

QCR HOLDINGS INC
Form 10-Q
August 08, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2018

☐ 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) 736 3580

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

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Yes ☒ No ☐

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>
Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of August 1, 2018, the Registrant had outstanding 15,664,417 shares of common stock, \$1.00 par value per share.

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QCR HOLDINGS, INC. AND SUBSIDIARIES

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Throughout this Quarterly Report on Form 10-Q, 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 June 30, 2018 and December 31, 2017

	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 69,069,403	\$ 75,721,663
Federal funds sold	10,866,000	30,197,000
Interest-bearing deposits at financial institutions	40,801,388	55,765,012
Securities held to maturity, at amortized cost	400,052,344	379,474,205
Securities available for sale, at fair value	257,944,671	272,907,907
Total securities	657,997,015	652,382,112
Loans receivable held for sale	1,033,700	645,001
Loans/leases receivable held for investment	3,113,758,723	2,963,840,399
Gross loans/leases receivable	3,114,792,423	2,964,485,400
Less allowance for estimated losses on loans/leases	(37,545,076)	(34,355,728)
Net loans/leases receivable	3,077,247,347	2,930,129,672
Bank-owned life insurance	59,876,754	59,059,494
Premises and equipment, net	64,472,319	62,838,255
Restricted investment securities	23,888,600	19,782,525
Other real estate owned, net	12,750,023	13,558,308
Goodwill	28,090,897	28,334,092
Core deposit intangible	8,469,851	9,078,953
Other assets	53,353,108	45,817,687
Total assets	\$ 4,106,882,705	\$ 3,982,664,773
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 746,821,779	\$ 789,547,696
Interest-bearing	2,551,454,248	2,477,107,360
Total deposits	3,298,276,027	3,266,655,056
Short-term borrowings	17,585,605	13,993,122
Federal Home Loan Bank advances	254,100,000	192,000,000
Other borrowings	71,125,000	66,000,000
Junior subordinated debentures	37,580,881	37,486,487
Other liabilities	58,627,027	53,242,979
Total liabilities	3,737,294,540	3,629,377,644

Stockholders' Equity:

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Preferred stock, \$1 par value; shares authorized 250,000 June 2018 and December 2017- No shares issued or outstanding	—	—
Common stock, \$1 par value; shares authorized 20,000,000 June 2018 - 13,973,940 shares issued and outstanding December 2017 - 13,918,168 shares issued and outstanding	13,973,940	13,918,168
Additional paid-in capital	190,533,240	189,077,550
Retained earnings	171,955,296	151,962,661
Accumulated other comprehensive loss:		
Securities available for sale	(6,058,893)	(866,223)
Derivatives	(815,418)	(805,027)
Total stockholders' equity	369,588,165	353,287,129
Total liabilities and stockholders' equity	\$ 4,106,882,705	\$ 3,982,664,773

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended June 30,

	2018	2017
Interest and dividend income:		
Loans/leases, including fees	\$ 35,407,851	\$ 28,114,729
Securities:		
Taxable	1,593,660	1,260,575
Nontaxable	3,295,046	2,688,243
Interest-bearing deposits at financial institutions	228,314	219,714
Restricted investment securities	211,902	131,890
Federal funds sold	61,441	38,117
Total interest and dividend income	40,798,214	32,453,268
Interest expense:		
Deposits	6,528,340	2,990,603
Short-term borrowings	62,503	19,157
Federal Home Loan Bank advances	882,118	354,213
Other borrowings	732,881	695,669
Junior subordinated debentures	507,876	346,929
Total interest expense	8,713,718	4,406,571
Net interest income	32,084,496	28,046,697
Provision for loan/lease losses	2,300,735	2,022,993
Net interest income after provision for loan/lease losses	29,783,761	26,023,704
Noninterest income:		
Trust department fees	2,057,987	1,692,001
Investment advisory and management fees	1,057,666	868,835
Deposit service fees	1,610,403	1,458,359
Gains on sales of residential real estate loans, net	101,772	112,628
Gains on sales of government guaranteed portions of loans, net	—	87,053
Swap fee income	1,648,885	327,577
Securities gains, net	—	38,464
Earnings on bank-owned life insurance	399,273	459,359
Debit card fees	844,286	743,521
Correspondent banking fees	212,530	200,057
Other	979,464	794,664
Total noninterest income	8,912,266	6,782,518
Noninterest expense:		
Salaries and employee benefits	15,804,016	12,930,944
Occupancy and equipment expense	3,132,658	2,698,336
Professional and data processing fees	2,771,223	2,340,699
Acquisition costs	413,602	—
Post-acquisition compensation, transition and integration costs	165,314	—

