non Owner-Occupied Commercial Real Estate	-	1,615,466	-	1,615,466	13.12 %
Direct Financing Leases	-	1,095,488	-	1,095,488	8.90 %
Residential Real Estate	-	1,533,539	406,712	1,940,251	15.76 %
Installment and Other Consumer	2,411	354,650	459,129	816,190	6.63 %
	$ 2,411	$ 11,268,768	$ 1,039,912	$ 12,311,091	100.00 %

*Nonaccrual loans/leases includes $1,865,749 of TDRs, including $1,260,992 in commercial and industrial loans, $335,409 in commercial real estate loans, $47,846 in direct financing leases, $207,299 in residential real estate loans, and $14,203 in installment loans.

Classes of Loans/Leases	As of December 31, 2014 Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases **	Accruing TDRs	Total NPLs	Percentage of Total NPLs

Commercial and Industrial	$822	$7,986,421	$235,926	$8,223,169	40.91	%
Commercial Real Estate				$-		
Owner-Occupied Commercial Real Estate	-	662,566	-	$662,566	3.30	%
Commercial Construction, Land Development, and Other Land	-	256,012	-	$256,012	1.27	%
Other Non Owner-Occupied Commercial Real Estate	60,000	6,632,038	-	$6,692,038	33.29	%
Direct Financing Leases	-	1,105,715	233,557	$1,339,272	6.66	%
Residential Real Estate	25,673	1,299,545	489,183	$1,814,401	9.02	%
Installment and Other Consumer	6,916	645,481	462,552	$1,114,949	5.55	%
	$93,411	$18,587,778	$1,421,218	$20,102,407	100.00	%

**Nonaccrual loans/leases includes $5,013,041 of TDRs, including $1,227,537 in commercial and industrial loans, $3,214,468 in commercial real estate loans, $61,144 in direct financing leases, $506,283 in residential real estate loans, and $3,609 in installment loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance by portfolio segment for the three and nine months ended September 30, 2015 and 2014, respectively, are presented as follows:

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

	Three Months Ended September 30, 2014					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$6,549,378	$10,277,692	$3,319,131	$1,439,185	$1,481,638	$23,067,024
Provisions (credits) charged to expense	851,542	(196,865)	509,657	(53,963)	(47,048)	1,063,323
Loans/leases charged off	(741,127)	(120,505)	(741,478)	(42,022)	(86,370)	(1,731,502)
Recoveries on loans/leases previously charged off	254,265	68,346	19,577	9,870	17,014	369,072
Balance, ending	$6,914,058	$10,028,668	$3,106,887	$1,353,070	$1,365,234	$22,767,917

	Nine Months Ended September 30, 2015					
	Commercial and	Commercial Real Estate	Direct Financing	Residential Real Estate	Installment and Other	Total

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

	Nine Months Ended September 30, 2014					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$5,648,774	$10,705,434	$2,517,217	$1,395,849	$1,180,774	$21,448,048
Provisions (credits) charged to expense	1,930,050	(460,356)	1,428,678	42,712	218,280	3,159,364
Loans/leases charged off	(967,207)	(436,056)	(885,966)	(95,464)	(102,107)	(2,486,800)
Recoveries on loans/leases previously charged off	302,441	219,646	46,958	9,973	68,287	647,305
Balance, ending	$6,914,058	$10,028,668	$3,106,887	$1,353,070	$1,365,234	$22,767,917

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance by impairment evaluation and by portfolio segment as of September 30, 2015 and December 31, 2014 is presented as follows:

	As of September 30, 2015					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for impaired loans/leases	$2,649,170	$154,086	$153,333	$250,084	$345,457	$3,552,130
Allowance for nonimpaired loans/leases	7,882,998	8,554,629	3,095,300	1,578,972	870,315	21,982,214
	$10,532,168	$8,708,715	$3,248,633	$1,829,056	$1,215,772	$25,534,344
Impaired loans/leases	$5,036,852	$2,739,644	$1,095,486	$1,940,250	$813,778	$11,626,010
Nonimpaired loans/leases	642,361,714	689,829,490	172,208,737	163,120,413	69,049,213	1,736,569,567
	$647,398,566	$692,569,134	$173,304,223	$165,060,663	$69,862,991	$1,748,195,577
Allowance as a percentage of impaired loans/leases	52.60 %	5.62 %	14.00 %	12.89 %	42.45 %	30.55 %
Allowance as a percentage of nonimpaired loans/leases	1.23 %	1.24 %	1.80 %	0.97 %	1.26 %	1.27 %
	1.63 %	1.26 %	1.87 %	1.11 %	1.74 %	1.45 %

	As of December 31, 2014					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for impaired loans/leases	$3,300,199	$1,170,020	$356,996	$151,663	$265,795	$5,244,673
Allowance for nonimpaired loans/leases	5,450,118	7,183,366	3,085,919	1,374,289	736,000	17,829,692
	$8,750,317	$8,353,386	$3,442,915	$1,525,952	$1,001,795	$23,074,365
Impaired loans/leases	$7,279,709	$7,433,383	$1,339,272	$1,788,729	$1,165,548	$19,006,641
Nonimpaired loans/leases	516,647,431	694,707,039	164,693,144	156,843,763	71,440,932	1,604,332,309
	$523,927,140	$702,140,422	$166,032,416	$158,632,492	$72,606,480	$1,623,338,950
Allowance as a percentage of impaired loans/leases	45.33 %	15.74 %	26.66 %	8.48 %	22.80 %	27.59 %
Allowance as a percentage of nonimpaired loans/leases	1.05 %	1.03 %	1.87 %	0.88 %	1.03 %	1.11 %
	1.67 %	1.19 %	2.07 %	0.96 %	1.38 %	1.42 %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial	$360,420	$470,197	$-	$370,376	$ 5,579	$ 5,579
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	431,065	524,839	-	510,604	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	17,291	-	-
Other Non Owner-Occupied Commercial Real Estate	1,973,169	1,973,169	-	3,412,360	-	-
Direct Financing Leases	579,219	579,219	-	797,396	4,142	4,142
Residential Real Estate	661,490	697,067	-	1,036,845	1,845	1,845
Installment and Other Consumer	12,666	12,666	-	448,095	4,387	4,387
	$4,018,029	$4,257,157	$-	$6,592,967	$ 15,953	$ 15,953
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial	$4,676,432	$4,681,930	$2,649,170	$4,792,439	$ -	$ -

Commercial Real Estate						
Owner-Occupied Commercial Real Estate	-	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	335,410	576,228	154,086	335,963	-	-
Other Non Owner-Occupied Commercial Real Estate	-	-	-	-	-	-
Direct Financing Leases	516,267	516,267	153,333	379,841	-	-
Residential Real Estate	1,278,760	1,278,760	250,084	835,674	6,778	6,778
Installment and Other Consumer	801,112	801,112	345,457	699,182	5,903	5,903
	$7,607,981	$7,854,297	$3,552,130	$7,043,099	$ 12,681	$ 12,681
Total Impaired Loans/Leases:						
Commercial and Industrial	$5,036,852	$5,152,127	$2,649,170	$5,162,815	$ 5,579	$ 5,579
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	431,065	524,839	-	510,604	-	-
Commercial Construction, Land Development, and Other Land	335,410	576,228	154,086	353,254	-	-
Other Non Owner-Occupied Commercial Real Estate	1,973,169	1,973,169	-	3,412,360	-	-
Direct Financing Leases	1,095,486	1,095,486	153,333	1,177,237	4,142	4,142
Residential Real Estate	1,940,250	1,975,827	250,084	1,872,519	8,623	8,623
Installment and Other Consumer	813,778	813,778	345,457	1,147,277	10,290	10,290
	$11,626,010	$12,111,454	$3,552,130	$13,636,066	$ 28,634	$ 28,634

