

QCR HOLDINGS INC
Form 10-Q
August 07, 2012

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

FORM 10-Q

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

For the quarterly period ending June 30, 2012

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

For the transition period from _____ to _____

Commission file number 0-22208

QCR HOLDINGS, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

42-1397595
(I.R.S. Employer ID Number)

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices)

(309) 743-7761

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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, 2012, the Registrant had outstanding 4,856,828 shares of common stock, \$1.00 par value per

share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
As of June 30, 2012 and December 31, 2011

| | June 30, 2012 | December 31, 2011 |
|---|------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$51,639,674 | \$53,136,710 |
| Federal funds sold | 3,625,000 | 20,785,000 |
| Interest-bearing deposits at financial institutions | 28,452,429 | 26,750,602 |
| Securities held to maturity, at amortized cost | 700,000 | 200,000 |
| Securities available for sale, at fair value | 638,137,836 | 565,029,291 |
| Total securities | 638,837,836 | 565,229,291 |
| Loans receivable held for sale | 4,349,967 | 3,832,760 |
| Loans/leases receivable held for investment | 1,208,953,834 | 1,196,912,737 |
| Gross loans/leases receivable | 1,213,303,801 | 1,200,745,497 |
| Less allowance for estimated losses on loans/leases | (18,724,535) | (18,789,262) |
| Net loans/leases receivable | 1,194,579,266 | 1,181,956,235 |
| Premises and equipment, net | 31,440,406 | 31,740,751 |
| Goodwill | 3,222,688 | 3,222,688 |
| Accrued interest receivable | 6,735,326 | 6,510,021 |
| Bank-owned life insurance | 42,808,343 | 42,011,281 |
| Restricted investment securities | 15,224,350 | 15,253,600 |
| Other real estate owned, net | 9,136,035 | 8,385,758 |
| Other assets | 17,724,393 | 11,628,117 |
| Total assets | \$2,043,425,746 | \$1,966,610,054 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing | \$390,761,816 | \$357,183,481 |
| Interest-bearing | 924,708,683 | 848,274,307 |
| Total deposits | 1,315,470,499 | 1,205,457,788 |
| Short-term borrowings | 185,399,038 | 213,536,450 |
| Federal Home Loan Bank advances | 203,750,000 | 204,750,000 |
| Other borrowings | 138,235,713 | 136,231,663 |
| Junior subordinated debentures | 36,085,000 | 36,085,000 |
| Other liabilities | 25,163,404 | 26,116,451 |
| Total liabilities | 1,904,103,654 | 1,822,177,352 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$1 par value; shares authorized 250,000 June 2012 - 54,867 shares issued and outstanding December 2011 - 65,090 shares issued and outstanding | 54,867 | 65,090 |

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| | | |
|---|-----------------|-----------------|
| Common stock, \$1 par value; shares authorized 20,000,000 June 2012 - 4,968,307 shares issued and 4,847,061 outstanding December 2011 - 4,879,435 shares issued and 4,758,189 outstanding | 4,968,307 | 4,879,435 |
| Additional paid-in capital | 80,180,869 | 89,702,533 |
| Retained earnings | 48,831,374 | 44,585,902 |
| Accumulated other comprehensive income | 4,478,524 | 4,754,714 |
| Noncontrolling interests | 2,414,661 | 2,051,538 |
| Less treasury stock, June 2012 and December 2011 - 121,246 common shares, at cost | (1,606,510) | (1,606,510) |
| Total stockholders' equity | 139,322,092 | 144,432,702 |
| Total liabilities and stockholders' equity | \$2,043,425,746 | \$1,966,610,054 |

See Notes to Consolidated Financial Statements

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended June 30,

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Interest and dividend income: | | |
| Loans/leases, including fees | \$15,973,109 | \$16,515,966 |
| Securities: | | |
| Taxable | 2,765,779 | 2,821,682 |
| Nontaxable | 538,285 | 259,813 |
| Interest-bearing deposits at financial institutions | 92,577 | 102,944 |
| Restricted investment securities | 164,778 | 137,965 |
| Federal funds sold | - | 23,706 |
| Total interest and dividend income | 19,534,528 | 19,862,076 |
| Interest expense: | | |
| Deposits | 1,629,517 | 2,321,641 |
| Short-term borrowings | 77,287 | 68,911 |
| Federal Home Loan Bank advances | 1,829,120 | 1,978,499 |
| Other borrowings | 1,224,083 | 1,289,739 |
| Junior subordinated debentures | 259,028 | 252,231 |
| Total interest expense | 5,019,035 | 5,911,021 |
| Net interest income | 14,515,493 | 13,951,055 |
| Provision for loan/lease losses | 1,048,469 | 1,672,221 |
| Net interest income after provision for loan/lease losses | 13,467,024 | 12,278,834 |
| Noninterest income: | | |
| Trust department fees | 852,234 | 894,733 |
| Investment advisory and management fees, gross | 679,326 | 550,243 |
| Deposit service fees | 875,073 | 856,661 |
| Gains on sales of loans, net | 882,321 | 755,128 |
| Securities gains | 104,600 | 148,602 |
| Losses on sales of other real estate owned, net | (389,465) | (107,656) |
| Earnings on bank-owned life insurance | 358,660 | 356,642 |
| Credit card issuing fees, net of processing costs | 142,173 | 77,336 |
| Other | 562,587 | 641,692 |
| Total noninterest income | 4,067,509 | 4,173,381 |
| Noninterest expense: | | |
| Salaries and employee benefits | 8,255,639 | 7,355,533 |
| Occupancy and equipment expense | 1,364,912 | 1,368,293 |
| Professional and data processing fees | 1,126,877 | 1,136,978 |
| FDIC and other insurance | 576,215 | 687,587 |
| Loan/lease expense | 263,166 | 656,069 |
| Advertising and marketing | 344,100 | 334,354 |
| Postage and telephone | 236,942 | 231,515 |
| Stationery and supplies | 135,211 | 123,529 |
| Bank service charges | 198,492 | 177,478 |
| Other-than-temporary impairment losses on securities | 62,400 | 118,847 |

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| | | |
|--|-------------|-------------|
| Other | 545,129 | 365,364 |
| Total noninterest expense | 13,109,083 | 12,555,547 |
| Net income before income taxes | 4,425,450 | 3,896,668 |
| Federal and state income tax expense | 1,152,071 | 1,123,454 |
| Net income | \$3,273,379 | \$2,773,214 |
| Less: Net income attributable to noncontrolling interests | 201,223 | 98,245 |
| Net income attributable to QCR Holdings, Inc. | \$3,072,156 | \$2,674,969 |
| Less: Preferred stock dividends | 935,786 | 1,035,742 |
| Net income attributable to QCR Holdings, Inc. common stockholders | \$2,136,370 | \$1,639,227 |
| Earnings per common share attributable to QCR Holdings, Inc. common shareholders | | |
| Basic | \$0.44 | \$0.34 |
| Diluted | \$0.44 | \$0.34 |
| Weighted average common shares outstanding | 4,835,773 | 4,847,740 |
| Weighted average common and common equivalent shares outstanding | 4,901,853 | 4,873,978 |
| Cash dividends declared per common share | \$0.04 | \$0.04 |

See Notes to Consolidated Financial Statements

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Six Months Ended June 30,

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Interest and dividend income: | | |
| Loans/leases, including fees | \$31,943,946 | \$32,250,606 |
| Securities: | | |
| Taxable | 5,571,593 | 5,157,921 |
| Nontaxable | 934,111 | 499,159 |
| Interest-bearing deposits at financial institutions | 212,582 | 214,093 |
| Restricted investment securities | 246,100 | 301,485 |
| Federal funds sold | - | 90,044 |
| Total interest and dividend income | 38,908,332 | 38,513,308 |
| Interest expense: | | |
| Deposits | 3,345,257 | 4,747,195 |
| Short-term borrowings | 142,231 | 182,577 |
| Federal Home Loan Bank advances | 3,693,441 | 4,121,875 |
| Other borrowings | 2,481,476 | 2,568,918 |
| Junior subordinated debentures | 526,981 | 732,886 |
| Total interest expense | 10,189,386 | 12,353,451 |
| Net interest income | 28,718,946 | 26,159,857 |
| Provision for loan/lease losses | 1,828,915 | 2,739,885 |
| Net interest income after provision for loan/lease losses | 26,890,031 | 23,419,972 |
| Noninterest income: | | |
| Trust department fees | 1,735,966 | 1,845,535 |
| Investment advisory and management fees, gross | 1,200,788 | 1,081,461 |
| Deposit service fees | 1,779,479 | 1,729,333 |
| Gains on sales of loans, net | 1,281,411 | 1,514,821 |
| Securities gains | 104,600 | 1,028,914 |
| Losses on sales of other real estate owned, net | (578,669) | (132,754) |
| Earnings on bank-owned life insurance | 797,062 | 701,053 |
| Credit card issuing fees, net of processing costs | 269,188 | 218,496 |
| Other | 1,434,562 | 1,243,646 |
| Total noninterest income | 8,024,387 | 9,230,505 |
| Noninterest expense: | | |
| Salaries and employee benefits | 16,380,319 | 14,829,036 |
| Occupancy and equipment expense | 2,717,175 | 2,657,748 |
| Professional and data processing fees | 2,277,067 | 2,261,500 |
| FDIC and other insurance | 1,157,071 | 1,570,317 |
| Loan/lease expense | 481,900 | 932,297 |
| Advertising and marketing | 620,116 | 559,083 |
| Postage and telephone | 525,182 | 461,700 |
| Stationery and supplies | 278,177 | 258,172 |
| Bank service charges | 398,221 | 338,656 |
| Prepayment fees on Federal Home Loan Bank advances | - | 832,099 |

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| | | |
|--|-------------|-------------|
| Other-than-temporary impairment losses on securities | 62,400 | 118,847 |
| Other | 949,535 | 748,363 |
| Total noninterest expense | 25,847,163 | 25,567,818 |
| Net income before income taxes | 9,067,255 | 7,082,659 |
| Federal and state income tax expense | 2,391,027 | 2,077,961 |
| Net income | \$6,676,228 | \$5,004,698 |
| Less: Net income attributable to noncontrolling interests | 367,254 | 204,769 |
| Net income attributable to QCR Holdings, Inc. | \$6,308,974 | \$4,799,929 |
| Less: Preferred stock dividends | 1,874,411 | 2,068,113 |
| Net income attributable to QCR Holdings, Inc. common stockholders | 4,434,563 | \$2,731,816 |
| Earnings per common share attributable to QCR Holdings, Inc. common shareholders | | |
| Basic | \$0.92 | \$0.57 |
| Diluted | \$0.91 | \$0.57 |
| Weighted average common shares outstanding | 4,818,090 | 4,759,728 |
| Weighted average common and common equivalent shares outstanding | 4,867,628 | 4,778,848 |
| Cash dividends declared per common share | \$0.04 | \$0.04 |