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FDIC insurance, other insurance and regulatory fees	840,458	645,277
Loan/lease expense	260,089	260,284
Net cost of (income from) operations of other real estate	(70,190)	27,957
Advertising and marketing	753,084	567,588
Bank service charges	466,091	447,445
Correspondent banking expense	204,337	201,693
CDI amortization	304,551	230,867
Other	1,324,590	1,053,539
Total noninterest expense	26,369,823	21,404,629
Net income before income taxes	12,326,204	11,401,593
Federal and state income tax expense	1,880,819	2,635,576
Net income	\$ 10,445,385	\$ 8,766,017
Basic earnings per common share	\$ 0.75	\$ 0.67
Diluted earnings per common share	\$ 0.73	\$ 0.65
Weighted average common shares outstanding	13,919,565	13,170,283
Weighted average common and common equivalent shares outstanding	14,232,423	13,516,592
Cash dividends declared per common share	\$ 0.06	\$ 0.05
See Notes to Consolidated Financial Statements (Unaudited)		

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Six Months Ended June 30,

	2018	2017
Interest and dividend income:		
Loans/leases, including fees	\$ 69,621,583	\$ 55,326,146
Securities:		
Taxable	3,149,544	2,402,810
Nontaxable	6,584,048	5,335,965
Interest-bearing deposits at financial institutions	425,317	418,366
Restricted investment securities	446,246	262,320
Federal funds sold	117,772	52,760
Total interest and dividend income	80,344,510	63,798,367
Interest expense:		
Deposits	11,409,489	5,223,359
Short-term borrowings	95,416	43,117
Federal Home Loan Bank advances	1,946,231	757,682
Other borrowings	1,451,057	1,378,877
Junior subordinated debentures	954,903	679,752
Total interest expense	15,857,096	8,082,787
Net interest income	64,487,414	55,715,580
Provision for loan/lease losses	4,840,574	4,128,102
Net interest income after provision for loan/lease losses	59,646,840	51,587,478
Noninterest income:		
Trust department fees	4,295,068	3,432,208
Investment advisory and management fees	2,010,010	1,830,434
Deposit service fees	3,141,856	2,774,749
Gains on sales of residential real estate loans, net	202,587	208,951
Gains on sales of government guaranteed portions of loans, net	358,434	1,037,694
Swap fee income	2,607,579	441,097
Securities gains, net	—	38,464
Earnings on bank-owned life insurance	817,260	929,046
Debit card fees	1,610,394	1,446,322
Correspondent banking fees	477,357	445,246
Other	1,933,170	1,482,061
Total noninterest income	17,453,715	14,066,272
Noninterest expenses:		
Salaries and employee benefits	31,781,991	26,238,275
Occupancy and equipment expense	6,198,469	5,200,555
Professional and data processing fees	5,478,939	4,424,091
Acquisition costs	506,141	—
Post-acquisition compensation, transition and integration costs	165,314	—