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended September 30, 2015 and 2014, respectively, are presented as follows:

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
Classes of Loans/Leases	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial	$365,798	$ 1,870	$ 1,870	$621,836	$ 17,855	$ 17,855
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	451,851	-	-	751,191	-	-
Commercial Construction, Land Development, and Other Land	9,968	-	-	1,397,733	-	-
Other Non Owner-Occupied Commercial Real Estate	2,868,950	-	-	4,051,261	-	-
Direct Financing Leases	634,378	325	325	1,152,456	-	-
Residential Real Estate	900,938	1,362	1,362	1,186,197	704	704
Installment and Other Consumer	328,669	3,912	3,912	494,498	-	-
	$5,560,552	$ 7,469	$ 7,469	$9,655,172	$ 18,559	$ 18,559
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial	$4,735,149	$ -	$ -	$3,454,429	$ -	$ -
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	-	-	-	439,701	-	-
	335,707	-	-	796,194	-	-

Commercial Construction, Land Development, and Other Land						
Other Non Owner-Occupied Commercial Real Estate	-	-	-	6,034,473	-	-
Direct Financing Leases	488,860	-	-	578,317	-	-
Residential Real Estate	984,558	1,981	1,981	564,278	1,296	1,296
Installment and Other Consumer	723,674	1,391	1,391	826,092	890	890
	$7,267,948	$ 3,372	$ 3,372	$12,693,484	$ 2,186	$ 2,186
Total Impaired Loans/Leases:						
Commercial and Industrial	$5,100,947	$ 1,870	$ 1,870	$4,076,265	$ 17,855	$ 17,855
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	451,851	-	-	1,190,892	-	-
Commercial Construction, Land Development, and Other Land	345,675	-	-	2,193,927	-	-
Other Non Owner-Occupied Commercial Real Estate	2,868,950	-	-	10,085,734	-	-
Direct Financing Leases	1,123,238	325	325	1,730,773	-	-
Residential Real Estate	1,885,496	3,343	3,343	1,750,475	2,000	2,000
Installment and Other Consumer	1,052,343	5,303	5,303	1,320,590	890	890
	$12,828,500	$ 10,841	$ 10,841	$22,348,656	$ 20,745	$ 20,745

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2014 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
Commercial and Industrial	$246,308	$342,391	$-
Commercial Real Estate			
Owner-Occupied Commercial Real Estate	67,415	163,638	-
Commercial Construction, Land Development, and Other Land	31,936	143,136	-
Other Non Owner-Occupied Commercial Real Estate	491,717	491,717	-
Direct Financing Leases	561,414	561,414	-
Residential Real Estate	1,060,770	1,060,770	-
Installment and Other Consumer	671,319	671,319	-
	$3,130,879	$3,434,385	$-
Impaired Loans/Leases with Specific Allowance Recorded:			
Commercial and Industrial	$7,033,401	$8,190,495	$3,300,199
Commercial Real Estate			
Owner-Occupied Commercial Real Estate	620,896	620,896	4,462
Commercial Construction, Land Development, and Other Land	337,076	577,894	12,087
Other Non Owner-Occupied Commercial Real Estate	5,884,343	6,583,934	1,153,471
Direct Financing Leases	777,858	777,858	356,996
Residential Real Estate	727,959	763,537	151,663
Installment and Other Consumer	494,229	494,229	265,795
	$15,875,762	$18,008,843	$5,244,673
Total Impaired Loans/Leases:			
Commercial and Industrial	$7,279,709	$8,532,886	$3,300,199
Commercial Real Estate			
Owner-Occupied Commercial Real Estate	688,311	784,534	4,462
Commercial Construction, Land Development, and Other Land	369,012	721,030	12,087
Other Non Owner-Occupied Commercial Real Estate	6,376,060	7,075,651	1,153,471

Direct Financing Leases	1,339,272	1,339,272	356,996
Residential Real Estate	1,788,729	1,824,307	151,663
Installment and Other Consumer	1,165,548	1,165,548	265,795
	$19,006,641	$21,443,228	$5,244,673

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of September 30, 2015 and December 31, 2014:

	As of September 30, 2015					
		Commercial Real Estate				
Internally Assigned Risk Rating	Commercial and Industrial	Owner-Occupied Commercial Real Estate	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other Commercial Real Estate	Total	As a % of Total
Pass (Ratings 1 through 5)	$619,562,207	$237,616,448	$42,172,844	$386,936,606	$1,286,288,105	96.00 %
Special Mention (Rating 6)	15,739,256	8,064,486	1,780,000	4,878,807	30,462,549	2.27 %
Substandard (Rating 7)	12,097,103	2,098,249	1,058,517	7,963,177	23,217,046	1.73 %
Doubtful (Rating 8)	-	-	-	-	-	-
	$647,398,566	$247,779,183	$45,011,361	$399,778,590	$1,339,967,700	100.00%

As of September 30, 2015

Delinquency Status *	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$172,208,735	$163,120,412	$69,046,801	$404,375,948	99.06 %
Nonperforming	1,095,488	1,940,251	816,190	3,851,929	0.94 %
	$173,304,223	$165,060,663	$69,862,991	$408,227,877	100.00%

	As of December 31, 2014					
		Commercial Real Estate				
Internally Assigned Risk Rating	Commercial and Industrial	Owner-Occupied Commercial Real Estate	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other Commercial Real Estate	Total	As a % of Total
Pass (Ratings 1 through 5)	$491,883,568	$245,237,462	$65,691,737	$354,581,419	$1,157,394,186	94.40 %
Special Mention (Rating 6)	17,034,909	12,637,930	-	3,285,191	32,958,030	2.69 %
Substandard (Rating 7)	15,008,663	2,193,688	2,427,252	16,085,743	35,715,346	2.91 %
Doubtful (Rating 8)	-	-	-	-	-	-
	$523,927,140	$260,069,080	$68,118,989	$373,952,353	$1,226,067,562	100.00%

	As of December 31, 2014				
Delinquency Status *	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$164,693,144	$156,818,091	$71,491,531	$393,002,766	98.93 %
Nonperforming	1,339,272	1,814,401	1,114,949	4,268,622	1.07 %
	$166,032,416	$158,632,492	$72,606,480	$397,271,388	100.00%

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of September 30, 2015 and December 31, 2014, TDRs totaled $2,905,661 and $6,434,259, respectively.

For each class of financing receivable, the following presents the number and recorded investment of TDRs, by type of concession, that were restructured during the three and nine months ended September 30, 2014. There was one TDR that was restructured during the three and nine months ended September 30, 2015. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring.

	For the three months ended September 30, 2015				For the three months ended September 30, 2014			
Classes of Loans/Leases	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Interest rate adjusted below market								
Installment and Other Consumer	1	$ 14,203	$ 14,203	$ -	-	$ -	$ -	$ -
	1	$ 14,203	$ 14,203	$ -	-	$ -	$ -	$ -
CONCESSION - Other								
Commercial and Industrial	-	$ -	$ -	$ -	1	$ 96,439	$ 71,760	$ 7,125
	-	$ -	$ -	$ -	1	$ 96,439	$ 71,760	$ 7,125
TOTAL	1	$ 14,203	$ 14,203	-	1	$ 96,439	$ 71,760	7,125

	For the nine months ended September 30, 2015				For the nine months ended September 30, 2014			
Classes of Loans/Leases	Number of Loans /	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans /	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance

		Leases				Leases		
CONCESSION - Significant payment delay								
Commercial and Industrial	-	$ -	$ -	$ -	3	$ 889,154	$ 889,154	$ 239,783
Direct Financing Leases	-	$ -	$ -	$ -	1	$ 89,443	$ 89,443	$ -
	-	$ -	$ -	$ -	4	$ 978,597	$ 978,597	$ 239,783
CONCESSION - Interest rate adjusted below market								
Installment and Other Consumer	1	$ 14,203	$ 14,203	$ -	-	$ -	$ -	$ -
	1	$ 14,203	$ 14,203	$ -	-	$ -	$ -	$ -
CONCESSION - Extension of Maturity								
Direct Financing Leases	-	$ -	$ -	$ -	1	$ 70,144	$ 70,144	$ 24,246
	-	$ -	$ -	$ -	1	$ 70,144	$ 70,144	$ 24,246
CONCESSION - Other								
Commercial and Industrial	-	$ -	$ -	$ -	1	$ 427,849	$ 427,849	$ 113,449
Residential Real Estate	-	$ -	$ -	$ -	1	$ 96,439	$ 71,760	$ 7,125
	-	$ -	$ -	$ -	2	$ 524,288	$ 499,609	$ 120,574
TOTAL	1	$ 14,203	$ 14,203	-	7	$ 1,573,029	$ 1,548,350	$ 384,603

Of the TDRs reported above, one with a post-modification recorded investment of $14,203 was on nonaccrual as of September 30, 2015, and three with post-modification recorded investments totaling $75,767 were on nonaccrual as of September 30, 2014.