See Notes to Consolidated Financial Statements

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
Three and Six Months Ended June 30,

| | Three Months Ended June 30, | |
|--|-----------------------------|-------------|
| | 2012 | 2011 |
| Net income | \$3,273,379 | \$2,773,214 |
| Other comprehensive income: | | |
| Unrealized gains on securities available for sale: | | |
| Unrealized holding gains arising during the period before tax | 2,114,026 | 4,052,129 |
| Less reclassification adjustment for gains included in net income before tax | 104,600 | 148,602 |
| | 2,009,426 | 3,903,527 |
| Tax expense | 768,381 | 1,493,799 |
| Other comprehensive income, net of tax | 1,241,045 | 2,409,728 |
| Comprehensive income attributable to QCR Holdings, Inc. | \$4,514,424 | \$5,182,942 |
| | Six Months Ended June 30, | |
| | 2012 | 2011 |
| Net income | \$6,676,228 | \$5,004,698 |
| Other comprehensive income (loss): | | |
| Unrealized gains (losses) on securities available for sale: | | |
| Unrealized holding gains (losses) arising during the period before tax | (346,545) | 2,751,902 |
| Less reclassification adjustment for gains included in net income before tax | 104,600 | 1,028,914 |
| | (451,145) | 1,722,988 |
| Tax expense (benefit) | (174,955) | 658,814 |
| Other comprehensive income (loss), net of tax | (276,190) | 1,064,174 |
| Comprehensive income attributable to QCR Holdings, Inc. | \$6,400,038 | \$6,068,872 |

See Notes to Consolidated Financial Statements

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Six Months Ended June 30, 2012 and 2011

| | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Treasury Stock | Total |
|--|--------------------|-----------------|----------------------------------|----------------------|---|-----------------------------|-------------------|---------------|
| Balance December 31, 2011 | \$65,090 | \$4,879,435 | \$89,702,533 | \$44,585,902 | \$4,754,714 | \$2,051,538 | \$(1,606,510) | \$144,432,700 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | 3,236,818 | - | 166,031 | - | 3,402,849 |
| Other comprehensive loss, net of tax | - | - | - | - | (1,517,235) | - | - | (1,517,235) |
| Comprehensive income | | | | | | | | 1,885,614 |
| Preferred cash dividends declared | - | - | - | (938,625) | - | - | - | (938,625) |
| Proceeds from issuance of 7,767 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | - | 7,767 | 55,566 | - | - | - | - | 63,333 |
| Proceeds from issuance of 276 shares of common stock as a result of stock options exercised | - | 276 | 2,374 | - | - | - | - | 2,650 |
| Exchange of 576 shares of common stock in connection with payroll taxes for restricted stock | - | (576) | (2,103) | - | - | - | - | (2,679) |
| | - | - | 326,245 | | | | | 326,245 |

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| | | | | | | | | |
|---|----------|-------------|--------------|--------------|-------------|-------------|---------------|--------------|
| Stock compensation expense | | | | | | | | |
| Restricted stock awards | - | 57,770 | (57,770) | - | - | - | - | - |
| Distributions to noncontrolling interests | - | - | - | - | - | (2,066) | - | (2,066) |
| Balance March 31, 2012 | \$65,090 | \$4,944,672 | \$90,026,845 | \$46,884,095 | \$3,237,479 | \$2,215,503 | \$(1,606,510) | \$145,767,17 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | 3,072,156 | - | 201,223 | - | 3,273,379 |
| Other comprehensive income, net of tax | - | - | - | - | 1,241,045 | - | - | 1,241,045 |
| Comprehensive income | | | | | | | | 4,514,424 |
| Common cash dividends declared, \$0.04 per share | - | - | - | (189,091) | - | - | - | (189,091) |
| Preferred cash dividends declared | - | - | - | (935,786) | - | - | - | (935,786) |
| Redemption of 10,223 shares of Series F Noncumulative Perpetual Preferred Stock | (10,223) | - | (10,212,777) | - | - | - | - | (10,223,00 |
| Proceeds from issuance of 10,856 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | - | 10,856 | 78,055 | - | - | - | - | 88,911 |
| Proceeds from issuance of 9,090 shares of common stock as a result of stock options exercised | - | 9,090 | 79,902 | - | - | - | - | 88,992 |
| | - | (611) | (7,125) | - | - | - | - | (7,736) |

| | | | | | | | | |
|--|----------|-------------|--------------|--------------|-------------|-------------|---------------|--------------|
| Exchange of 611 shares of common stock in connection with stock options exercised | | | | | | | | |
| Proceeds from exercise of warrants to purchase 4,300 shares of common stock issued in conjunction with the Series A Subordinated Notes | - | 4,300 | 38,700 | - | - | - | - | 43,000 |
| Stock compensation expense | - | - | 177,269 | | | | | 177,269 |
| Distributions to noncontrolling interests | - | - | - | - | - | (2,065) | - | (2,065) |
| Balance June 30, 2012 | \$54,867 | \$4,968,307 | \$80,180,869 | \$48,831,374 | \$4,478,524 | \$2,414,661 | \$(1,606,510) | \$139,322,09 |

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| | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Treasury Stock | Total |
|---|--------------------|-----------------|----------------------------------|----------------------|---|-----------------------------|-------------------|---------------|
| Balance December 31, 2010 | \$63,237 | \$4,732,428 | \$86,478,269 | \$40,550,900 | \$704,165 | \$1,648,219 | \$(1,606,510) | \$132,570,708 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | 2,124,960 | - | 106,524 | - | 2,231,484 |
| Other comprehensive loss, net of tax | - | - | - | - | (1,345,554) | - | - | (1,345,554) |
| Comprehensive income | | | | | | | | 885,930 |
| Preferred cash dividends declared | - | - | - | (915,462) | - | - | - | (915,462) |
| Discount accretion on cumulative preferred stock | - | - | 116,909 | (116,909) | - | - | - | - |
| Proceeds from issuance of 9,081 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | - | 9,081 | 49,249 | - | - | - | - | 58,330 |
| Proceeds from issuance of 24,300 shares of common stock as a result of stock options exercised | - | 24,300 | 146,067 | - | - | - | - | 170,367 |
| Exchange of 2,171 shares of common stock in connection with stock options exercised | - | (2,171) | (14,070) | - | - | - | - | (16,241) |
| Stock compensation | - | - | 206,569 | - | - | - | - | 206,569 |

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| | | | | | | | | |
|---|----------|-------------|--------------|--------------|--------------|-------------|---------------|---------------|
| expense | | | | | | | | |
| Restricted stock awards | - | 69,924 | (69,924) | - | - | - | - | - |
| Distributions to noncontrolling interests | - | - | - | - | - | (2,065) | - | (2,065 |
| Balance March 31, 2011 | \$63,237 | \$4,833,562 | \$86,913,069 | \$41,643,489 | \$(641,389) | \$1,752,678 | \$(1,606,510) | \$132,958,136 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | 2,674,969 | - | 98,245 | - | 2,773,214 |
| Other comprehensive income, net of tax | - | - | - | - | 2,409,728 | - | - | 2,409,728 |
| Comprehensive income | | | | | | | | 5,182,942 |
| Common cash dividends declared, \$0.04 per share | - | - | - | (185,863) | - | - | - | (185,863 |
| Preferred cash dividends declared and accrued | - | - | - | (915,462) | - | - | - | (915,462 |
| Discount accretion on cumulative preferred stock | - | - | 120,280 | (120,280) | - | - | - | - |
| Proceeds from issuance of 11,355 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | - | 11,355 | 61,582 | - | - | - | - | 72,937 |
| Proceeds from issuance of 10,967 shares of common stock as a result of stock options exercised | - | 10,967 | 65,205 | - | - | - | - | 76,172 |
| Exchange of 379 shares of common stock in connection | - | (379) | (3,033) | - | - | - | - | (3,412 |

with stock
options
exercised

Stock
compensation
expense

| | | | | | | | | | |
|--|---|---|---------|--|--|--|--|--|---------|
| | - | - | 141,370 | | | | | | 141,370 |
|--|---|---|---------|--|--|--|--|--|---------|

Distributions to
noncontrolling
interests

| | | | | | | | | | |
|--|---|---|---|---|---|--------|---|---|--------|
| | - | - | - | - | - | (2,066 |) | - | (2,066 |
|--|---|---|---|---|---|--------|---|---|--------|

Balance June

| | | | | | | | | | |
|----------|----------|-------------|--------------|--------------|-------------|-------------|---------------|--|---------------|
| 30, 2011 | \$63,237 | \$4,855,505 | \$87,298,473 | \$43,096,853 | \$1,768,339 | \$1,848,857 | \$(1,606,510) | | \$137,324,754 |
|----------|----------|-------------|--------------|--------------|-------------|-------------|---------------|--|---------------|

See Notes to Consolidated Financial Statements

7

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six Months Ended June 30,

| | 2012 | 2011 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 6,676,228 | \$ 5,004,698 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,198,809 | 1,285,282 |
| Provision for loan/lease losses | 1,828,915 | 2,739,885 |
| Amortization of offering costs on subordinated debentures | 7,158 | 7,158 |
| Stock-based compensation expense | 503,514 | 397,927 |
| Losses on sales of other real estate owned, net | 578,669 | 132,754 |
| Amortization of premiums on securities, net | 2,050,358 | 1,704,629 |
| Securities gains | (104,600) | (1,028,914) |
| Other-than-temporary impairment losses on securities | 62,400 | 118,847 |
| Loans originated for sale | (51,881,417) | (43,161,215) |
| Proceeds on sales of loans | 52,645,621 | 56,509,458 |
| Gains on sales of loans, net | (1,281,411) | (1,514,821) |
| Prepayment fees on Federal Home Loan Bank advances | - | 832,099 |
| Increase in accrued interest receivable | (225,305) | (119,254) |
| Increase in cash value of bank-owned life insurance | (797,062) | (701,053) |
| Increase (decrease) in other assets | (5,932,610) | 3,010,526 |
| Decrease in other liabilities | (738,366) | (537,175) |
| Net cash provided by operating activities | \$ 4,590,901 | \$ 24,680,831 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net decrease in federal funds sold | 17,160,000 | 53,960,000 |
| Net (increase) decrease in interest-bearing deposits at financial institutions | (1,701,827) | 12,452,616 |
| Proceeds from sales of other real estate owned | 814,071 | 2,618,237 |
| Activity in securities portfolio: | | |
| Purchases | (311,369,517) | (299,119,217) |
| Calls, maturities and redemptions | 201,683,047 | 162,834,446 |
| Paydowns | 14,403,547 | 2,430,154 |
| Sales | 19,215,075 | 45,725,084 |
| Activity in restricted investment securities: | | |
| Purchases | (1,003,850) | (57,300) |
| Redemptions | 1,033,100 | 1,266,800 |
| Purchases of bank-owned life insurance | - | (7,000,000) |
| Net increase in loans/leases originated and held for investment | (16,077,756) | (31,137,089) |
| Purchase of premises and equipment | (898,464) | (700,230) |
| Net cash used in investing activities | \$ (76,742,574) | \$ (56,726,499) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |

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| | | |
|---|---------------|---------------|
| Net increase in deposit accounts | 110,012,711 | 99,498,515 |
| Net decrease in short-term borrowings | (28,137,412) | (18,759,955) |
| Activity in Federal Home Loan Bank advances: | | |
| Advances | 14,000,000 | - |
| Calls and maturities | (15,000,000) | (19,000,000) |
| Prepayments | - | (15,832,099) |
| Net increase (decrease) in other borrowings | 2,004,050 | (9,154,734) |
| Payment of cash dividends on common and preferred stock | (2,278,183) | (2,014,345) |
| Redemption of 10,223 shares of Series F Noncumulative Perpetual Preferred Stock | (10,223,000) | - |
| Proceeds from issuance of common stock, net | 276,471 | 358,153 |
| Net cash provided by financing activities | \$ 70,654,637 | \$ 35,095,535 |
| Net increase (decrease) in cash and due from banks | (1,497,036) | 3,049,867 |
| Cash and due from banks, beginning | 53,136,710 | 42,030,806 |
| Cash and due from banks, ending | \$ 51,639,674 | \$ 45,080,673 |
| Supplemental disclosure of cash flow information, cash payments for: | | |
| Interest | \$ 10,343,656 | \$ 12,824,212 |
| Income/franchise taxes | \$ 881,000 | \$ 1,162,609 |
| Supplemental schedule of noncash investing activities: | | |
| Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale, net | \$ (276,190) | \$ 1,064,174 |
| Transfers of loans to other real estate owned | \$ 2,143,017 | \$ 4,646,402 |

See Notes to Consolidated Financial Statements

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QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2012

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, 2011, including QCR Holdings, Inc.'s (the "Company") Form 10-K filed with the Securities and Exchange Commission on March 8, 2012. 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 June 30, 2012, are not necessarily indicative of the results expected for the year ending December 31, 2012.