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FDIC insurance, other insurance and regulatory fees	1,596,669	1,266,519
Loan/lease expense	550,836	553,822
Net cost of (income from) operations of other real estate	61,552	42,187
Advertising and marketing	1,446,323	1,177,019
Bank service charges	906,662	871,346
Correspondent banking expense	409,091	400,044
CDI amortization	609,102	461,733
Other	2,522,231	2,042,155
Total noninterest expenses	52,233,320	42,677,746
Income before income taxes	24,867,235	22,976,004
Federal and state income tax expense	3,871,889	5,025,022
Net income	\$ 20,995,346	\$ 17,950,982
Basic earnings per common share	\$ 1.51	\$ 1.36
Diluted earnings per common share	\$ 1.48	\$ 1.33
Weighted average common shares outstanding	13,904,113	13,151,833
Weighted average common and common equivalent shares outstanding	14,219,003	13,502,505
Cash dividends declared per common share	\$ 0.12	\$ 0.10
See Notes to Consolidated Financial Statements (Unaudited)		

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and Six Months Ended June 30, 2018 and 2017

	Three Months Ended June 30,	
	2018	2017
Net income	\$ 10,445,385	\$ 8,766,017
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(1,512,488)	1,170,310
Less reclassification adjustment for gains included in net income before tax	—	38,464
	(1,512,488)	1,131,846
Unrealized gains (losses) on derivatives:		
Unrealized holding gains (losses) arising during the period before tax	(322,937)	(132,352)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	177,688	(136,639)
	(500,625)	4,287
Other comprehensive income (loss), before tax	(2,013,113)	1,136,133
Tax expense (benefit)	(678,492)	434,394
Other comprehensive income (loss), net of tax	(1,334,621)	701,739
Comprehensive income	\$ 9,110,764	\$ 9,467,756
	Six Months Ended June 30,	
	2018	2017
Net income	\$ 20,995,346	\$ 17,950,982
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(6,878,601)	1,768,500
Less reclassification adjustment for gains (losses) included in net income before tax	—	38,464
Less reclassification adjustment for adoption of ASU 2016-01	855,039	—
	(6,023,562)	1,730,036
Unrealized gains (losses) on derivatives:		
Unrealized holding gains (losses) arising during the period before tax	(172,459)	(177,554)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	97,173	(259,452)

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	(269,632)	81,898
Other comprehensive income (loss), before tax	(6,293,194)	1,811,934
Tax expense (benefit)	(1,757,033)	699,456
Other comprehensive income (loss), net of tax	(4,536,161)	1,112,478
Comprehensive income	\$ 16,459,185	\$ 19,063,460

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Three and Six Months Ended June 30, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance					
December 31, 2017	\$ 13,918,168	\$ 189,077,550	\$ 151,962,661	\$ (1,671,250)	\$ 353,287,129
Net income	—	—	10,549,961	—	10,549,961
Other comprehensive loss, net of tax	—	—	—	(3,201,540)	(3,201,540)
Impact of adoption of ASU 2016-01	—	—	666,900	(666,900)	—
Common cash dividends declared, \$0.06 per share	—	—	(833,730)	—	(833,730)
Issuance of 2,669 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	2,669	100,262	—	—	102,931
Issuance of 13,074 shares of common stock as a result of stock options exercised	13,074	192,522	—	—	205,596
Stock-based compensation expense	—	495,493	—	—	495,493
Restricted stock awards - 6,860 shares of common stock	6,860	(6,860)	—	—	—
Exchange of 3,814 shares of common stock in connection with stock options exercised and restricted stock vested	(3,814)	(174,109)	—	—	(177,923)
Balance,					
March 31, 2018	\$ 13,936,957	\$ 189,684,858	\$ 162,345,792	\$ (5,539,690)	\$ 360,427,917
Net income	—	—	10,445,385	—	10,445,385
Other comprehensive loss, net of tax	—	—	—	(1,334,621)	(1,334,621)
	—	—	(835,881)	—	(835,881)