For the three and nine months ended September 30, 2015 and 2014, none of the Company’s TDRs had redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

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NOTE 4 – DERIVATIVES AND HEDGING ACTIVITIES

Following is a summary of interest rate cap derivatives held by the Company as of September 30, 2015 and December 31, 2014. An initial premium of $2.1 million was paid for the two caps. The fair value of these instruments will fluctuate with market value changes, as well as amortization of the initial premium to interest expense.

Effective Date	Maturity Date	Balance Sheet Location	Notional Amount	Accounting Treatment	September 30, 2015 Fair Value	December 31, 2014 Fair Value
June 5, 2014	June 5, 2019	Other Assets	$15,000,000	Cash Flow Hedging	$271,913	$608,189
June 5, 2014	June 5, 2021	Other Assets	15,000,000	Cash Flow Hedging	512,742	879,197
			$30,000,000		$784,655	$1,487,386

Changes in the fair values of derivative financial instruments accounted for as cash flow hedges to the extent they are effective hedges, are recorded as a component of AOCI. The following is a summary of how AOCI was impacted during the reporting periods:

	Three Months Ended	
	September 30, 2015	September 30, 2014
Unrealized loss at beginning of period, net of tax	$(574,311)	$(251,149)
Amount reclassified from AOCI to noninterest income related to hedge ineffectiveness	15,561	(10,968)
Amount reclassified from AOCI to interest expense related to caplet amortization	4,538	-
Amount of income (loss) recognized in other comprehensive income, net of tax	(292,591)	109,692
Unrealized loss at end of period	$(846,803)	$(152,425)

	Nine Months Ended	
	September 30, 2015	September 30, 2014

Unrealized loss at beginning of period, net of tax	$(399,367)	$-
Amount reclassified from AOCI to noninterest income related to hedge ineffectiveness	23,658	(10,968)
Amount reclassified from AOCI to interest expense related to caplet amortization	6,904	-
Amount of income (loss) recognized in other comprehensive income, net of tax	(477,998)	(141,457)
Unrealized loss at end of period	$(846,803)	$(152,425)

Changes in the fair value related to the ineffective portion of cash flow hedges are reported in noninterest income during the period of the change. As shown in the tables above, $15,561 and $23,658 of expense from the change in fair value for the three and nine months ended September 30, 2015, respectively, was due to ineffectiveness. There was income recognized of $10,968 related to the ineffectiveness of cash flow hedges during the three and nine months ended September 30, 2014.

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NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES

The subsidiary banks are members of the FHLB of Des Moines or Chicago. As of September 30, 2015 and December 31, 2014, the subsidiary banks held $9,227,800 and $11,279,000, respectively, of FHLB stock, which is included in restricted investment securities on the consolidated balance sheet.

During the second quarter of 2015, QCBT and CRBT prepaid a total of $75,500,000 of fixed rate FHLB advances with a weighted average interest rate of 4.36% and maturity dates ranging from May 2016 to June 2019. The prepayment fees associated with these advances totaled $5,692,185 and are included in losses on debt extinguishment in the statements of income. The prepayments were a part of the Company's balance sheet restructuring, which is described in Note 7 to the Consolidated Financial Statements.

Maturity and interest rate information on advances from the FHLB as of September 30, 2015 and December 31, 2014 is as follows:

	September 30, 2015					
	Amount Due	Weighted Average Interest Rate at Quarter-End		Amount Due with Putable Option *	Weighted Average Interest Rate at Quarter-End	
Maturity:						
Year ending December 31:						
2015	$68,000,000	0.33	%	$-	-	%
2016	14,000,000	2.08		2,000,000	4.00	
2017	18,000,000	2.89		-	-	
2018	33,000,000	3.33		5,000,000	2.84	
Total FHLB advances	$133,000,000	1.61	%	$7,000,000	3.17	%

	December 31, 2014					
	Amount Due	Weighted Average Interest Rate at Year-End		Putable Option *	Weighted Average Interest Rate at Year-End	
Maturity:						
Year ending December 31:						
2015	$63,000,000	0.87	%	$-	-	%
2016	44,500,000	3.81		32,500,000	4.56	
2017	33,000,000	3.59		15,000,000	4.42	
2018	43,000,000	3.49		5,000,000	2.84	
2019	20,000,000	4.12		-	-	
Total FHLB advances	$203,500,000	2.83	%	$52,500,000	4.36	%

*Of the advances outstanding, a 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. The amount of advances with putable options decreased $45.5 million from December 31, 2014 to September 30, 2015 due to the prepayment of advances having putable options.

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Advances are collateralized by loans totaling $450.9 million and $499.1 million, in the aggregate, as of September 30, 2015 and December 31, 2014, respectively. On pledged loans, the FHLB applies varying collateral maintenance levels from 125% to 333% based on the loan type. No securities were pledged as collateral on advances as of September 30, 2015 or December 31, 2014.

As of September 30, 2015, and included with the 2015 maturity grouping above, are $61.0 million of short-term and overnight advances from the FHLB. These advances have maturities ranging from one day to one month. As of December 31, 2014, and included with the 2015 maturity grouping above, are $37.0 million of short-term advances from the FHLB. These advances have maturities ranging from two weeks to one month.

NOTE 6 – OTHER BORROWINGS AND UNUSED LINES OF CREDIT

Other borrowings as of September 30, 2015 and December 31, 2014 are summarized as follows:

	September 30, 2015	December 31, 2014
Wholesale structured repurchase agreements	$115,000,000	$130,000,000
Term note	-	17,625,000
Series A subordinated notes	-	2,657,492
	$115,000,000	$150,282,492

During the second quarter of 2015, CRBT prepaid a $10,000,000 wholesale structured repurchase agreement with an interest rate of 4.40% and a maturity in May 2019. The prepayment fee associated with the transaction totaled $1,202,000. This amount is included in losses on debt extinguishment in the statements of income. The wholesale structured repurchase agreement prepayments were a part of the Company's balance sheet restructuring, which is described in Note 7 to the Consolidated Financial Statements.

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

	September 30, 2015			December 31, 2014		
	Amount Due	Weighted Average Interest Rate at Quarter-End		Amount Due	Weighted Average Interest Rate at Year-End	
Maturity:						
Year ending December 31:						
2015	$-	-		$5,000,000	2.77	%
2016	-	-		-	-	
2017	10,000,000	3.00		10,000,000	3.00	
2018	10,000,000	3.97		10,000,000	3.97	
2019	50,000,000	3.41		60,000,000	3.57	
Thereafter	45,000,000	2.66		45,000,000	2.66	
Total Wholesale Structured Repurchase Agreements	$115,000,000	3.13	%	$130,000,000	3.21	%

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Some of the wholesale structured repurchase agreements have a one-time put option, at the discretion of the counterparty, to terminate the agreement and require the subsidiary bank to repay at predetermined dates prior to the stated maturity date of the agreement. Of the $115.0 million in wholesale structured repurchase agreements outstanding at September 30, 2015, $50.0 million are putable in 2016 and $20.0 million are putable in 2017.