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

Recent accounting developments: In December 2011, the Financial Accounting Standards Board issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. ASU 2011-11 is effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. Adoption is not expected to have a significant impact on the Company's consolidated financial statements.

Reclassifications: Certain amounts in the prior year 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 June 30, 2012 and December 31, 2011 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|--|-------------------|------------------------------|---------------------------------|---------------|
| June 30, 2012: | | | | |
| Securities held to maturity: | | | | |
| Other bonds | \$700,000 | \$- | \$- | \$700,000 |
| Securities available for sale: | | | | |
| U.S. gov't. sponsored agency securities | \$387,413,822 | \$2,377,067 | \$(191,137) | \$389,599,752 |
| Residential mortgage-backed and related securities | 162,415,855 | 3,523,570 | (112,224) | 165,827,201 |
| Municipal securities | 79,658,038 | 1,834,640 | (420,770) | 81,071,908 |
| Trust preferred securities | 86,200 | 15,800 | - | 102,000 |
| Other securities | 1,319,560 | 257,847 | (40,432) | 1,536,975 |
| | \$630,893,475 | \$8,008,924 | \$(764,563) | \$638,137,836 |
| December 31, 2011: | | | | |
| Securities held to maturity: | | | | |
| Other bonds | \$200,000 | \$- | \$- | \$200,000 |
| Securities available for sale: | | | | |
| U.S. gov't. sponsored agency securities | \$426,581,913 | \$2,428,994 | \$(55,687) | \$428,955,220 |
| Residential mortgage-backed and related securities | 105,373,614 | 3,488,350 | (8,215) | 108,853,749 |
| Municipal securities | 23,937,118 | 1,752,246 | - | 25,689,364 |
| Trust preferred securities | 86,200 | - | (5,400) | 80,800 |
| Other securities | 1,354,940 | 140,022 | (44,804) | 1,450,158 |
| | \$557,333,785 | \$7,809,612 | \$(114,106) | \$565,029,291 |

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 June 30, 2012 and December 31, 2011, 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, 2012: | | | | | | |
| Securities available for sale: | | | | | | |
| U.S. govt. sponsored agency securities | \$46,609,893 | \$(191,137) | \$- | \$- | \$46,609,893 | \$(191,137) |
| Residential mortgage-backed and related securities | 26,844,026 | (112,224) | - | - | 26,844,026 | (112,224) |
| Municipal securities | 21,831,460 | (420,770) | - | - | 21,831,460 | (420,770) |
| Other securities | 200,000 | (40,432) | - | - | 200,000 | (40,432) |
| | \$95,485,379 | \$(764,563) | \$- | \$- | \$95,485,379 | \$(764,563) |
| December 31, 2011: | | | | | | |
| Securities available for sale: | | | | | | |
| U.S. govt. sponsored agency securities | \$59,979,620 | \$(55,687) | \$- | \$- | \$59,979,620 | \$(55,687) |
| Residential mortgage-backed and related securities | 4,906,398 | (8,215) | - | - | 4,906,398 | (8,215) |
| Trust preferred securities | - | - | 80,800 | (5,400) | 80,800 | (5,400) |
| Other securities | 251,957 | (44,332) | 2,778 | (472) | 254,735 | (44,804) |
| | \$65,137,975 | \$(108,234) | \$83,578 | \$(5,872) | \$65,221,553 | \$(114,106) |

At June 30, 2012, the investment portfolio included 354 securities. Of this number, 47 securities had current unrealized losses with aggregate depreciation of less than 1% from the amortized cost basis. Of these 47, none had unrealized losses for twelve months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery. At June 30, 2012 and December 31, 2011, equity securities represented less than 1% of the total portfolio.

The Company did not recognize other-than-temporary impairment on any debt securities for the three and six months ended June 30, 2012 and 2011.

During the second quarter of 2012, the Company's evaluation determined that one privately held equity security experienced a decline in fair value that was other-than-temporary. As a result, the Company wrote down the value of this security and recognized a loss in the amount of \$62,400. The Company did not recognize other-than-temporary impairment on any of its equity securities during the first quarter of 2012.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities, as applicable, for the three and six months ended June 30, 2012 and 2011, respectively, were from securities identified as available for sale. Information on proceeds received, as well as pre-tax gross gains from sales of those securities is as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Proceeds from sales of securities | \$ 19,215,075 | \$ 8,331,005 | \$ 19,215,075 | \$ 45,725,084 |
| Pre-tax gross gains from sales of securities | 104,600 | 148,602 | 104,600 | 1,028,914 |

The amortized cost and fair value of securities as of June 30, 2012 by contractual maturity are shown below. A portion of the Company's U.S. government sponsored agency securities contain call options which allow the issuer, at its discretion, to call the security at predetermined dates prior to the contractual maturity date. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed and related securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" are excluded from the maturity categories as there is no fixed maturity date.

| | Amortized Cost | Fair Value |
|--|-------------------|----------------|
| Securities held to maturity: | | |
| Due in one year or less | \$ 50,000 | \$ 50,000 |
| Due after one year through five years | 100,000 | 100,000 |
| Due after five years | 550,000 | 550,000 |
| | \$ 700,000 | \$ 700,000 |
| Securities available for sale: | | |
| Due in one year or less | \$ 2,554,433 | \$ 2,569,961 |
| Due after one year through five years | 57,416,808 | 57,848,858 |
| Due after five years | 407,186,819 | 410,354,841 |
| | \$ 467,158,060 | \$ 470,773,660 |
| Residential mortgage-backed and related securities | 162,415,855 | 165,827,201 |
| Other securities | 1,319,560 | 1,536,975 |
| | \$ 630,893,475 | \$ 638,137,836 |

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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 June 30, 2012 and December 31, 2011 is presented as follows:

| | As of June 30, 2012 | As of December 31, 2011 |
|---|------------------------|----------------------------|
| Commercial and industrial loans | \$ 350,780,417 | \$ 350,794,278 |
| Commercial real estate loans | | |
| Owner-occupied commercial real estate | 188,948,747 | 167,790,621 |
| Commercial construction, land development, and other land | 46,663,733 | 60,384,738 |
| Other non owner-occupied commercial real estate | 340,674,818 | 349,628,491 |
| | 576,287,298 | 577,803,850 |
| Direct financing leases * | 98,567,582 | 93,212,362 |
| Residential real estate loans ** | 107,450,497 | 98,107,051 |
| Installment and other consumer loans | 77,416,813 | 78,223,080 |
| | 1,210,502,607 | 1,198,140,621 |
| Plus deferred loan/lease origination costs, net of fees | 2,801,194 | 2,604,876 |
| | 1,213,303,801 | 1,200,745,497 |
| Less allowance for estimated losses on loans/leases | (18,724,535) | (18,789,262) |
| | \$ 1,194,579,266 | \$ 1,181,956,235 |
| * Direct financing leases: | | |
| Net minimum lease payments to be received | \$ 112,122,885 | \$ 106,389,988 |
| Estimated unguaranteed residual values of leased assets | 1,144,745 | 1,043,326 |
| Unearned lease/residual income | (14,700,048) | (14,220,952) |
| | 98,567,582 | 93,212,362 |
| Plus deferred lease origination costs, net of fees | 3,519,830 | 3,217,011 |
| | 102,087,412 | 96,429,373 |
| Less allowance for estimated losses on leases | (1,610,999) | (1,339,496) |
| | \$ 100,476,413 | \$ 95,089,877 |

**Includes residential real estate loans held for sale totaling \$4,349,967 and \$3,832,760 as of June 30, 2012, and December 31, 2011, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

For the three and six months ended June 30, 2012 and 2011, there were no losses on residual values. At June 30, 2012, the Company had 38 leases remaining with residual values totaling \$1,144,745 that were not protected with a lease end options rider. At December 31, 2011, the Company had 39 leases remaining with residual values totaling \$1,043,326 that were not protected with a lease end options rider. Management has performed specific evaluations of these residual values and determined that the valuations are appropriate.

The aging of the loan/lease portfolio by classes of loans/leases as of June 30, 2012 is presented as follows:

| Classes of Loans/Leases | Current | 30-59 Days Past Due | 60-89 Days Past Due | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases | Total |
|---|-----------------|---------------------|---------------------|-----------------------------------|-------------------------|-----------------|
| Commercial and Industrial | \$347,348,642 | \$834,831 | \$17,821 | \$965,673 | \$1,613,450 | \$350,780,417 |
| Commercial Real Estate | | | | | | |
| Owner-Occupied Commercial Real Estate | 187,712,914 | 548,615 | - | - | 687,218 | 188,948,747 |
| Commercial Construction, Land Development, and Other Land | 42,799,962 | - | 1,076,387 | - | 2,787,384 | 46,663,733 |
| Other Non Owner-Occupied Commercial Real Estate | 326,648,116 | 2,178,037 | 3,258,985 | 137,611 | 8,452,069 | 340,674,818 |
| Direct Financing Leases | 96,813,835 | 796,205 | 270,034 | - | 687,508 | 98,567,582 |
| Residential Real Estate | 106,016,069 | - | 411,031 | - | 1,023,397 | 107,450,497 |
| Installment and Other Consumer | 75,469,221 | 231,520 | 671,731 | 48,607 | 995,734 | 77,416,813 |
| | \$1,182,808,759 | \$4,589,208 | \$5,705,989 | \$1,151,891 | \$16,246,760 | \$1,210,502,607 |
| As a percentage of total loan/lease portfolio | 97.71 | % 0.38 | % 0.47 | % 0.10 | % 1.34 | % 100.00 |

The aging of the loan/lease portfolio by classes of loans/leases as of December 31, 2011 is presented as follows:

| Current | 30-59 Days | 60-89 Days | Total |
|---------|------------|------------|-------|
|---------|------------|------------|-------|