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Common cash dividends declared, \$0.06 per share					
Issuance of 5,728 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,728	215,173	—	—	220,901
Issuance of 26,641 shares of common stock as a result of stock options exercised	26,641	362,292	—	—	388,933
Stock-based compensation expense	—	291,912	—	—	291,912
Restricted stock awards - 3,972 shares of common stock	3,972	(3,972)	—	—	—
Exchange of 642 shares of common stock in connection with stock options exercised and restricted stock vested	642	(17,023)	—	—	(16,381)
Balance, June 30, 2018	\$ 13,973,940	\$ 190,533,240	\$ 171,955,296	\$ (6,874,311)	\$ 369,588,165

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance December 31, 2016	\$ 13,106,845	\$ 156,776,642	\$ 118,616,901	\$ (2,459,589)	\$ 286,040,799
Net income	—	—	9,184,965	—	9,184,965
Other comprehensive loss, net of tax	—	—	—	410,739	410,739
Common cash dividends declared, \$0.05 per share	—	—	(656,574)	—	(656,574)
Issuance of 3,573 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	3,573	83,091	—	—	86,664
Issuance of 44,284 shares of common stock as a result of	44,284	630,290	—	—	674,574

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stock options exercised					
Stock-based compensation expense	—	388,753	—	—	388,753
Restricted stock awards - 13,289 shares of common stock	13,289	(13,289)	—	—	—
Exchange of 6,772 shares of common stock in connection with stock options exercised and restricted stock vested	(6,772)	(283,518)	—	—	(290,290)
Balance, March 31, 2017	\$ 13,161,219	\$ 157,581,969	\$ 127,145,292	\$ (2,048,850)	\$ 295,839,630
Net income	—	—	8,766,017	—	8,766,017
Other comprehensive loss, net of tax	—	—	—	701,739	701,739
Common cash dividends declared, \$0.05 per share	—	—	(657,003)	—	(657,003)
Issuance of 4,582 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	4,582	170,061	—	—	174,643
Issuance of 8,027 shares of common stock as a result of stock options exercised	8,027	109,392	—	—	117,419
Stock-based compensation expense	—	168,314	—	—	168,314
Restricted stock awards - 2,000 shares of common stock	2,000	(2,000)	—	—	—
Exchange of 594 shares of common stock in connection with stock options exercised and restricted stock vested	(594)	(26,730)	—	—	(27,324)
Balance, June 30, 2017	\$ 13,175,234	\$ 158,001,006	\$ 135,254,306	\$ (1,347,111)	\$ 305,083,435

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six Months Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 20,995,346	\$ 17,950,982
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,074,618	1,847,963
Provision for loan/lease losses	4,840,574	4,128,102
Stock-based compensation expense	787,405	557,067
Deferred compensation expense accrued	1,004,010	724,422
Losses on other real estate owned, net	118,159	3,596
Amortization of premiums on securities, net	828,972	1,005,121
Securities gains, net	—	(38,464)
Loans originated for sale	(21,899,515)	(32,130,683)
Proceeds on sales of loans	22,071,837	33,807,027
Gains on sales of residential real estate loans	(202,587)	(208,951)
Gains on sales of government guaranteed portions of loans	(358,434)	(1,037,694)
Amortization of core deposit intangible	609,102	461,733
Accretion of acquisition fair value adjustments, net	(496,561)	(3,578,379)
Increase in cash value of bank-owned life insurance	(817,260)	(929,046)
Increase (decrease) in other assets	(5,878,796)	3,412,207
Decrease (increase) in other liabilities	5,688,375	(7,059,305)
Net cash provided by operating activities	\$ 29,365,245	\$ 18,915,698
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold	19,331,000	3,074,000
Net decrease in interest-bearing deposits at financial institutions	14,963,624	10,777,600
Proceeds from sales of other real estate owned	736,370	487,815
Activity in securities portfolio:		
Purchases	(54,950,828)	(85,169,891)
Calls, maturities and redemptions	12,618,640	33,079,683
Paydowns	27,187,398	21,606,220
Sales	—	13,554,075
Activity in restricted investment securities:		
Purchases	(4,215,275)	(2,407,600)
Redemptions	109,200	1,300,700
Net increase in loans/leases originated and held for investment	(150,992,827)	(146,365,255)
Purchase of premises and equipment	(2,666,098)	(2,422,880)
Net cash used in investing activities	\$ (137,878,796)	\$ (152,485,533)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit accounts	31,652,051	201,041,035
Net increase (decrease) in short-term borrowings	3,592,483	(21,753,994)