The wholesale structured repurchase agreements are collateralized by securities with a carrying value of $138.3 million and $153.8 million as of September 30, 2015 and December 31, 2014, respectively.

At December 31, 2014, the Company had a 4-year term note with principal and interest due quarterly. Interest was calculated at the effective LIBOR rate plus 3.00% per annum (3.23% at December 31, 2014) and the balance totaled $17,625,000 at December 31, 2014. After two quarterly principal payments totaling $2,350,000 were made in January and April 2015, the resulting balance of the term debt was $15,275,000. In May 2015, the Company repaid this term note in its entirety without prepayment penalty and using proceeds from a common stock offering. Additional information regarding the capital raise and balance sheet restructuring is described in Note 7 to the Consolidated Financial Statements.

Additionally, as of December 31, 2014, the Company maintained a $10.0 million revolving line of credit note where the interest is calculated at the effective LIBOR rate plus 2.50% per annum. At December 31, 2014, the Company had not borrowed on this revolving credit note and had the full amount available. At the renewal date in June 2015, the note was amended to increase the maximum amount available. The Company now maintains a $40.0 million revolving line of credit note, with interest calculated at the effective LIBOR rate plus 2.50% per annum. At September 30, 2015, the Company had not borrowed on this revolving credit note and had the full amount available.

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

As of December 31, 2014, the Company had Series A subordinated notes outstanding totaling $2.7 million with a maturity date of September 1, 2018 and interest payable semi-annually, in arrears, on June 30 and December 30 of each year. This debt was at a fixed rate of 6.00% per year. In June 2015, the Company redeemed all of these subordinated notes using proceeds from a common stock offering, leaving no remaining balance as of September 30, 2015. There was no penalty related to this redemption.

At September 30, 2015, the subsidiary banks had 32 lines of credit totaling $347.2 million, of which $15.2 million was secured and $332.0 million was unsecured. At September 30, 2015, $266.2 million was available as $81.0 million was utilized for short-term borrowing needs at QCBT.

At December 31, 2014, the subsidiary banks had 35 lines of credit totaling $351.6 million, of which $17.1 million was secured and $334.5 million was unsecured. At December 31, 2014, $237.6 million was available as $114.0 million was utilized for short-term borrowing needs at QCBT and RB&T.

As of September 30, 2015 and December 31, 2014, the Company had Public Unit Deposit Letters of Credit with the FHLB of Des Moines totaling $55.0 million and $15.0 million, respectively. There were no amounts outstanding under these letters of credit as of either date.

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NOTE 7 – COMMON STOCK OFFERING AND BALANCE SHEET RESTRUCTURING

On May 13, 2015, the Company announced the closing of an underwritten public offering of 3,680,000 shares of its common stock at a price of $18.25 per share. The net proceeds to the Company, after deducting the underwriting discount and offering expenses, totaled $63.5 million. As a result of the capital raise, the Company's regulatory capital ratios increased significantly. Additional information regarding regulatory capital is described in Note 8 to the Consolidated Financial Statements.

The Company utilized the proceeds from the common stock offering to restructure certain debt obligations and to bolster overall capital levels. Specifically, the Company repaid $15.3 million of holding company senior debt at an interest rate of 3.27%, and $2.7 million of subordinated debt at an interest rate of 6.00%. Additionally, $85.5 million of FHLB advances and wholesale structured repurchase agreements at a weighted average interest rate of 4.36% were prepaid at QCBT and CRBT. As a result of this planned restructuring, the Company incurred $6.9 million (pre-tax) in losses for debt extinguishment that were recognized in the second quarter of 2015.

Of the $103.5 million in debt extinguishments, $63.5 million was funded with the proceeds from the common stock issuance. Approximately $27.7 million was funded through the maturity of low-yielding securities. Brokered CDs and overnight FHLB advances were utilized to fund the remaining $12.3 million. The weighted average interest rate on these new borrowings was approximately 0.90%.

This restructuring and deleveraging significantly reduced the wholesale borrowings portfolio of the Company, which includes FHLB advances, wholesale structured repurchase agreements, and brokered time deposits. The table below presents the maturity schedule including weighted average cost for the Company's combined wholesale borrowings portfolio.

	September 30, 2015	December 31, 2014

Maturity:	Amount Due	Weighted Average Interest Rate at Quarter-End		Amount Due	Weighted Average Interest Rate at Year-End	
Year ending December 31:	*(dollar amounts in thousands)*					
2015	$84,916	0.33	%	$103,818	0.92	%
2016	26,142	1.52		50,642	3.51	
2017	49,055	2.07		53,965	2.96	
2018	60,283	2.93		60,042	3.41	
2019	59,341	3.07		83,152	3.59	
Thereafter	51,141	2.64		51,141	2.64	
Total Wholesale Borrowings	$330,878	2.00	%	$402,760	2.66	%

Total wholesale borrowings decreased $71.9 million from December 31, 2014 to September 30, 2015. Specifically, FHLB advances decreased $70.5 million, wholesale structured repurchase agreements decreased $15.0 million, and brokered time deposits increased $13.6 million, as liquidity needs were supplemented with this source. The average cost of wholesale borrowings decreased from 2.66% to 2.00% and the average duration shortened, as many of the borrowings that were extinguished were long-term in nature. Of the $85.5 million in FHLB advances and wholesale structured repurchase agreements that were prepaid, $30.5 million were set to mature in 2016, $15.0 million in 2017, $10.0 million in 2018 and $30.0 million in 2019. The weighted average duration of these borrowings was 2.56 years.

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NOTE 8 – REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS ON DIVIDENDS

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

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the subsidiary banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiary banks to maintain minimum amounts and ratios (set forth in the following table) of total common equity Tier 1 and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets, each as defined by regulation. Management believes, as of September 30, 2015 and December 31, 2014, that the Company and the subsidiary banks met all capital adequacy requirements to which they are subject.

Under the regulatory framework for prompt corrective action, to be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and common equity Tier 1 ratios as set forth in the following tables. The Company and the subsidiary banks' actual capital amounts and ratios as of September 30, 2015 and December 31, 2014 are also presented in the following table (dollars in thousands). As of September 30, 2015 and December 31, 2014, each of the subsidiary banks met the requirements to be "well capitalized".

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		New Basel III Minimums*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2015:								

Company:						
Total risk-based capital	$274,586	13.06%	$168,246	≥ 8.0%	$210,308	≥ 10.0%	$168,246	≥ 8.0%
Tier 1 risk-based capital	248,802	11.83%	126,185	≥ 6.0	168,246	≥ 8.0	126,185	≥ 6.0
Tier 1 leverage	248,802	9.73 %	102,260	≥ 4.0	127,825	≥ 5.0	102,260	≥ 4.0
Common equity Tier 1	213,710	10.16%	94,638	≥ 4.5	136,700	≥ 6.5	94,638	≥ 4.5
Quad City Bank & Trust:								
Total risk-based capital	$131,695	12.64%	$83,340	≥ 8.0%	$104,175	≥ 10.0%	$83,340	≥ 8.0%
Tier 1 risk-based capital	120,268	11.54%	62,505	≥ 6.0	83,340	≥ 8.0	62,505	≥ 6.0
Tier 1 leverage	120,268	8.97 %	53,610	≥ 4.0	67,012	≥ 5.0	53,610	≥ 4.0
Common equity Tier 1	120,268	11.54%	46,879	≥ 4.5	67,714	≥ 6.5	46,879	≥ 4.5
Cedar Rapids Bank & Trust:								
Total risk-based capital	$103,138	13.81%	$59,755	≥ 8.0%	$74,694	≥ 10.0%	$59,755	≥ 8.0%
Tier 1 risk-based capital	93,784	12.56%	44,817	≥ 6.0	59,755	≥ 8.0	44,817	≥ 6.0
Tier 1 leverage	93,784	10.68%	35,121	≥ 4.0	43,901	≥ 5.0	35,121	≥ 4.0
Common equity Tier 1	93,784	12.56%	33,612	≥ 4.5	48,551	≥ 6.5	33,612	≥ 4.5
Rockford Bank & Trust:								
Total risk-based capital	$38,827	12.40%	$25,047	≥ 8.0%	$31,308	≥ 10.0%	$25,047	≥ 8.0%
Tier 1 risk-based capital	34,909	11.15%	18,785	≥ 6.0	25,047	≥ 8.0	18,785	≥ 6.0
Tier 1 leverage	34,909	9.63 %	14,495	≥ 4.0	18,119	≥ 5.0	14,495	≥ 4.0
Common equity Tier 1	34,909	11.15%	14,089	≥ 4.5	20,350	≥ 6.5	14,089	≥ 4.5