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| Classes of Loans/Leases | | Past Due | Past Due | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases | |
|---|-----------------|-------------|-------------|-----------------------------------|-------------------------|-----------------|
| Commercial and Industrial | \$347,417,683 | \$226,394 | \$239,991 | \$120,000 | \$2,790,210 | \$350,794,278 |
| Commercial Real Estate | | | | | | |
| Owner-Occupied Commercial Real Estate | 166,632,318 | 146,847 | - | - | 1,011,456 | 167,790,621 |
| Commercial Construction, Land Development, and Other Land | 55,741,827 | 211,878 | 486,802 | 968,919 | 2,975,312 | 60,384,738 |
| Other Non Owner-Occupied Commercial Real Estate | 336,080,128 | 522,323 | 3,732,935 | - | 9,293,105 | 349,628,491 |
| Direct Financing Leases | 91,273,406 | 826,187 | 396,344 | - | 716,425 | 93,212,362 |
| Residential Real Estate | 95,456,433 | 1,127,465 | 389,678 | - | 1,133,475 | 98,107,051 |
| Installment and Other Consumer | 76,376,399 | 737,543 | 12,122 | 22,160 | 1,074,856 | 78,223,080 |
| | \$1,168,978,194 | \$3,798,637 | \$5,257,872 | \$1,111,079 | \$18,994,839 | \$1,198,140,621 |
| As a percentage of total loan/lease portfolio | 97.57 | % 0.32 | % 0.44 | % 0.09 | % 1.59 | % 100.00 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Nonperforming loans/leases by classes of loans/leases as of June 30, 2012 is presented as follows:

| Classes of Loans/Leases | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases * | Troubled Debt Restructurings - Accruing | Total Nonperforming Loans/Leases | Percentage of Total Nonperforming Loans/Leases | |
|--|--|---------------------------------|--|--|---|---|
| Commercial and Industrial Commercial Real Estate | \$965,673 | \$ 1,613,450 | \$ 185,591 | \$ 2,764,714 | 10.13 | % |
| Owner-Occupied Commercial Real Estate | - | 687,218 | - | 687,218 | 2.52 | % |
| Commercial Construction, Land Development, and Other Land | - | 2,787,384 | 337,500 | 3,124,884 | 11.45 | % |
| Other Non Owner-Occupied Commercial Real Estate | 137,611 | 8,452,069 | 9,167,020 | 17,756,700 | 65.05 | % |
| Direct Financing Leases | - | 687,508 | - | 687,508 | 2.52 | % |
| Residential Real Estate | - | 1,023,397 | 167,739 | 1,191,136 | 4.36 | % |
| Installment and Other Consumer | 48,607 | 995,734 | 39,553 | 1,083,894 | 3.97 | % |
| | \$1,151,891 | \$ 16,246,760 | \$ 9,897,403 | \$ 27,296,054 | 100.00 | % |

*Nonaccrual loans/leases includes \$6,122,952 of troubled debt restructurings, including \$156,595 in commercial and industrial loans, \$5,628,957 in commercial real estate loans, \$64,726 in direct financing leases, and \$272,674 in installment loans.

Nonperforming loans/leases by classes of loans/leases as of December 31, 2011 is presented as follows:

| Classes of Loans/Leases | Accruing Past Due 90 Days or More | Nonaccrual Loans/Leases ** | Troubled Debt Restructurings - Accruing | Total Nonperforming Loans/Leases | Percentage of Total Nonperforming Loans/Leases | |
|--|---|----------------------------------|---|--|---|---|
| Commercial and Industrial Commercial Real Estate | \$ 120,000 | \$ 2,790,210 | \$ 187,407 | \$ 3,097,617 | 9.68 | % |
| Owner-Occupied Commercial Real Estate | - | 1,011,456 | - | 1,011,456 | 3.16 | % |
| Commercial Construction, Land Development, and Other Land | 968,919 | 2,975,312 | 6,076,143 | 10,020,374 | 31.30 | % |
| Other Non Owner-Occupied Commercial Real Estate | - | 9,293,105 | 5,049,795 | 14,342,900 | 44.81 | % |
| Direct Financing Leases | - | 716,425 | 590,238 | 1,306,663 | 4.08 | % |
| Residential Real Estate | - | 1,133,475 | - | 1,133,475 | 3.54 | % |
| Installment and Other Consumer | 22,160 | 1,074,856 | - | 1,097,016 | 3.43 | % |
| | \$ 1,111,079 | \$ 18,994,839 | \$ 11,903,583 | \$ 32,009,501 | 100.00 | % |

**Nonaccrual loans/leases includes \$8,622,874 of troubled debt restructurings, including \$198,697 in commercial and industrial loans, \$8,074,777 in commercial real estate loans, \$64,726 in direct financing leases, and \$284,674 in installment loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance for estimated losses on loans/leases by portfolio segment for the three and six months ended June 30, 2012 and 2011, respectively, are presented as follows:

Three Months Ended June 30, 2012

| | Commercial and Industrial | Commercial Real Estate | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | Total |
|--|---------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|--------------|
| Balance, beginning | \$4,585,467 | \$10,855,442 | \$1,366,528 | \$963,157 | \$1,236,050 | \$19,006,644 |
| Provisions charged to expense | (683,718) | 1,275,510 | 258,469 | 23,557 | 174,651 | 1,048,469 |
| Loans/leases charged off | (79,334) | (1,427,987) | (27,543) | - | (199,935) | (1,734,799) |
| Recoveries on loans/leases previously charged off | 358,377 | 7,026 | 13,545 | - | 25,273 | 404,221 |
| Balance, ending | \$4,180,792 | \$10,709,991 | \$1,610,999 | \$986,714 | \$1,236,039 | \$18,724,535 |

Three Months Ended June 30, 2011

| | Commercial and Industrial | Commercial Real Estate | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | Total |
|---|---------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|---------------|
| Balance, beginning | \$8,454,099 | \$ 8,631,699 | \$ 1,467,934 | \$ 706,305 | \$ 1,469,979 | \$ 20,730,016 |
| Provisions charged to expense | 224,974 | 865,054 | 123,221 | 50,770 | 408,202 | 1,672,221 |
| Loans/leases charged off | (1,593,901) | (921,407) | - | - | (176,397) | (2,691,705) |
| Recoveries on loans/leases previously charged off | 39,272 | 27,293 | 154 | - | 25,381 | 92,100 |
| Balance, ending | \$7,124,444 | \$ 8,602,639 | \$ 1,591,309 | \$ 757,075 | \$ 1,727,165 | \$ 19,802,632 |

Six Months Ended June 30, 2012

| | Commercial and Industrial | Commercial Real Estate | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | Total |
|----------------------------------|---------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|---------------|
| Balance, beginning | \$4,878,006 | \$ 10,596,958 | \$ 1,339,496 | \$ 704,946 | \$ 1,269,856 | \$ 18,789,262 |
| Provisions charged to expense | (774,618) | 1,533,374 | 573,915 | 286,525 | 209,719 | 1,828,915 |
| Loans/leases charged off | (455,742) | (1,427,987) | (343,264) | (4,757) | (327,801) | (2,559,551) |
| | 533,146 | 7,646 | 40,852 | - | 84,265 | 665,909 |

Recoveries on
loans/leases
previously charged off

| | | | | | | |
|-----------------|-------------|---------------|--------------|------------|--------------|---------------|
| Balance, ending | \$4,180,792 | \$ 10,709,991 | \$ 1,610,999 | \$ 986,714 | \$ 1,236,039 | \$ 18,724,535 |
|-----------------|-------------|---------------|--------------|------------|--------------|---------------|

Six Months Ended June 30, 2011

| | Commercial and Industrial | Commercial Real Estate | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | Total |
|---|---------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|---------------|
| Balance, beginning | \$7,548,922 | \$ 9,087,315 | \$ 1,530,572 | \$ 748,028 | \$ 1,449,819 | \$ 20,364,656 |
| Provisions charged to expense | 1,216,493 | 392,902 | 303,885 | 9,047 | 817,558 | 2,739,885 |
| Loans/leases charged off | (1,790,617) | (921,537) | (243,446) | - | (617,032) | (3,572,632) |
| Recoveries on loans/leases previously charged off | 149,646 | 43,959 | 298 | - | 76,820 | 270,723 |
| Balance, ending | \$7,124,444 | \$ 8,602,639 | \$ 1,591,309 | \$ 757,075 | \$ 1,727,165 | \$ 19,802,632 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance for estimated losses on loans/leases by impairment evaluation and by portfolio segment as of June 30, 2012 and December 31, 2011 is presented as follows:

| | As of June 30, 2012 | | | | | Total |
|--|------------------------------|---------------------------|-------------------------------|----------------------------|--------------------------------------|-----------------|
| | Commercial and Industrial | Commercial Real Estate | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | |
| Allowance for loans/leases individually evaluated for impairment | \$265,046 | \$3,175,726 | \$90,000 | \$117,877 | \$2,313 | \$3,650,962 |
| Allowance for loans/leases collectively evaluated for impairment | 3,915,746 | 7,534,265 | 1,520,999 | 868,837 | 1,233,726 | 15,073,573 |
| | \$4,180,792 | \$10,709,991 | \$1,610,999 | \$986,714 | \$1,236,039 | \$18,724,535 |
| Loans/leases individually evaluated for impairment | \$1,011,904 | \$21,305,295 | \$687,508 | \$1,191,136 | \$965,678 | \$25,161,521 |
| Loans/leases collectively evaluated for impairment | 349,768,513 | 554,982,003 | 97,880,074 | 106,259,361 | 76,451,135 | 1,185,341,086 |
| | \$350,780,417 | \$576,287,298 | \$98,567,582 | \$107,450,497 | \$77,416,813 | \$1,210,502,607 |
| Allowance as a percentage of loans/leases individually evaluated for impairment | 26.19 | % 14.91 | % 13.09 | % 9.90 | % 0.24 | % 14.51 |
| Allowance as a percentage of loans/leases collectively evaluated for impairment | 1.12 | % 1.36 | % 1.55 | % 0.82 | % 1.61 | % 1.27 |

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| | 1.19 | % | 1.86 | % | 1.63 | % | 0.92 | % | 1.60 | % | 1.54 | % |
|---|------------------------------|---|---------------------------|---|-------------------------------|---|----------------------------|---|--------------------------------------|---|-----------------|---|
| | As of December 31, 2011 | | | | | | | | | | | |
| | Commercial and Industrial | | Commercial Real Estate | | Direct Financing Leases | | Residential Real Estate | | Installment and Other Consumer | | Total | |
| Allowance for loans/leases individually evaluated for impairment | \$903,187 | | \$4,297,738 | | \$66,675 | | \$55,884 | | \$22,819 | | \$5,346,303 | |
| Allowance for loans/leases collectively evaluated for impairment | 3,974,819 | | 6,299,220 | | 1,272,821 | | 649,062 | | 1,247,037 | | 13,442,959 | |
| | \$4,878,006 | | \$10,596,958 | | \$1,339,496 | | \$704,946 | | \$1,269,856 | | \$18,789,262 | |
| Loans/leases individually evaluated for impairment | \$2,152,855 | | \$24,281,365 | | \$1,306,663 | | \$1,133,474 | | \$984,806 | | \$29,859,163 | |
| Loans/leases collectively evaluated for impairment | 348,641,423 | | 553,522,485 | | 91,905,699 | | 96,973,577 | | 77,238,274 | | 1,168,281,458 | |
| | \$350,794,278 | | \$577,803,850 | | \$93,212,362 | | \$98,107,051 | | \$78,223,080 | | \$1,198,140,621 | |
| Allowance as a percentage of loans/leases individually evaluated for impairment | 41.95 | % | 17.70 | % | 5.10 | % | 4.93 | % | 2.32 | % | 17.91 | % |
| Allowance as a percentage of loans/leases collectively evaluated for impairment | 1.14 | % | 1.14 | % | 1.38 | % | 0.67 | % | 1.61 | % | 1.15 | % |
| | 1.39 | % | 1.83 | % | 1.44 | % | 0.72 | % | 1.62 | % | 1.56 | % |