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Activity in Federal Home Loan Bank advances:		
Calls and maturities	(10,000,000)	(6,000,000)
Net change in short-term and overnight advances	72,100,000	(25,000,000)
Activity in other borrowings:		
Proceeds from other borrowings	9,000,000	—
Calls, maturities and scheduled principal payments	(3,875,000)	(8,000,000)
Payment of cash dividends on common stock	(1,526,604)	(1,179,146)
Proceeds from issuance of common stock, net	918,361	1,053,300
Net cash provided by financing activities	\$ 101,861,291	\$ 140,161,195
Net decrease in cash and due from banks	(6,652,260)	6,591,360
Cash and due from banks, beginning	75,721,663	70,569,993
Cash and due from banks, ending	\$ 69,069,403	\$ 77,161,353

(Continued)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Six Months Ended June 30, 2018 and 2017

	2018	2017
Supplemental disclosure of cash flow information, cash payments for:		
Interest	\$ 12,303,768	\$ 7,876,668
Income/franchise taxes	\$ 1,010,097	\$ 7,450,738
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains on securities available for sale and derivative instruments, net	\$ (4,536,161)	\$ 1,112,478
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$ (194,304)	\$ (317,614)
Transfers of loans to other real estate owned	\$ 46,244	\$ 141,828
Due to broker for purchases of securities	\$ —	\$ (4,662,631)
Dividends payable	\$ 835,881	\$ 657,003
Decrease (increase) in the fair value of interest rate swap assets and liabilities	\$ 1,774,502	\$ (209,185)
Transfer of equity securities from securities available for sale to other assets at fair value	\$ 2,614,261	\$ —

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2018

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, 2017, included in the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2018. 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 GAAP for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results of the interim period ended June 30, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018, or for any other period.

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

Allowance: Allowance for estimated losses on loans/leases	Guaranty: Guaranty Bankshares, Ltd.
AOCI: Accumulated other comprehensive income (loss)	Guaranty Bank: Guaranty Bank and Trust Company
AFS: Available for sale	HTM: Held to maturity
ASC: Accounting Standards Codification	m2: m2 Lease Funds, LLC
ASU: Accounting Standards Update	NIM: Net interest margin
Bates Companies: Bates Financial Advisors, Inc., Bates Financial Services, Inc., Bates Securities, Inc. and Bates Financial Group, Inc.	NPA: Nonperforming asset
BOLI: Bank-owned life insurance	NPL: Nonperforming loan
Caps: Interest rate cap derivatives	OREO: Other real estate owned
CDI: Core deposit intangible	OTTI: Other-than-temporary impairment
Community National: Community National Bancorporation	PCI: Purchased credit impaired
CRBT: Cedar Rapids Bank & Trust Company	Provision: Provision for loan/lease losses
CRE: Commercial real estate	QCBT: Quad City Bank & Trust Company
CSB: Community State Bank	RB&T: Rockford Bank & Trust Company
C&I: Commercial and industrial	ROAA: Return on Average Assets
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act	SBA: U.S. Small Business Administration
EPS: Earnings per share	SEC: Securities and Exchange Commission
	SFC Bank: Springfield First Community Bank
	Springfield Bancshares: Springfield Bancshares, Inc.
	TA: Tangible assets