*The minimums under Basel III phase in higher by .625% (the capital conservation buffer) annually until 2019. The fully phased-in mimimums are 10.5% (Total risk-based capital), 8.5% (Tier 1 risk-based capital), and 7.0% (Common equity Tier 1).

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	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of December 31, 2014:								
Company:								
Total risk-based capital	$204,376	10.91%	$149,876	≥	8.0%	N/A		N/A
Tier 1 risk-based capital	178,364	9.52 %	74,938	≥	4.0%	N/A		N/A
Tier 1 leverage	178,364	7.62 %	93,658	≥	4.0%	N/A		N/A
Quad City Bank & Trust:								
Total risk-based capital	$104,869	11.26%	$74,495	≥	8.0%	$93,119	≥	10.00%
Tier 1 risk-based capital	93,785	10.07%	37,248	≥	4.0	55,872	≥	6.0
Tier 1 leverage	93,785	7.10 %	52,817	≥	4.0	66,021	≥	5.0
Cedar Rapids Bank & Trust:								
Total risk-based capital	$76,662	11.54%	$53,126	≥	8.0%	$66,407	≥	10.0 %
Tier 1 risk-based capital	68,772	10.36%	26,563	≥	4.0	39,844	≥	6.0
Tier 1 leverage	68,772	8.21 %	33,525	≥	4.0	41,906	≥	5.0
Rockford Bank & Trust:								
Total risk-based capital	$35,906	12.56%	$22,875	≥	8.0%	$28,594	≥	10.0 %
Tier 1 risk-based capital	32,325	11.30%	11,438	≥	4.0	17,156	≥	6.0
Tier 1 leverage	32,325	9.16 %	14,112	≥	4.0	17,640	≥	5.0

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms and issued rules effecting certain changes required by the Dodd-Frank Act. The Basel III Rules are applicable to all U.S. banks that are subject to minimum capital requirements, as well as to bank and savings and loan holding companies other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $1 billion).

The Basel III Rules not only increased most of the required minimum regulatory capital ratios, but they introduced a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Failure to maintain capital levels above Basel III minimums may lead to restrictions on dividends, share buybacks, discretionary payments on Tier 1 instruments and discretionary bonus payments.

The Basel III Rules also permit smaller banking organizations to retain, through a one-time election, the existing treatment for AOCI, which excluded the affect of AOCI from regulatory capital. The Company made this election in the first quarter of 2015.

On August 27, 2015, the Company filed a universal shelf registration statement on Form S-3 with the SEC. This registration statement, declared effective by the SEC on October 5, 2015, will allow the Company to issue various types of securities, including common stock, preferred stock, debt securities or warrants, from time to time, up to an aggregate amount of $100.0 million. The specific terms and prices of the securities will be determined at the time of any future offering and described in a separate prospectus supplement, which would be filed with the SEC at the time of the particular offering, if any.

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NOTE 9 - EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	$6,488,987	$4,062,665	$10,143,058	$11,959,716
Less: Preferred stock dividends	-	-	-	1,081,877
Net income attributable to QCR Holdings, Inc. common stockholders	$6,488,987	$4,062,665	$10,143,058	$10,877,839
Earnings per common share attributable to QCR Holdings, Inc. common stockholders				
Basic	$0.55	$0.51	$1.03	$1.37
Diluted	$0.55	$0.50	$1.01	$1.35
Weighted average common shares outstanding*	11,713,993	7,931,944	9,878,882	7,919,201
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	161,937	122,041	145,559	121,217
Weighted average common and common equivalent shares outstanding	11,875,930	8,053,985	10,024,441	8,040,418

*The increase in weighted average common shares outstanding was primarily due to the common stock issuance discussed in Note 7 to the Consolidated Financial Statements.

NOTE 10 – FAIR VALUE

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

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

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Assets measured at fair value on a recurring basis comprise the following at September 30, 2015 and December 31, 2014:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
September 30, 2015:				
Securities available for sale:				
U.S. govt. sponsored agency securities	$247,624,591	$-	$247,624,591	$ -
Residential mortgage-backed and related securities	74,901,559	-	74,901,559	-
Municipal securities	27,701,652	-	27,701,652	-
Other securities	1,906,549	354,128	1,552,421	-
Derivative instruments	784,655	-	784,655	-
	$352,919,006	$354,128	$352,564,878	$ -
December 31, 2014:				
Securities available for sale:				
U.S. govt. sponsored agency securities	$307,869,572	$-	$307,869,572	$ -
Residential mortgage-backed and related securities	111,423,224	-	111,423,224	-
Municipal securities	30,399,981	-	30,399,981	-
Other securities	1,966,853	345,952	1,620,901	-
Derivative instruments	1,487,386	-	1,487,386	
	$453,147,016	$345,952	$452,801,064	$ -

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, 2015 or 2014.

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

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

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

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

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Assets measured at fair value on a non-recurring basis comprise the following at September 30, 2015 and December 31, 2014:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
September 30, 2015:				
Impaired loans/leases	$4,849,718	$-	$ -	$4,849,718
OREO	8,791,506	-	-	8,791,506
	$13,641,224	$-	$ -	$13,641,224
December 31, 2014:				
Impaired loans/leases	$12,467,362	$-	$ -	$12,467,362
OREO	13,789,047	-	-	13,789,047
	$26,256,409	$-	$ -	$26,256,409

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

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

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

	Quantitave Information about Level Fair Value Measurments						
	Fair Value September 30, 2015	Fair Value December 31, 2014	Valuation Technique	Unobservable Input	Range		
Impaired loans/leases	$ 4,849,718	$ 12,467,362	Appraisal of collateral	Appraisal adjustments	-10.00%	to	-50.00%
OREO	8,791,506	13,789,047	Appraisal of collateral	Appraisal adjustments	0.00%	to	-35.00%

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

There have been no changes in valuation techniques used for any assets measured at fair value during the nine months ended September 30, 2015 and 2014.