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Information for impaired loans/leases by classes of financing receivable as of and for the six months ended June 30, 2012 is as follows:

| Classes of Loans/Leases | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized | Interest Income Recognized for Cash Payments Received |
|---|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|---|
| Impaired Loans/Leases with No Specific Allowance | | | | | | |
| Recorded: | | | | | | |
| Commercial and Industrial | \$679,015 | \$1,410,800 | \$- | \$1,230,600 | \$- | \$- |
| Commercial Real Estate | | | | | | |
| Owner-Occupied Commercial Real Estate | 555,729 | 555,729 | - | 711,463 | - | - |
| Commercial Construction, Land Development, and Other Land | 1,427,018 | 2,009,619 | - | 5,041,106 | 3,851 | 3,851 |
| Other Non Owner-Occupied Commercial Real Estate | | | | | | |
| Commercial Real Estate | 4,700,668 | 5,500,668 | - | 6,864,499 | 894 | 894 |
| Direct Financing Leases | 569,233 | 569,233 | - | 804,542 | - | - |
| Residential Real Estate | 733,354 | 733,354 | - | 784,598 | 3,346 | 3,346 |
| Installment and Other Consumer | | | | | | |
| | 963,365 | 982,097 | - | 972,903 | 124 | 124 |
| | \$9,628,382 | \$11,761,500 | \$- | \$16,409,711 | \$8,215 | \$8,215 |
| Impaired Loans/Leases with Specific Allowance | | | | | | |
| Recorded: | | | | | | |
| Commercial and Industrial | \$332,889 | \$332,889 | \$265,046 | \$281,764 | \$3,951 | \$3,951 |
| Commercial Real Estate | | | | | | |
| Owner-Occupied Commercial Real Estate | 66,660 | 66,660 | 1,276 | 66,660 | - | - |
| Commercial Construction, Land Development, and Other Land | 2,352,865 | 2,376,100 | 1,018,457 | 2,328,678 | - | - |
| Other Non Owner-Occupied Commercial Real Estate | | | | | | |
| Commercial Real Estate | 12,202,355 | 12,202,355 | 2,155,993 | 8,771,552 | 150,664 | 150,664 |

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| | | | | | | |
|---|--------------|--------------|-------------|--------------|-----------|-----------|
| Direct Financing Leases | 118,275 | 118,275 | 90,000 | 100,425 | - | - |
| Residential Real Estate | 457,782 | 457,782 | 117,877 | 421,985 | - | - |
| Installment and Other | | | | | | |
| Consumer | 2,313 | 2,313 | 2,313 | 1,332 | - | - |
| | \$15,533,139 | \$15,556,374 | \$3,650,962 | \$11,972,396 | \$154,615 | \$154,615 |
| Total Impaired Loans/Leases: | | | | | | |
| Commercial and Industrial | \$1,011,904 | \$1,743,689 | \$265,046 | \$1,512,364 | \$3,951 | \$3,951 |
| Commercial Real Estate | | | | | | |
| Owner-Occupied Commercial | | | | | | |
| Real Estate | 622,389 | 622,389 | 1,276 | 778,123 | - | - |
| Commercial Construction, Land Development, and Other Land | 3,779,883 | 4,385,719 | 1,018,457 | 7,369,784 | 3,851 | 3,851 |
| Other Non Owner-Occupied | | | | | | |
| Commercial Real Estate | 16,903,023 | 17,703,023 | 2,155,993 | 15,636,051 | 151,558 | 151,558 |
| Direct Financing Leases | 687,508 | 687,508 | 90,000 | 904,967 | - | - |
| Residential Real Estate | 1,191,136 | 1,191,136 | 117,877 | 1,206,583 | 3,346 | 3,346 |
| Installment and Other | | | | | | |
| Consumer | 965,678 | 984,410 | 2,313 | 974,235 | 124 | 124 |
| | \$25,161,521 | \$27,317,874 | \$3,650,962 | \$28,382,107 | \$162,830 | \$162,830 |

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

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Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Information for impaired loans/leases by classes of financing receivable for the three months ended June 30, 2012 and 2011 is as follows:

| Classes of Loans/Leases | Three Months Ended June 30, 2012 | | | Three Months Ended June 30, 2011 | | |
|---|-----------------------------------|----------------------------------|--|-----------------------------------|----------------------------------|--|
| | Average Recorded Investment | Interest Income Recognized | Interest Income for Cash Payments Received | Average Recorded Investment | Interest Income Recognized | Interest Income for Cash Payments Received |
| Impaired Loans/Leases with No Specific Allowance Recorded: | | | | | | |
| Commercial and Industrial | \$ 870,085 | \$ - | \$ - | \$ 1,455,378 | \$ - | \$ - |
| Commercial Real Estate | | | | | | |
| Owner-Occupied Commercial Real Estate | 668,313 | - | - | 1,737,998 | - | - |
| Commercial Construction, Land Development, and Other Land | 4,773,032 | 1,683 | 1,683 | 184,693 | - | - |
| Other Non Owner-Occupied Commercial Real Estate | 6,997,797 | - | - | 3,840,268 | - | - |
| Direct Financing Leases | 585,845 | - | - | 1,052,176 | - | - |
| Residential Real Estate | 734,485 | 1,673 | 1,673 | 958,303 | - | - |
| Installment and Other Consumer | 974,591 | 101 | 101 | 668,265 | - | - |
| | \$ 15,604,148 | \$ 3,457 | \$ 3,457 | \$ 9,897,081 | \$ - | \$ - |
| Impaired Loans/Leases with Specific Allowance Recorded: | | | | | | |
| Commercial and Industrial | \$ 314,872 | \$ 1,971 | \$ 1,971 | \$ 3,666,049 | \$ 1,705 | \$ 1,705 |
| Commercial Real Estate | 66,660 | - | - | 370,843 | 18,145 | 18,145 |

| | | | | | | |
|--|---------------|-----------|-----------|---------------|-----------|-----------|
| Owner-Occupied Commercial Real Estate | | | | | | |
| Commercial Construction, Land Development, and Other Land | 2,348,194 | - | - | 4,688,045 | - | - |
| Other Non Owner-Occupied Commercial Real Estate | 8,354,604 | 83,113 | 83,113 | 7,130,672 | - | - |
| Direct Financing Leases | 118,275 | - | - | 746,288 | - | - |
| Residential Real Estate Installment and Other Consumer | 462,406 | - | - | 140,332 | - | - |
| | 1,998 | - | - | 233,087 | - | - |
| | \$ 11,667,009 | \$ 85,084 | \$ 85,084 | \$ 16,975,316 | \$ 19,850 | \$ 19,850 |
| Total Impaired Loans/Leases: | | | | | | |
| Commercial and Industrial | \$ 1,184,957 | \$ 1,971 | \$ 1,971 | \$ 5,121,427 | \$ 1,705 | \$ 1,705 |
| Commercial Real Estate | | | | | | |
| Owner-Occupied Commercial Real Estate | 734,973 | - | - | 2,108,841 | 18,145 | 18,145 |
| Commercial Construction, Land Development, and Other Land | 7,121,226 | 1,683 | 1,683 | 4,872,738 | - | - |
| Other Non Owner-Occupied Commercial Real Estate | 15,352,401 | 83,113 | 83,113 | 10,970,940 | - | - |
| Direct Financing Leases | 704,120 | - | - | 1,798,464 | - | - |
| Residential Real Estate Installment and Other Consumer | 1,196,891 | 1,673 | 1,673 | 1,098,635 | - | - |
| | 976,589 | 101 | 101 | 901,352 | - | - |
| | \$ 27,271,157 | \$ 88,541 | \$ 88,541 | \$ 26,872,397 | \$ 19,850 | \$ 19,850 |

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

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Information for impaired loans/leases by classes of financing receivable as of December 31, 2011 is as follows:

| Classes of Loans/Leases | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---------------------|--------------------------|-------------------|
| Impaired Loans/Leases with No Specific Allowance Recorded: | | | |
| Commercial and Industrial | \$360,947 | \$979,901 | \$- |
| Commercial Real Estate | | | |
| Owner-Occupied Commercial Real Estate | 736,610 | 736,610 | - |
| Commercial Construction, Land Development, and Other Land | - | - | - |
| Other Non Owner-Occupied Commercial Real Estate | 3,936,826 | 3,986,820 | - |
| Direct Financing Leases | 1,094,178 | 1,094,178 | - |
| Residential Real Estate | 788,685 | 862,298 | - |
| Installment and Other Consumer | 593,987 | 593,987 | - |
| | \$7,511,233 | \$8,253,794 | \$- |
| Impaired Loans/Leases with Specific Allowance Recorded: | | | |
| Commercial and Industrial | \$1,791,908 | \$1,791,908 | \$903,187 |
| Commercial Real Estate | | | |
| Owner-Occupied Commercial Real Estate | 217,059 | 217,059 | 47,911 |
| Commercial Construction, Land Development, and Other Land | 9,051,455 | 9,051,455 | 3,002,450 |
| Other Non Owner-Occupied Commercial Real Estate | 10,339,415 | 10,839,415 | 1,247,377 |
| Direct Financing Leases | 212,485 | 212,485 | 66,675 |
| Residential Real Estate | 344,789 | 344,789 | 55,884 |
| Installment and Other Consumer | 390,819 | 390,819 | 22,819 |
| | \$22,347,930 | \$22,847,930 | \$5,346,303 |
| Total Impaired Loans/Leases: | | | |
| Commercial and Industrial | \$2,152,855 | \$2,771,809 | \$903,187 |
| Commercial Real Estate | | | |
| Owner-Occupied Commercial Real Estate | 953,669 | 953,669 | 47,911 |
| Commercial Construction, Land Development, and Other Land | 9,051,455 | 9,051,455 | 3,002,450 |
| Other Non Owner-Occupied Commercial Real Estate | 14,276,241 | 14,826,235 | 1,247,377 |
| Direct Financing Leases | 1,306,663 | 1,306,663 | 66,675 |
| Residential Real Estate | 1,133,474 | 1,207,087 | 55,884 |
| Installment and Other Consumer | 984,806 | 984,806 | 22,819 |
| | \$29,859,163 | \$31,101,724 | \$5,346,303 |

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 each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2012 and December 31, 2011:

| Internally Assigned Risk Rating | As of June 30, 2012 Commercial Real Estate Non Owner-Occupied | | | | Total |
|---------------------------------|---|---------------------------------------|---|------------------------------|----------------|
| | Commercial and Industrial | Owner-Occupied Commercial Real Estate | Commercial Construction, Land Development, and Other Land | Other Commercial Real Estate | |
| Pass (Ratings 1 through 5) | \$ 326,648,303 | \$ 183,382,668 | \$ 40,298,069 | \$ 303,371,664 | \$ 853,700,704 |
| Special Mention (Rating 6) | 8,239,440 | 3,609,328 | 442,149 | 9,046,514 | 21,337,431 |
| Substandard (Rating 7) | 15,892,674 | 1,956,751 | 5,923,515 | 28,256,640 | 52,029,580 |
| Doubtful (Rating 8) | - | - | - | - | - |
| | \$ 350,780,417 | \$ 188,948,747 | \$ 46,663,733 | \$ 340,674,818 | \$ 927,067,715 |

| Delinquency Status * | As of June 30, 2012 | | | Total |
|----------------------|-------------------------|-------------------------|--------------------------------|----------------|
| | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | |
| Performing | \$ 97,880,074 | \$ 106,259,361 | \$ 76,332,919 | \$ 280,472,354 |
| Nonperforming | 687,508 | 1,191,136 | 1,083,894 | 2,962,538 |
| | \$ 98,567,582 | \$ 107,450,497 | \$ 77,416,813 | \$ 283,434,892 |

*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 troubled debt restructurings.

| Internally Assigned Risk Rating | As of December 31, 2011 Commercial Real Estate Non Owner-Occupied | | | | Total |
|---------------------------------|---|---------------------------------------|---|------------------------------|----------------|
| | Commercial and Industrial | Owner-Occupied Commercial Real Estate | Commercial Construction, Land Development, and Other Land | Other Commercial Real Estate | |
| Pass (Ratings 1 through 5) | \$ 324,225,905 | \$ 158,955,618 | \$ 46,268,554 | \$ 310,401,972 | \$ 839,852,049 |

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| | | | | | |
|----------------------------|---------------|---------------|--------------|---------------|---------------|
| Special Mention (Rating 6) | 8,814,497 | 2,700,496 | 764,586 | 13,754,798 | 26,034,377 |
| Substandard (Rating 7) | 17,753,876 | 6,134,507 | 13,351,598 | 25,471,721 | 62,711,702 |
| Doubtful (Rating 8) | - | - | - | - | - |
| | \$350,794,278 | \$167,790,621 | \$60,384,738 | \$349,628,491 | \$928,598,128 |

| Delinquency Status * | As of December 31, 2011 | | | Total |
|----------------------|-------------------------------|----------------------------|--------------------------------------|----------------|
| | Direct Financing Leases | Residential Real Estate | Installment and Other Consumer | |
| Performing | \$ 91,905,699 | \$ 96,973,576 | \$ 77,126,064 | \$ 266,005,339 |
| Nonperforming | 1,306,663 | 1,133,475 | 1,097,016 | 3,537,154 |
| | \$ 93,212,362 | \$ 98,107,051 | \$ 78,223,080 | \$ 269,542,493 |

*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 troubled debt restructurings.