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Exchange Act: Securities Exchange Act of 1934, as amended	Tax Act: Tax Cuts and Jobs Act of 2017
FASB: Financial Accounting Standards Board	TCE: Tangible common equity
FDIC: Federal Deposit Insurance Corporation	TDRs: Troubled debt restructurings
FHLB: Federal Home Loan Bank	TEY: Tax equivalent yield
FRB: Federal Reserve Bank of Chicago	The Company: QCR Holdings, Inc.
GAAP: Generally Accepted Accounting Principles	USDA: U.S. Department of Agriculture

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, with the exception of SFC Bank which was acquired by merger on July 1, 2018, and include the accounts of four commercial banks: QCBT, CRBT, CSB and RB&T. All are state-chartered commercial banks and all are members of the Federal Reserve system. The Company also engages in direct financing lease contracts through m2, a wholly-owned subsidiary of QCBT. All material intercompany transactions and balances have been eliminated in consolidation.

The acquisition of Guaranty Bank, headquartered in Cedar Rapids, Iowa occurred on October 2, 2017 and Guaranty Bank was merged into CRBT on December 2, 2017. The financial results for the periods since acquisition are included in this report. See Note 2 of the Company's Annual Report on Form 10 K for the year ended December 31, 2017 for additional information about the acquisition.

On July 1, 2018, the Company completed its previously announced merger with Springfield Bancshares, the holding company of SFC Bank, headquartered in Springfield, Missouri. The financial results of Springfield Bancshares and SFC Bank are not included in this report because the closing was effective July 1, 2018. See Note 10 to the Consolidated Financial Statements for additional information about the merger.

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

In January 2016, FASB issued ASU 2016 01, Financial Instruments—Overall. ASU 2016 01 makes targeted adjustments to GAAP by eliminating the AFS classification for equity securities and requiring equity investments to be measured at fair value with changes in fair value recognized in net income. The standard also requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. The standard clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. It also requires an entity to present separately (within other comprehensive income) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the standard eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Upon adoption of ASU 2016 01 by the Company on January 1, 2018, the fair value of the Company's loan portfolio is now presented using an exit price method. Also, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The

remaining requirements of this update had no significant impact on the consolidated financial statements.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

permitted for all entities. The Company has analyzed the impact of adoption and has concluded that it will not have a significant impact on the consolidated financial statements.

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

In February 2018, the FASB issued ASU 2018 02, Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under the standard, entities are allowed to make a one-time reclassification from AOCI to retained earnings for the effect of remeasuring deferred tax liabilities and assets originally recorded in other comprehensive income as a result of the change in the federal tax rate as defined by the Tax Act. ASU 2018 02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Companies may choose to early adopt for fiscal years or interim periods that have not been issued or made available for issuance as of February 14, 2018. The Company chose to early adopt ASU 2018 02 and apply the guidance to the consolidated financial statements for the year ended December 31, 2017.

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

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of June 30, 2018 and December 31, 2017 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2018:				
Securities HTM:				
Municipal securities	\$ 399,002,344	\$ 4,916,288	\$ (7,700,914)	\$ 396,217,718
Other securities	1,050,000	—	(15,350)	1,034,650
	\$ 400,052,344	\$ 4,916,288	\$ (7,716,264)	\$ 397,252,368
Securities AFS:				
U.S. govt. sponsored agency securities	\$ 36,767,888	\$ 7,872	\$ (1,109,224)	\$ 35,666,536
Residential mortgage-backed and related securities	164,791,715	49,915	(6,307,182)	158,534,448

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Municipal securities	60,160,248	221,112	(874,093)	59,507,267
Other securities	4,254,509	—	(18,089)	4,236,420
	\$ 265,974,360	\$ 278,899	\$ (8,308,588)	\$ 257,944,671