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

	Fair Value Hierarchy Level	As of September 30, 2015		As of December 31, 2014	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	$ 41,053,241	$ 41,053,241	$ 38,235,019	$ 38,235,019
Federal funds sold	Level 2	34,330,000	34,330,000	46,780,000	46,780,000
Interest-bearing deposits at financial institutions	Level 2	32,275,631	32,275,631	35,334,682	35,334,682
Investment securities:					
Held to maturity	Level 3	238,640,598	239,420,841	199,879,574	201,113,796
Available for sale	See Previous Table	352,134,351	352,134,351	451,659,630	451,659,630
Loans/leases receivable, net	Level 3	4,490,480	4,849,718	11,543,854	12,467,362
Loans/leases receivable, net	Level 2	1,725,647,545	1,735,872,520	1,595,384,851	1,606,646,146
Derivative instruments	Level 2	784,655	784,655	1,487,386	1,487,386

Deposits:					
Nonmaturity deposits	Level 2	1,469,462,729	1,469,462,729	1,304,044,099	1,304,044,099
Time deposits	Level 2	385,856,258	386,900,000	375,623,914	376,509,000
Short-term borrowings	Level 2	167,564,212	167,564,212	268,351,670	268,351,670
FHLB advances	Level 2	133,000,000	135,877,000	203,500,000	208,172,000
Other borrowings	Level 2	115,000,000	123,363,000	150,282,492	159,741,000
Junior subordinated debentures	Level 2	40,526,691	28,887,138	40,423,735	28,585,294

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NOTE 11 – 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 offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

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

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

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Selected financial information on the Company's business segments is presented as follows as of and for the three and nine months ended September 30, 2015 and 2014.

	Commercial Banking						
	Quad City Bank & Trust	Cedar Rapids Bank & Trust	Rockford Bank & Trust	**Wealth Management**	**All Other**	**Intercompany Eliminations**	**Consolidated Total**
Three Months Ended September 30, 2015							
Total revenue	$14,039,050	$10,390,806	$4,095,882	$2,314,406	$7,936,414	$(7,986,520)	$30,790,038
Net interest income	$10,728,143	$6,956,027	$2,771,214	$-	$(317,858)	$-	$20,137,526
Net income	$3,786,289	$2,893,397	$847,709	$373,801	$6,488,988	$(7,901,197)	$6,488,987
Total assets	$1,328,053,105	$867,064,041	$360,348,002	$-	$277,001,408	$(256,611,839)	$2,575,854,717
Provision	$910,263	$550,000	$175,000	$-	$-	$-	$1,635,263
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$3,222,688
Core deposit intangible	$-	$1,521,287	$-	$-	$-	$-	$1,521,287
Three Months Ended September 30, 2014							
Total revenue	$12,467,712	$8,853,958	$3,595,245	$2,082,609	$5,526,296	$(5,567,505)	$26,958,315
Net interest income	$9,234,089	$6,179,763	$2,584,613	$-	$(523,134)	$-	$17,475,331
Net income	$2,602,238	$1,861,236	$669,814	$358,997	$4,062,665	$(5,492,285)	$4,062,665
Total assets	$1,274,033,270	$822,348,680	$346,791,265	$-	$212,236,225	$(204,813,887)	$2,450,595,553
Provision	$609,657	$331,666	$122,000	$-	$-	$-	$1,063,323
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$3,222,688

Core deposit intangible	$-	$1,720,799	$-	$-	$-	$-	$1,720,799
Nine Months Ended September 30, 2015							
Total revenue	$39,824,626	$28,662,969	$11,536,814	$6,927,453	$14,489,717	$(14,721,751)	$86,719,828
Net interest income	$29,745,080	$19,836,835	$8,089,626	$-	$(1,260,962)	$-	$56,410,579
Net income	$6,578,479	$4,645,136	$1,895,933	$1,271,661	$10,143,059	$(14,391,210)	$10,143,058
Total assets	$1,328,053,105	$867,064,041	$360,348,002	$-	$277,001,408	$(256,611,839)	$2,575,854,717
Provision	$3,466,384	$1,650,000	$578,000	$-	$-	$-	$5,694,384
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$3,222,688
Core deposit intangible	$-	$1,521,287	$-	$-	$-	$-	$1,521,287
Nine Months Ended September 30, 2014							
Total revenue	$36,368,665	$25,972,122	$10,779,962	$6,387,215	$16,016,503	$(16,245,340)	$79,279,127
Net interest income	$27,235,902	$17,820,878	$7,637,029	$-	$(1,403,894)	$-	$51,289,915
Net income	$7,397,943	$5,577,993	$1,755,117	$1,205,204	$11,959,716	$(15,936,257)	$11,959,716
Total assets	$1,274,033,270	$822,348,680	$346,791,265	$-	$212,236,225	$(204,813,887)	$2,450,595,553
Provision	$1,779,698	$881,666	$498,000	$-	$-	$-	$3,159,364
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$3,222,688
Core deposit intangible	$-	$1,720,799	$-	$-	$-	$-	$1,720,799

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This section reviews the financial condition and results of operations of the Company and its subsidiaries for the three months and nine months ending September 30, 2015 and 2014. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends. When reading this discussion, also refer to the consolidated financial statements and related notes in this report. The page locations and specific sections and notes that are referred to are presented in the table of contents.

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

GENERAL

QCR Holdings, Inc. is the parent company of QCBT, CRBT, and RB&T.

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

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

CRBT commenced operations in 2001 and provides full-service commercial and consumer banking, and trust and asset management services to Cedar Rapids, Iowa and adjacent communities through its main office located on First Avenue in downtown Cedar Rapids, Iowa and its branch facility located on Council Street in northern Cedar Rapids. Cedar Falls and Waterloo, Iowa and adjacent communities are served through three additional CRBT offices (two in Waterloo and one in Cedar Falls).

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

EXECUTIVE OVERVIEW

The Company reported net income of $6.5 million for the quarter ended September 30, 2015, and diluted EPS of $0.55. By comparison, for the quarter ended June 30, 2015, the Company reported a net loss of $524 thousand, and diluted EPS of ($0.05). During the second quarter, the Company successfully executed several planned initiatives aimed at improving the long-term profitability of the Company and strengthening its capital base. As a result, financial performance was greatly impacted by several previously announced nonrecurring income and expense items; most prominently the one-time expense related to the prepayment of certain FHLB advances and other wholesale borrowings, which totaled approximately $4.5 million (after-tax). For the third quarter of 2014, the Company reported net income of $4.1 million, and diluted EPS of $0.50. As a result of the redemption of all of the Company’s remaining outstanding shares of preferred stock in the second quarter of 2014, none of these periods included preferred stock dividends.

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For the nine months ended September 30, 2015, the Company reported net income of $10.1 million and diluted EPS of $1.01. By comparison, for the nine months ended September 30, 2014, the Company reported net income of $12.0 million, and diluted EPS of $1.35, after preferred stock dividends of $1.1 million.

The third quarter of 2015 was highlighted by several significant items:

- Net interest margin improvement of 18 basis points, quarter-over-quarter, primarily attributable to the balance sheet restructuring described in Note 7 to the Consolidated Financial Statements;
- Loan and lease growth at an annualized rate of 10.3% through the first nine months of the year;
- Strong gains on the sale of government guaranteed portions of loans;
- A gain on the sale of an OREO property totaling $1.2 million (pre-tax); and
- Improved asset quality metrics, with a reduction in NPAs as a percentage of total assets from 1.61% at September 30, 2014 to 0.80% at the current quarter-end.

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

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income	$6,488,987	$4,062,665	$10,143,058	$11,959,716
Less: Preferred stock dividends	-	-	-	1,081,877
Net income attributable to QCR Holdings, Inc. common stockholders	$6,488,987	$4,062,665	$10,143,058	$10,877,839
Diluted earnings per common share	$0.55	$0.50	$1.01	$1.35
	11,875,930	8,053,985	10,024,441	8,040,418

Weighted average common and common equivalent outstanding*

*The increase in weighted average common and common equivalent outstanding shares was primarily due to the common stock issuance discussed in Note 7 to the consolidated financial statements.

The Company reported core net income (non-GAAP) for the quarter ending September 30, 2015 of $6.2 million, with diluted core EPS of $0.52. Core net income for the quarter included a $788 thousand (after-tax) gain on the sale of other real estate. While this gain is considered core income, it is non-recurring in nature. Core net income for the quarter excluded after-tax gains on the sale of securities of $37 thousand and after-tax income from the conclusion of a favorable lawsuit of $252 thousand.