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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 is internally assigned risk ratings. Each commercial loan is assigned a risk rating upon origination. The risk rating is reviewed every 15 months, at a minimum, and on an as needed basis depending on the specific circumstances of the loan.

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

As of June 30, 2012 and December 31, 2011, troubled debt restructurings totaled \$16,020,355 and \$20,526,457, respectively.

For each class of financing receivable, the following presents the number and recorded investment of troubled debt restructurings, by type of concession, that were restructured during the three and six months ended June 30, 2012 and 2011.

| Classes of Loans/Leases | For the three months ended June 30, 2012 | | | | For the three months ended June 30, 2011 | | | |
|--|--|--|---|-----------------------|--|--|---|-----------------------|
| | Number of Loans/ Leases | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Specific Allowance | Number of Loans/ Leases | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Specific Allowance |
| CONCESSION - Extension of maturity | | | | | | | | |
| Other Non Owner-Occupied Commercial Real Estate | - | \$ - | \$ - | \$- | 1 | \$ 2,851,134 | \$ 2,851,134 | \$ - |
| TOTAL | - | \$ - | \$ - | \$- | 1 | \$ 2,851,134 | \$ 2,851,134 | \$ - |

| Classes of Loans/Leases | For the six months ended June 30, 2012 | | | | For the six months ended June 30, 2011 | | | |
|--|--|--|---|-----------------------|--|--|---|-----------------------|
| | Number of Loans/ Leases | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Specific Allowance | Number of Loans/ Leases | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Specific Allowance |
| CONCESSION - Extension of maturity | | | | | | | | |
| Other Non Owner-Occupied Commercial Real | - | \$ - | \$ - | \$- | 1 | \$ 2,851,134 | \$ 2,851,134 | \$ - |

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| | | | | | | | | |
|---|----------|-------------------|-------------------|-------------------|----------|---------------------|---------------------|-------------|
| Estate | - | \$ - | \$ - | \$- | 1 | \$ 2,851,134 | \$ 2,851,134 | \$ - |
| CONCESSION - Significant payment delay | | | | | | | | |
| Commercial and Industrial | - | \$ - | \$ - | \$- | 4 | \$ 1,175,819 | \$ 1,175,819 | \$ - |
| Commercial Construction, Land Development, and Other Land | 2 | 200,000 | 200,000 | 144,000 | - | - | - | - |
| | 2 | \$ 200,000 | \$ 200,000 | \$ 144,000 | 4 | \$ 1,175,819 | \$ 1,175,819 | \$ - |
| CONCESSION - Interest rate adjusted below market | | | | | | | | |
| Commercial Construction, Land Development, and Other Land | 1 | \$ 337,500 | \$ 337,500 | \$- | - | \$ - | \$ - | \$ - |
| Residential Real Estate | 1 | 167,739 | 167,739 | - | - | - | - | - |
| Installment and Other Consumer | 1 | 16,043 | 16,043 | - | - | - | - | - |
| | 3 | \$ 521,282 | \$ 521,282 | \$- | - | \$ - | \$ - | \$ - |
| TOTAL | 5 | \$ 721,282 | \$ 721,282 | \$ 144,000 | 5 | \$ 4,026,953 | \$ 4,026,953 | \$ - |

Of the troubled debt restructurings reported above, three with post-modification recorded investments totaling \$3,051,134 were on nonaccrual as of June 30, 2012. None of the troubled debt restructurings reported above had partial charge-offs.

For the three and six months ended June 30, 2012, none of the Company's troubled debt restructurings has redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 - EARNINGS PER SHARE

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-------------|------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$3,273,379 | \$2,773,214 | \$6,676,228 | \$5,004,698 |
| Less: Net income attributable to noncontrolling interests | 201,223 | 98,245 | 367,254 | 204,769 |
| Net income attributable to QCR Holdings, Inc. | \$3,072,156 | \$2,674,969 | \$6,308,974 | \$4,799,929 |
| Less: Preferred stock dividends and discount accretion | 935,786 | 1,035,742 | 1,874,411 | 2,068,113 |
| Net income attributable to QCR Holdings, Inc. common stockholders | \$2,136,370 | \$1,639,227 | \$4,434,563 | \$2,731,816 |
| Earnings per common share attributable to QCR Holdings, Inc. common stockholders | | | | |
| Basic | \$0.44 | \$0.34 | \$0.92 | \$0.57 |
| Diluted | \$0.44 | \$0.34 | \$0.91 | \$0.57 |
| Weighted average common shares outstanding | 4,835,773 | 4,847,740 | 4,818,090 | 4,759,728 |
| Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan | 66,080 | 26,238 | 49,538 | 19,120 |
| Weighted average common and common equivalent shares outstanding | 4,901,853 | 4,873,978 | 4,867,628 | 4,778,848 |

NOTE 5 – BUSINESS SEGMENT INFORMATION

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

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

The Company’s Wealth Management segment represents the trust and asset management and investment management and advisory services offered at the Company’s three subsidiary banks in aggregate. This segment generates income

primarily from fees charged based on assets under administration for corporate and personal trusts, custodial services, and investments managed. No assets of the subsidiary banks have been allocated to the Wealth Management segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Selected financial information on the Company's business segments is presented as follows for the three and six months ended June 30, 2012 and 2011.

| | Commercial Banking | | | | | Intercompany | Consolidated |
|---|---------------------------|------------------------------|--------------------------|----------------------|----------------|-----------------|------------------|
| | Quad City Bank & Trust | Cedar Rapids Bank & Trust | Rockford Bank & Trust | Wealth Management | All Other | Eliminations | Total |
| Three Months Ended June 30, 2012 | | | | | | | |
| Total revenue | \$ 11,936,569 | \$ 6,536,887 | \$ 3,648,057 | \$ 1,531,560 | \$ 4,379,005 | \$(4,430,041) | \$ 23,602,037 |
| Net interest income | \$ 8,532,585 | \$ 3,896,184 | \$ 2,458,333 | \$ - | \$(371,609) | \$ - | \$ 14,515,493 |
| Net income attributable to QCR Holdings, Inc. | \$ 2,327,046 | \$ 1,413,869 | \$ 402,494 | \$ 156,523 | \$ 3,110,821 | \$(4,338,597) | \$ 3,072,156 |
| Total assets | \$ 1,157,927,167 | \$ 581,059,340 | \$ 301,189,716 | \$ - | \$ 194,399,498 | \$(191,149,975) | \$ 2,043,425,746 |
| Provision for loan/lease losses | \$ 392,469 | \$ 225,000 | \$ 431,000 | \$ - | \$ - | \$ - | \$ 1,048,469 |
| Goodwill | \$ 3,222,688 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,222,688 |
| Three Months Ended June 30, 2011 | | | | | | | |
| Total revenue | \$ 11,887,135 | \$ 7,308,909 | \$ 3,386,900 | \$ 1,444,978 | \$ 3,938,351 | \$(3,930,816) | \$ 24,035,457 |
| Net interest income | \$ 7,831,907 | \$ 4,223,541 | \$ 2,207,957 | \$ - | \$(312,350) | \$ - | \$ 13,951,055 |
| Net income attributable to QCR Holdings, Inc. | \$ 2,259,488 | \$ 1,355,089 | \$ 66,276 | \$ 192,264 | \$ 2,677,173 | \$(3,875,321) | \$ 2,674,969 |
| Total assets | \$ 1,030,910,790 | \$ 573,534,805 | \$ 280,132,269 | \$ - | \$ 189,364,559 | \$(195,454,080) | \$ 1,878,488,343 |

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| | | | | | | | |
|--|--------------|------------|------------|-----|-----|-----|--------------|
| Provision for loan/lease losses | \$ 638,221 | \$ 410,000 | \$ 624,000 | \$- | \$- | \$- | \$ 1,672,221 |
| Goodwill | \$ 3,222,688 | \$- | \$- | \$- | \$- | \$- | \$ 3,222,688 |

Six Months
Ended June
30, 2012

| | | | | | | | |
|---|------------------|----------------|----------------|--------------|----------------|------------------|------------------|
| Total revenue | \$ 24,201,602 | \$ 13,123,036 | \$ 6,768,852 | \$ 2,936,754 | \$ 8,990,997 | \$(9,088,522) | \$ 46,932,719 |
| Net interest income | \$ 16,921,627 | \$ 7,664,183 | \$ 4,891,039 | \$- | \$(757,903) | \$- | \$ 28,718,946 |
| Net income attributable to QCR Holdings, Inc. | \$ 5,016,730 | \$ 2,681,135 | \$ 795,969 | \$ 316,406 | \$ 6,407,185 | \$(8,908,451) | \$ 6,308,974 |
| Total assets | \$ 1,157,927,167 | \$ 581,059,340 | \$ 301,189,716 | \$- | \$ 194,399,498 | \$(191,149,975) | \$ 2,043,425,746 |

| | | | | | | | |
|--|--------------|------------|------------|-----|-----|-----|--------------|
| Provision for loan/lease losses | \$ 787,915 | \$ 575,000 | \$ 466,000 | \$- | \$- | \$- | \$ 1,828,915 |
| Goodwill | \$ 3,222,688 | \$- | \$- | \$- | \$- | \$- | \$ 3,222,688 |

Six Months
Ended June
30, 2011

| | | | | | | | |
|---|------------------|----------------|----------------|--------------|----------------|------------------|------------------|
| Total revenue | \$ 23,842,944 | \$ 14,371,515 | \$ 6,668,880 | \$ 2,926,997 | \$ 7,456,594 | \$(7,523,117) | \$ 47,743,813 |
| Net interest income | \$ 14,828,267 | \$ 7,985,664 | \$ 4,286,062 | \$- | \$(940,136) | \$- | \$ 26,159,857 |
| Net income attributable to QCR Holdings, Inc. | \$ 3,922,793 | \$ 2,589,513 | \$ 289,407 | \$ 483,652 | \$ 4,861,431 | \$(7,346,867) | \$ 4,799,929 |
| Total assets | \$ 1,030,910,790 | \$ 573,534,805 | \$ 280,132,269 | \$- | \$ 189,364,559 | \$(195,454,080) | \$ 1,878,488,343 |

| | | | | | | | |
|--|--------------|------------|------------|-----|-----|-----|--------------|
| Provision for loan/lease losses | \$ 1,077,885 | \$ 785,000 | \$ 877,000 | \$- | \$- | \$- | \$ 2,739,885 |
| Goodwill | \$ 3,222,688 | \$- | \$- | \$- | \$- | \$- | \$ 3,222,688 |

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Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 – FAIR VALUE

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

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

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the three and six months ended June 30, 2012 or 2011.