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2017:				
Securities HTM:				
Municipal securities	\$ 378,424,205	\$ 2,763,718	\$ (2,488,119)	\$ 378,699,804
Other securities	1,050,000	—	—	1,050,000
	\$ 379,474,205	\$ 2,763,718	\$ (2,488,119)	\$ 379,749,804
Securities AFS:				
U.S. govt. sponsored agency securities	\$ 38,409,157	\$ 37,344	\$ (349,967)	\$ 38,096,534
Residential mortgage-backed and related securities	165,459,470	155,363	(2,313,529)	163,301,304
Municipal securities	66,176,364	660,232	(211,100)	66,625,496
Other securities	4,014,004	896,384	(25,815)	4,884,573
	\$ 274,058,995	\$ 1,749,323	\$ (2,900,411)	\$ 272,907,907

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

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

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2018 and December 31, 2017, 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
June 30, 2018:						
Securities HTM:						
Municipal securities	\$ 140,257,617	\$ (3,873,043)	\$ 61,121,755	\$ (3,827,871)	\$ 201,379,372	\$ (7,700,914)
Other securities	1,034,649	(15,350)	—	—	1,034,649	(15,350)
	\$ 141,292,266	\$ (3,888,393)	\$ 61,121,755	\$ (3,827,871)	\$ 202,414,021	\$ (7,716,264)

Securities AFS:

U.S. govt. sponsored agency securities	\$ 31,724,483	\$ (928,027)	\$ 3,532,286	\$ (181,197)	\$ 35,256,769	\$ (1,109,224)
Residential mortgage-backed and related securities	93,074,220	(3,402,034)	59,724,819	(2,905,148)	152,799,039	(6,307,182)
Municipal securities	36,033,296	(648,203)	7,706,943	(225,890)	43,740,239	(874,093)
Other securities	4,236,420	(18,089)	—	—	4,236,420	(18,089)
	\$ 165,068,419	\$ (4,996,353)	\$ 70,964,048	\$ (3,312,235)	\$ 236,032,467	\$ (8,308,588)

Less than 12 Months

12 Months or More

Total

Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
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December 31, 2017:

Securities HTM: Municipal securities	\$ 23,750,826	\$ (354,460)	\$ 72,611,780	\$ (2,133,659)	\$ 96,362,606	\$ (2,488,119)
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Securities AFS:

U.S. govt. sponsored agency securities	\$ 28,576,258	\$ (200,022)	\$ 3,640,477	\$ (149,945)	\$ 32,216,735	\$ (349,967)
Residential mortgage-backed and related securities	88,927,779	(871,855)	57,931,731	(1,441,674)	146,859,510	(2,313,529)
Municipal securities	10,229,337	(41,151)	9,997,433	(169,949)	20,226,770	(211,100)
Other securities	923,535	(25,815)	—	—	923,535	(25,815)
	\$ 128,656,909	\$ (1,138,843)	\$ 71,569,641	\$ (1,761,568)	\$ 200,226,550	\$ (2,900,411)

At June 30, 2018, the investment portfolio included 602 securities. Of this number, 303 securities were in an unrealized loss position. The aggregate losses of these securities totaled approximately 2.4% of the total amortized cost of the portfolio. Of these 303 securities, 42 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,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

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 lacks the intent 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.

The Company did not recognize OTTI on any investment securities for the three or six months ended June 30, 2018 and 2017.

There were no sales of securities for the three and six months ended June 30, 2018. All sales of securities for the three and six months ended June 30, 2017 were from securities identified as AFS. Information on proceeds received, as well as pre-tax gross gains and losses from sales on those securities are as follows:

	Three and Six Months Ended June 30, 2017
Proceeds from sales of securities	\$ 13,554,075
Gross gains from sales of securities	59,568
Gross losses from sales of securities	(21,104)

The amortized cost and fair value of securities as of June 30, 2018 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.

	Amortized Cost	Fair Value
Securities HTM:		
Due in one year or less	\$ 1,732,495	\$ 1,737,807
Due after one year through five years	25,021,326	25,051,928
Due after five years	373,298,523	370,462,633
	\$ 400,052,344	\$ 397,252,368
Securities AFS:		
Due in one year or less	\$ 2,882,932	