For the nine months ended September 30, 2015, the Company reported core net income (non-GAAP) of $14.6 million, with diluted core EPS of $1.45. Core net income year-to-date excludes $5.0 million of after-tax non-recurring expenses, $4.5 million of which related to the previously announced prepayment of FHLB advances and other wholesale borrowings during the second quarter of 2015.

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

	For the three months ended			For the nine months ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net interest income	$20,137,526	$18,490,836	$17,475,331	$56,410,579	$51,289,915
Provision expense	1,635,263	2,348,665	1,063,323	5,694,384	3,159,364
Noninterest income	7,648,926	5,651,606	5,161,673	19,626,374	15,341,898
Noninterest expense	17,193,331	24,292,006	16,482,140	58,793,562	48,818,260
Federal and state income tax (benefit)	2,468,871	(1,974,411)	1,028,876	1,405,949	2,694,473
Net income (loss)	$6,488,987	$(523,818)	$4,062,665	$10,143,058	$11,959,716

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

Net interest income increased 9% compared to the second quarter of 2015 and increased 15% from the same period in 2014.

Provision decreased 30% compared to the second quarter of 2015. The increased provision in the second quarter of 2015 was the result of a $971 thousand increase in a specific allowance allocated to one relationship at QCBT. This relationship was not a new NPA, but new circumstances developed in the second quarter requiring an increase in specific allowance allocation. This relationship was subsequently charged off in the third quarter of 2015. Provision increased 54% from the same period in 2014, primarily due to loan growth and changes in qualititative factors utilized in the calculation.

Noninterest income increased 35% compared to the second quarter of 2015. Noninterest income increased 48% from the third quarter of 2014. Noninterest income in the third quarter of 2015 included a $1.2 million gain on the sale of an OREO property, a $387 thousand lawsuit award and a strong quarter of gains on the sale of government guaranteed portions of loans ($760 thousand compared to $69 thousand and $159 thousand for the quarters ending June 30, 2015 and September 30, 2014, respectively).

Noninterest expense decreased 29% compared to the second quarter of 2015. The second quarter of 2015 included several nonrecurring expense items totaling approximately $7.7 million, $6.9 million of which related to the extinguishment of debt discussed in Note 7 to the Consolidated Financial Statements. Noninterest expense increased 4% from the third quarter of 2014.

Federal and state income tax increased significantly compared to the second quarter of 2015 and the same period in the prior year. The company recognized a large tax benefit in the second quarter of 2015 due to a reduction in taxable income. See the Income Taxes section of this report for additional details.

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LONG-TERM FINANCIAL GOALS

The Company’s long-term (defined as the next 12-24 months) financial goals are as follows:

- Improve balance sheet efficiency by targeting a gross loans and leases to total assets ratio in the range of 70 – 75%;
- Improve profitability (measured by net interest margin and return on average assets);
- Continue to improve asset quality by reducing NPAs to total assets to below 1.00% and maintain charge-offs as a percentage of average loans of under 0.25% annually;
- Reduce reliance on wholesale funding to less than 15% of total assets;
- Grow noninterest bearing deposits to more than 30% of total assets;
- Increase the commercial lease portfolio so that it represents 10% of total assets;
- Grow gains on sales of government guaranteed portions of loans to more than $3 million annually; and
- Continue to grow trust and investment advisory fees by 15% annually.

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

Goal****	Key Metric	Target***	September 30, 2015	September 30, 2015 (non-GAAP*)	June 30, 2015	June 30, 2015 (non-GAAP*)	September 30, 2014
			(dollars in thousands)				
Balance sheet efficiency	Gross loans and leases to total assets	70 - 75%	68%		67%		64%
Profitability	Net interest margin	>3.45%	3.51%		3.33%		3.15%
	Return on average assets	>1.00%	1.01%	0.97%	-0.08%	0.71%	0.66%
Asset quality	Nonperforming assets to total assets	<1.00%	0.80%		1.07%		1.61%
	Net charge-offs to average loans**	< 0.25% annually	0.26%		0.12%		0.16%
Lower reliance on wholesale funding	Wholesale funding to total assets	< 15%	21%		22%		26%
Funding mix	Noninterest bearing deposits as a percentage of total assets	> 30%	23%		25%		22%
Commercial leasing	Leases as a percentage of total assets	10%	7%		7%		7%
Consistent, high quality noninterest	Gains on sales of government guaranteed portions of loans**	> $3 million annually	$1.0 million		$0.3 million		$1.1 million
income revenue streams	Grow trust and investment advisory fees**	> 15% annually	8%		8%		13%

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

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

*** Annual growth percentages are calculated with a base of December 31, 2014 and 2013 year-to-date totals. Targets will be re-evaluated and adjusted annually in the first quarter of each year.

**** These goals are aspirational in nature and, depending on the actual performance of the Company, may or may not be achieved. See the Special Note Concerning Forward-Looking Statement located within the Notes to the Consolidated Financial Statements.

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STRATEGIC DEVELOPMENTS

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

Loan growth for the first nine months of 2015 was 10.3% on an annualized basis. This was within the Company's target organic growth rate of 10-12%. A majority of this growth was in the commercial and industrial loan category. As of September 30, 2015,this segment of the portfolio accounted for 37% of total loans and leases. At the same time, the Company has reduced its reliance on commercial real estate loans, with that segment representing 39% of the portfolio as of September 30, 2015. This loan and lease growth has continued to help move the loan and lease to total asset ratio upward to 68%, from 67% in the second quarter of 2015 and 64% one year ago. Additionally, the Company continues to evaluate market opportunities to rotate out of securities and into loans and leases, as this will also make the balance sheet more profitable. Generally, securities have a lower yield, therefore, by replacing with loans and leases, the Company will continue to improve NIM.

In the second quarter of 2015, the Company executed a balance sheet restructuring that greatly reduced borrowings and the weighted average cost of borrowings in order to improve the long-term profitability of the Company. Refer to Note 7 to the Consolidated Financial Statements for additional information. The majority of the debt restructuring activity was executed mid-quarter, so management expected to see net interest margin improvement in the third quarter. Management anticipated that the quarterly net interest margin percentage would be in the range of 3.40% to 3.45%; however, due to improvement in the Company's yield on securities and yield on loans and leases, NIM improved to 3.51% for the third quarter.

The Company has been heavily focused on reducing NPAs to total assets ratio to below 1.00% and was successful in achieving this benchmark during the third quarter, with an actual ratio of 0.80%. The reduction of NPAs was primarily due to the sale of a large OREO property during the quarter, as well as the charge-off of a nonaccrual loan that was fully reserved in prior periods. The Company plans to continue to dispose of OREO properties to further improve asset quality ratios. As of September 30, 2015, the Company had four OREO properties totaling $7.1 million. Additionally, the Company had two nonaccrual relationships totaling $6.9 million. In total, these six relationships made up $14.0 million, or 68%, of our Company's NPAs as of September 30, 2015. The Company will concentrate workout efforts on these six relationships.

Management continues to focus on reducing the Company's reliance on wholesale funding. The balance sheet restructuring that was executed in the second quarter lowered the Company's reliance by 4%, from 26% at September 30, 2014 to 22% at June 30, 2015. In the third quarter of 2015, the Company lowered its reliance by another 1%, primarily due to brokered CD maturities that were replaced with core deposits. Management continues to closely evaluate opportunities for further reduction in wholesale funding.

Correspondent banking continues to be a core line of business for the Company. The Company is competitively positioned with veteran staff, software systems and processes to continue growing in the three states currently served – Iowa, Illinois and Wisconsin. The Company acts as the correspondent bank for 172 downstream banks with total noninterest bearing deposits of approximately $272.0 million as of September 30, 2015. This line of business provides a strong source of noninterest bearing deposits, fee income and high-quality loan participations.