Assets measured at fair value on a recurring basis comprise the following at June 30, 2012 and December 31, 2011:

| | Fair Value | Fair Value Measurements at Reporting Date Using | | |
|--|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2012: | | | | |
| Securities available for sale: | | | | |
| U.S. govt. sponsored agency securities | \$ 389,599,752 | \$- | \$ 389,599,752 | \$ - |
| Residential mortgage-backed and related securities | 165,827,201 | - | 165,827,201 | - |
| Municipal securities | 81,071,908 | - | 81,071,908 | - |
| Trust preferred securities | 102,000 | - | 102,000 | - |
| Other securities | 1,536,975 | 215,189 | 1,321,786 | - |
| | \$ 638,137,836 | \$ 215,189 | \$ 637,922,647 | \$ - |
| December 31, 2011: | | | | |
| Securities available for sale: | | | | |
| U.S. govt. sponsored agency securities | \$ 428,955,220 | \$- | \$ 428,955,220 | \$ - |
| Residential mortgage-backed and related securities | 108,853,749 | - | 108,853,749 | - |
| Municipal securities | 25,689,364 | - | 25,689,364 | - |
| Trust preferred securities | 80,800 | - | 80,800 | - |
| Other securities | 1,450,158 | 191,506 | 1,258,652 | - |

| | | | |
|---------------|-----------|---------------|------|
| \$565,029,291 | \$191,506 | \$564,837,785 | \$ - |
|---------------|-----------|---------------|------|

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

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

Assets measured at fair value on a non-recurring basis comprise the following at June 30, 2012 and December 31, 2011:

| | Fair Value | Fair Value Measurements at Reporting Date Using | | |
|-------------------------|--------------|---|---------|--------------|
| | | Level 1 | Level 2 | Level 3 |
| June 30, 2012: | | | | |
| Impaired loans/leases | \$12,832,751 | \$- | \$- | \$12,832,751 |
| Other real estate owned | 9,866,918 | - | - | 9,866,918 |
| | \$22,699,669 | \$- | \$- | \$22,699,669 |
| December 31, 2011: | | | | |
| Impaired loans/leases | \$18,361,757 | \$- | \$- | \$18,361,757 |
| Other real estate owned | 9,056,619 | - | - | 9,056,619 |
| | \$27,418,376 | \$- | \$- | \$27,418,376 |

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 may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

Other real estate owned in the table above consists of property acquired through foreclosures and settlements of loans. Property acquired is carried at the lower of the principal amount of loans outstanding, or the estimated fair value of the property, less disposal costs, and is classified as Level 3 in the fair value hierarchy.

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

There have been no changes in valuation techniques used for any assets measured at fair value during the three and six months ended June 30, 2012 or 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

| | As of June 30, 2012 | | As of December 31, 2011 | |
|---|---------------------|----------------------|-------------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Cash and due from banks | \$ 51,639,674 | \$ 51,639,674 | \$ 53,136,710 | \$ 53,136,710 |
| Federal funds sold | 3,625,000 | 3,625,000 | 20,785,000 | 20,785,000 |
| Interest-bearing deposits at financial institutions | 28,452,429 | 28,452,429 | 26,750,602 | 26,750,602 |
| Investment securities: | | | | |
| Held to maturity | 700,000 | 700,000 | 200,000 | 200,000 |
| Available for sale | 638,137,836 | 638,137,836 | 565,029,291 | 565,029,291 |
| Loans/leases receivable, net | 1,194,579,266 | 1,214,239,000 | 1,181,956,235 | 1,202,817,000 |
| Accrued interest receivable | 6,735,326 | 6,735,326 | 6,510,021 | 6,510,021 |
| Deposits | 1,315,470,499 | 1,318,758,000 | 1,205,457,788 | 1,209,197,000 |
| Short-term borrowings | 185,399,038 | 185,399,038 | 213,536,450 | 213,536,450 |
| Federal Home Loan Bank advances | 203,750,000 | 222,454,000 | 204,750,000 | 223,678,000 |
| Other borrowings | 138,235,713 | 153,872,000 | 136,231,663 | 151,813,000 |
| Junior subordinated debentures | 36,085,000 | 18,670,000 | 36,085,000 | 18,444,000 |
| Accrued interest payable | 1,397,572 | 1,397,572 | 1,551,842 | 1,551,842 |

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

Loans/leases receivable: The fair values for variable rate loans equal their carrying values. The fair values for all other types of loans/leases are estimated using discounted cash flow analyses, using interest rates currently being offered for loans/leases with similar terms to borrowers with similar credit quality. The fair value of loans held for sale is based on quoted market prices of similar loans sold on the secondary market. All of the above are classified as Level 2 in the fair value hierarchy as presented in the table below.

Deposits: The fair values disclosed for demand and other non-maturity deposits equal their carrying amounts, which represent the amount payable on demand. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregate expected monthly maturities on time deposits, and are classified as Level 2 in the fair value hierarchy as presented in the table below.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Federal Home Loan Bank advances and junior subordinated debentures: The fair value of these instruments is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements, and are classified as Level 2 in the fair value hierarchy as presented in the table below.

Other borrowings: The fair value for the wholesale repurchase agreements and fixed rate other borrowings is estimated using rates currently available for debt with similar terms and remaining maturities. The fair value for variable rate other borrowings is equal to its carrying value. All of the above are classified as Level 2 in the fair value hierarchy as presented in the table below.

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

The following table presents the level in the fair value hierarchy for the estimated fair values of the Company's financial instruments that are not already on the Consolidated Balance Sheet at fair value at June 30, 2012.

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---------------------------------|------------------|---------|------------------|---------|
| Loans/leases receivable, net * | \$ 1,201,406,249 | \$ - | \$ 1,201,406,249 | \$ - |
| Time deposits | 371,942,000 | - | 371,942,000 | - |
| Federal Home Loan Bank advances | 222,454,000 | - | 222,454,000 | - |
| Other borrowings | 153,872,000 | - | 153,872,000 | - |
| Junior subordinated debentures | 18,670,000 | - | 18,670,000 | - |

*Excludes impaired loans/leases totaling \$12,832,751 measured at fair value on a non-recurring basis and reported separately.

NOTE 7 – PARTIAL REDEMPTION OF SERIES F PREFERRED STOCK

On June 29, 2012, the Company redeemed 10,223 shares of Series F Preferred Stock from the United States Department of the Treasury ("Treasury") for an aggregate redemption amount of \$10,223,000 plus unpaid dividends to the date of redemption of \$124,948. Previously, on September 15, 2011, the Company issued 40,090 shares of Series F Preferred Stock to the Treasury for an aggregate purchase price of \$40,090,000. The sale of Series F Preferred Stock was the result of an investment by Treasury from the Small Business Lending Fund ("SBLF"), a \$30 billion fund established under the Small Business Jobs Act of 2010 that encourages lending to small business by providing capital to qualified community banks with assets of less than \$10 billion.

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

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Item 2

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

GENERAL

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

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

- Quad City Bank & Trust commenced operations in 1994 and provides full-service commercial and consumer banking, and trust and asset management services, to the Quad City area and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and Moline, Illinois. Quad City Bank & Trust also provides leasing services through its 80%-owned subsidiary, m2 Lease Funds, located in Brookfield, Wisconsin. In addition, Quad City Bank & Trust owns 100% of Quad City Investment Advisors, LLC (formerly known as CMG Investment Advisors, LLC), which is an investment management and advisory company.
- Cedar Rapids Bank & Trust commenced operations in 2001 and provides full-service commercial and consumer banking, and trust and asset management services, to Cedar Rapids, Iowa and adjacent communities through its main office located on First Avenue in downtown Cedar Rapids, Iowa and its branch facility located on Council Street in northern Cedar Rapids. Cedar Rapids Bank & Trust also provides residential real estate mortgage lending services through its 50%-owned joint venture, Cedar Rapids Mortgage Company.
- Rockford Bank & Trust commenced operations in January 2005 and provides full-service commercial and consumer banking, and trust and asset management services, to Rockford, Illinois and adjacent communities through its main office located in downtown Rockford and its branch facility on Guilford Road at Alpine Road in Rockford.

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

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Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

OVERVIEW

The Company recognized net income of \$3.3 million for the quarter ended June 30, 2012, and net income attributable to QCR Holdings, Inc. of \$3.1 million, which excludes the net income attributable to noncontrolling interests of \$201 thousand. After preferred stock dividends of \$936 thousand, the Company reported net income attributable to common stockholders of \$2.1 million, or diluted earnings per common share of \$0.44. By comparison, for the second quarter of 2011, the Company recognized net income of \$2.8 million and net income attributable to QCR Holdings, Inc. of \$2.7 million, which excludes the net income attributable to noncontrolling interests of \$98 thousand. After preferred stock dividends and discount accretion of \$1.0 million, the Company reported net income attributable to common stockholders of \$1.6 million, or diluted earnings per common share of \$0.34.

For the six months ended June 30, 2012, the Company reported net income of \$6.7 million, and net income attributable to QCR Holdings, Inc. of \$6.3 million, which excludes the net income attributable to noncontrolling interests of \$367 thousand. After preferred stock dividends of \$1.9 million, the Company reported net income attributable to common stockholders of \$4.4 million, or diluted earnings per common share of \$0.91. For the same period in 2011, the Company recognized net income of \$5.0 million and net income attributable to QCR Holdings, Inc. of \$4.8 million, which excludes the net income attributable to noncontrolling interests of \$204 thousand. After preferred stock dividends and discount accretion of \$2.1 million, the Company reported net income attributable to common stockholders of \$2.7 million, or diluted earnings per common share of \$0.57.

Following is a table that represents the various net income measurements for the three and six months ended June 30, 2012 and 2011, respectively.

| | For the three months ended | | For the six months ended | |
|---|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Net income | \$ 3,273,379 | \$ 2,773,214 | \$ 6,676,228 | \$ 5,004,698 |
| Less: Net income attributable to noncontrolling interests | 201,223 | 98,245 | 367,254 | 204,769 |
| Net income attributable to QCR Holdings, Inc. | \$ 3,072,156 | \$ 2,674,969 | \$ 6,308,974 | \$ 4,799,929 |
| Less: Preferred stock dividends and discount accretion | 935,786 | 1,035,742 | 1,874,411 | 2,068,113 |
| Net income attributable to QCR Holdings, Inc. common stockholders | \$ 2,136,370 | \$ 1,639,227 | \$ 4,434,563 | \$ 2,731,816 |
| Diluted earnings per common share | \$ 0.44 | \$ 0.34 | \$ 0.91 | \$ 0.57 |
| Weighted average common and common equivalent shares outstanding | 4,901,853 | 4,873,978 | 4,867,628 | 4,778,848 |

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

| | For the three months ended | | | For the six months ended | |
|------------------------------------|----------------------------|-------------------|---------------|--------------------------|---------------|
| | June 30, 2012 | March 31, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Net interest income | \$ 14,515,493 | \$ 14,203,453 | \$ 13,951,055 | \$ 28,718,946 | \$ 26,159,857 |
| Provision for loan/lease losses | (1,048,469) | (780,446) | (1,672,221) | (1,828,915) | (2,739,885) |
| Noninterest income | 4,067,509 | 3,956,878 | 4,173,381 | 8,024,387 | 9,230,505 |
| Noninterest expense | (13,109,083) | (12,738,080) | (12,555,547) | (25,847,163) | (25,567,818) |
| Federal and state income tax | (1,152,071) | (1,238,956) | (1,123,454) | (2,391,027) | (2,077,961) |
| Net income | \$ 3,273,379 | \$ 3,402,849 | \$ 2,773,214 | \$ 6,676,228 | \$ 5,004,698 |

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Item 2

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

NET INTEREST INCOME

Net interest income, on a tax equivalent basis, increased \$701 thousand, or 5%, to \$14.8 million for the quarter ended June 30, 2012, from \$14.1 million for the same period of 2011. The increase in net interest income was driven primarily by reduced interest expense. This was the result of continued reductions in the cost of deposits as well as growth in noninterest bearing deposits, which funded the earning asset growth and allowed the level of interest-bearing funding to remain relatively flat. Interest income was relatively flat as growth in loans and securities was effectively offset by continued decline in yields.