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The Company provides commercial leasing services through its wholly-owned subsidiary, m2 Lease Funds, which has lease specialists in Iowa, Illinois, Wisconsin, Minnesota, South Carolina, North Carolina, Georgia, Florida and Pennsylvania. Historically, this portfolio has been high yielding, with an average gross yield through the first nine months of 2015 approximating 8.4%. This portfolio has also shown strong asset quality throughout its history and the Company intends to grow this portfolio to 10% of consolidated assets.

SBA and USDA lending is a specialty lending area on which the Company has focused. Once these loans are originated, the government-guaranteed portion of the loan can be sold to the secondary market for premiums. The Company intends to make this a more significant and consistent source of noninterest income. In 2014, the Company hired a government-guaranteed lending specialist in the QCBT market. Also in 2014, in the CRBT market, the Company added a USDA relationship manager to CRBT’s specialty lending team.

Wealth management is another core line of business for the Company and offers a full range of products, including trust services, brokerage and investment advisory services, asset management, estate planning and financial planning. As of September 30, 2015 the Company had $1.69 billion of total financial assets in trust (and related) accounts and $660 million of total financial assets in brokerage (and related) accounts. Continued growth in assets under management will help to drive trust and investment advisory fees, with a goal of growing this line item 15% annually. The Company hired four business development officers in 2014 to help with this strategy. Additionally, the Company has started offering trust and investment advisory services to the correspondent banks that it serves. As management focuses on growing fee income, expanding market share will continue to be a primary strategy.

GAAP TO NON-GAAP RECONCILIATIONS

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

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

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

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

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	As of September 30, 2015	June 30, 2015	December 31, 2014	September 30, 2014
	(dollars in thousands, except per share data)			
TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS RATIO				
Stockholders' equity (GAAP)	$221,115	$211,697	$144,079	$138,180
Less: Intangible assets	4,744	4,794	4,894	4,944
Tangible common equity (non-GAAP)	$216,371	$206,903	$139,185	$133,236
Total assets (GAAP)	$2,575,855	$2,542,969	$2,524,958	$2,450,596
Less: Intangible assets	4,744	4,794	4,894	4,944
Tangible assets (non-GAAP)	$2,571,111	$2,538,175	$2,520,064	$2,445,652
Tangible common equity to tangible assets ratio (non-GAAP)	**8.42** %	**8.15** %	**5.52** %	**5.45** %

	For the Quarter ended			For the Nine Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
CORE NET INCOME					
Net income (loss) (GAAP)	$6,489	$(524)	$4,063	$10,143	$11,960
Less nonrecurring items (after-tax*) :					
Income:					
Securities gains	$37	$-	$12	$308	$27
Lawsuit settlement	252	-	-	252	-
Total nonrecurring income (non-GAAP)	$289	$-	$12	$560	$27
Expense:					

Losses on debt extinguishment	$-	$4,481	$-	$4,481	$-
Other non-recurring expenses	-	513	-	513	-
Total nonrecurring expense (non-GAAP)	$-	$4,994	$-	$4,994	$-
Core net income (non-GAAP)	**$6,200**	**$4,470**	**$4,051**	**$14,577**	**$11,933**
Less: Preferred stock dividends	-	-	-	-	1,082
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP)	**$6,200**	**$4,470**	**$4,051**	**$14,577**	**$10,851**
CORE EARNINGS PER COMMON SHARE					
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP) (from above)	$6,200	$4,470	$4,051	$14,577	$10,851
Weighted average common shares outstanding	11,713,993	9,946,744	7,931,944	9,878,882	7,919,201
Weighted average common and common equivalent shares outstanding	11,875,930	9,946,744	8,053,985	10,024,441	8,040,418
Core earnings per common share (non-GAAP):					
Basic	**$0.53**	**$0.45**	**$0.51**	**$1.48**	**$1.37**
Diluted	**$0.52**	**$0.45**	**$0.50**	**$1.45**	**$1.35**
CORE RETURN ON AVERAGE ASSETS					
Core net income (non-GAAP) (from above)	$6,200	$4,470	$4,051	$14,577	$11,933
Average Assets	$2,563,739	$2,518,170	$2,467,191	$2,529,469	$2,442,338
Core return on average assets (annualized) (non-GAAP)	**0.97 %**	**0.71 %**	**0.66 %**	**0.77 %**	**0.65 %**

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

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NET INTEREST INCOME - (TAX EQUIVALENT BASIS)

Net interest income, on a tax equivalent basis, increased 16% to $21.4 million for the quarter ended September 30, 2015. For the nine months ending September 30, 2015, net interest income, on a tax equivalent basis, increased 11% to $60.1 million. Net interest income improved due to several factors:

- The Company’s strategy to redeploy funds from the taxable securities portfolio into higher yielding loans and leases;
- Organic loan and lease growth has been strong over the past twelve months, as evidenced by average gross loan/lease growth of 11% in that period; and
- The Company’s balance sheet restructuring and deleveraging strategy that was executed in the second quarter of 2015. This strategy reduced high-cost borrowings and resulted in a decrease in the cost of total interest bearing liabilities from 0.99% to 0.71%, or 28 basis points, comparing the third quarter of 2015 to the third quarter of 2014. Refer to Note 7 to the Consolidated Financial Statements for additional details.

A comparison of yields, spread and margin from the third quarter of 2014 to the third quarter of 2015 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets increased 11 basis points.
- The average cost of interest-bearing liabilities decreased 28 basis points.
- The net interest spread increased 39 basis points from 2.90% to 3.29%.
- The net interest margin improved 36 basis points from 3.15% to 3.51%.

A comparison of yields, spread and margin from the first nine months of 2014 to the first nine months of 2015 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets increased 11 basis points.
- The average cost of interest-bearing liabilities decreased 16 basis points.
- The net interest spread increased 27 basis points from 2.86% to 3.13%.
- The net interest margin improved 24 basis points from 3.13% to 3.37%.

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

During 2014 and 2015, the Company placed an emphasis on shifting its balance sheet mix. With a stated goal of increasing loans/leases as a percentage of assets to at least 70%, the Company has funded this loan/lease growth with a mixture of core deposits and cash from the maturities, sales and pay downs in the taxable investment securities portfolio.

Strategies are continuously being evaluated in which securities are sold and the cash is redeployed into the loan/lease portfolio, with little to no extension of duration and a significant increase in yield. Additionally, the Company is recognizing net gains on these sales due to the current low rate environment. As rates rise, the Company will also have less market volatility in the investment securities portfolio, as this continues to become a smaller portion of the balance sheet.

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The Company continues to monitor and evaluate both prepayment and debt restructuring opportunities within the wholesale funding portion of the balance sheet, as such a strategy may increase net interest margin at a quicker pace than holding the debt until maturity.

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

	For the three months ended September 30,					
	2015			**2014**		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
	(dollars in thousands)					
ASSETS						
Interest earning assets:						
Federal funds sold	$22,435	$8	0.14 %	$23,894	$8	0.13 %
Interest-bearing deposits at financial institutions	51,380	67	0.52 %	45,614	66	0.57 %
Investment securities (1)	591,538	4,683	3.14 %	673,416	4,644	2.74 %
Restricted investment securities	14,224	127	3.54 %	16,210	128	3.13 %
Gross loans/leases receivable (1) (2) (3)	1,744,043	19,564	4.45 %	1,572,638	18,003	4.54 %
Total interest earning assets	$2,423,620	$24,449	4.00 %	$2,331,772	$22,849	3.89 %
Noninterest-earning assets:						
Cash and due from banks	$44,679			$44,815		
Premises and equipment	38,318			36,191		
Less allowance	(26,417)			(23,355)		
Other	83,539			77,768		

Total assets	$2,563,739				$2,467,191			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing liabilities:								
Interest-bearing deposits	$822,178	465	0.22	%	$751,808	466	0.25	%
Time deposits	414,393	675	0.65	%	415,693	702	0.67	%
Short-term borrowings	147,880							