A comparison of yields, spread and margin from the second quarter of 2012 to the second quarter of 2011 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 32 basis points.
- The average cost of interest-bearing liabilities decreased 26 basis points.
- The net interest spread declined 6 basis points from 2.90% to 2.84%.
- The net interest margin declined 5 basis points from 3.21% to 3.16%.

Net interest income, on a tax equivalent basis, increased \$2.8 million, or 10%, to \$29.2 million for the first six months of 2012, from \$26.4 million for the same period of 2011. The growth was primarily a function of reductions in the rates paid on all interest-bearing liabilities with most of the impact from declining cost of deposits. Secondly, interest income grew as growth in loans and securities more than offset the decline in yields.

A comparison of yields, spread and margin from the first half of 2012 to the first half of 2011 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 17 basis points.
- The average cost of interest-bearing liabilities decreased 31 basis points.
- The net interest spread improved 14 basis points from 2.66% to 2.80%.
- The net interest margin improved 14 basis points from 2.99% to 3.13%.

The Company's management closely monitors and manages net interest margin. From a profitability standpoint, an important challenge for the Company's subsidiary banks and majority-owned leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing and other balance sheet management strategies. Over the past two years, the Company's management has emphasized improving its funding mix by reducing its reliance on wholesale funding which tends to be at a higher cost than deposits. In addition, with loan growth continuing to be modest, the Company's management has focused on growing and diversifying its securities portfolio.

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

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 June 30, | | | | | |
|---|-------------------------------------|---------------------------------------|-----------------------------|---------------------|---------------------------------------|-----------------------------|
| | Average Balance | 2012 Interest Earned or Paid | Average Yield or Cost | Average Balance | 2011 Interest Earned or Paid | Average Yield or Cost |
| (dollars in thousands) | | | | | | |
| ASSETS | | | | | | |
| Interest earning assets: | | | | | | |
| Federal funds sold | \$ - | \$ - | 0.00 % | \$ 37,408 | \$ 24 | 0.26 % |
| Interest-bearing deposits at financial institutions | 36,478 | 92 | 1.01 % | 27,510 | 103 | 1.50 % |
| Investment securities (1) | 615,089 | 3,569 | 2.33 % | 503,583 | 3,209 | 2.55 % |
| Restricted investment securities | 15,282 | 165 | 4.34 % | 15,465 | 138 | 3.57 % |
| Gross loans/leases receivable (2) (3) (4) | 1,211,595 | 15,973 | 5.30 % | 1,170,682 | 16,516 | 5.64 % |
| Total interest earning assets | \$ 1,878,444 | 19,799 | 4.24 % | \$ 1,754,648 | 19,990 | 4.56 % |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | \$ 39,896 | | | \$ 43,598 | | |
| Premises and equipment | 31,529 | | | 30,684 | | |
| Less allowance for estimated losses on loans/leases | (19,183) | | | (19,736) | | |
| Other | 74,938 | | | 73,058 | | |
| Total assets | \$ 2,005,624 | | | \$ 1,882,252 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing demand deposits | \$ 490,270 | 716 | 0.59 % | \$ 503,030 | 1,006 | 0.80 % |

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| | | | | | | |
|--|--------------|-----------|--------|--------------|-----------|--------|
| Savings deposits | 42,448 | 6 | 0.06 % | 38,426 | 16 | 0.17 % |
| Time deposits | 354,285 | 908 | 1.03 % | 362,254 | 1,300 | 1.44 % |
| Short-term borrowings | 179,979 | 77 | 0.17 % | 131,253 | 69 | 0.21 % |
| Federal Home Loan | | | | | | |
| Bank advances | 205,162 | 1,829 | 3.59 % | 209,889 | 1,978 | 3.77 % |
| Junior subordinated | | | | | | |
| debentures | 36,085 | 259 | 2.89 % | 36,085 | 252 | 2.79 % |
| Other borrowings (4) | 136,648 | 1,224 | 3.60 % | 141,486 | 1,290 | 3.65 % |
| Total interest-bearing liabilities | | | | | | |
| | \$ 1,444,877 | 5,019 | 1.40 % | \$ 1,422,423 | 5,911 | 1.66 % |
| Noninterest-bearing demand deposits | | | | | | |
| | \$ 391,475 | | | \$ 301,155 | | |
| Other noninterest-bearing liabilities | | | | | | |
| | 25,331 | | | 24,131 | | |
| Total liabilities | \$ 1,861,683 | | | \$ 1,747,709 | | |
| Stockholders' equity | | | | | | |
| | 143,941 | | | 134,543 | | |
| Total liabilities and stockholders' equity | | | | | | |
| | \$ 2,005,624 | | | \$ 1,882,252 | | |
| Net interest income | | | | | | |
| | | \$ 14,780 | | | \$ 14,079 | |
| Net interest spread | | | | | | |
| | | | 2.84 % | | | 2.90 % |
| Net interest margin | | | | | | |
| | | | 3.16 % | | | 3.21 % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | | | | | | |
| | 130.01 % | | | 123.36 % | | |

- (1) Interest earned and yields on nontaxable investment securities are determined on a tax equivalent basis using a 34% tax rate for each period presented.
- (2) Loan/lease fees are not material and are included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.
- (3) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.
- (4) In accordance with ASC 860, effective January 1, 2010, the Company accounts for some participations sold, including sales of SBA-guaranteed portions of loans during the recourse period, as secured borrowings. As such, these amounts are included in the average balance for gross loans/leases receivable and other borrowings. For the three months ended June 30, 2012 and 2011, this totaled \$0.0 million and \$1.3 million, respectively. During the second quarter of 2011, SBA removed the recourse provision for sales which allowed for sale accounting treatment at the time of sale; thus, the decline in average balance.

Part I
Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continuedAnalysis of Changes of Interest Income/Interest Expense
For the three months ended June 30, 2012

| | Inc./(Dec.) from Prior Period | Components of Change (1) | |
|---|--|-----------------------------|-----------------|
| | | Rate 2012 vs. 2011 | Volume |
| (dollars in thousands) | | | |
| INTEREST INCOME | | | |
| Federal funds sold | \$ (24) | \$ (12) | \$ (12) |
| Interest-bearing deposits at financial institutions | (11) | (139) | 128 |
| Investment securities (2) | 360 | (1,470) | 1,830 |
| Restricted investment securities | 27 | 39 | (12) |
| Gross loans/leases receivable (3) (4) (5) | (543) | (3,269) | 2,726 |
| Total change in interest income | \$ (191) | \$ (4,851) | \$ 4,660 |
| INTEREST EXPENSE | | | |
| Interest-bearing demand deposits | \$ (290) | \$ (265) | \$ (25) |
| Savings deposits | (10) | (21) | 11 |
| Time deposits | (392) | (364) | (28) |
| Short-term borrowings | 8 | (64) | 72 |
| Federal Home Loan Bank advances | (149) | (102) | (47) |
| Junior subordinated debentures | 7 | 7 | - |
| Other borrowings (5) | (66) | (17) | (49) |
| Total change in interest expense | \$ (892) | \$ (826) | \$ (66) |
| Total change in net interest income | \$ 701 | \$ (4,025) | \$ 4,726 |

- (1) The column "Inc./(Dec.) from Prior Period" is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume
- (2) Interest earned and yields on nontaxable investment securities are determined on a tax equivalent basis using a 34% tax rate for each period presented.
- (3) Loan/lease fees are not material and are included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.
- (4) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

(5) In accordance with ASC 860, effective January 1, 2010, the Company accounts for some participations sold, including sales of SBA-guaranteed portions of loans during the recourse period, as secured borrowings. As such, these amounts are included in the average balance for gross loans/leases receivable and other borrowings. For the three months ended June 30, 2012 and 2011, this totaled \$0.0 million and \$1.3 million, respectively. During the second quarter of 2011, SBA removed the recourse provision for sales which allowed sale accounting treatment at the time of sale; thus, the decline in average balance.

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| | For the six months ended June 30, | | | | | | |
|--|-----------------------------------|---------------------------------------|-----------------------------|----------------------|---------------------------------------|-----------------------------|----------|
| | Average Balance | 2012 Interest Earned or Paid | Average Yield or Cost | Average Balance | 2011 Interest Earned or Paid | Average Yield or Cost | |
| (dollars in thousands) | | | | | | | |
| ASSETS | | | | | | | |
| Interest earning assets: | | | | | | | |
| Federal funds sold | \$- | \$- | 0.00 | % \$78,941 | \$90 | 0.23 | % |
| Interest-bearing deposits at financial institutions | 60,423 | 213 | 0.71 | % 33,424 | 214 | 1.28 | % |
| Investment securities (1) | 595,810 | 6,959 | 2.35 | % 475,467 | 5,903 | 2.48 | % |
| Restricted investment securities | 15,281 | 246 | 3.24 | % 15,862 | 301 | 3.80 | % |
| Gross loans/leases receivable (2) (3) (4) | 1,204,821 | 31,944 | 5.33 | % 1,161,839 | 32,251 | 5.55 | % |
| Total interest earning assets | 1,876,334 | 39,362 | 4.22 | % \$1,765,533 | 38,759 | 4.39 | % |
| Noninterest-earning assets: | | | | | | | |
| Cash and due from banks | \$40,459 | | | \$41,141 | | | |
| Premises and equipment | 31,600 | | | 30,821 | | | |
| Less allowance for estimated losses on loans/leases | (19,047) | | | (20,122) | | | |
| Other | 75,838 | | | 69,680 | | | |
| Total assets | \$2,005,183 | | | \$1,887,053 | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | | |
| Interest-bearing liabilities: | | | | | | | |
| Interest-bearing demand | | | | | | | |
| deposits | \$495,252 | 1,452 | 0.59 | % \$489,192 | 1,976 | 0.81 | % |
| Savings deposits | 41,725 | 13 | 0.06 | % 37,501 | 31 | 0.17 | % |
| Time deposits | 350,043 | 1,880 | 1.08 | % 365,477 | 2,740 | 1.50 | % |
| Short-term borrowings | 179,480 | 142 | 0.16 | % 137,895 | 182 | 0.26 | % |
| Federal Home Loan Bank advances | 205,650 | 3,693 | 3.61 | % 217,891 | 4,122 | 3.78 | % |
| Junior subordinated debentures | 36,085 | 527 | 2.94 | % 36,085 | 733 | 4.06 | % |
| Other borrowings (4) | 136,273 | 2,482 | 3.66 | % 145,039 | 2,569 | 3.54 | % |
| Total interest-bearing liabilities | 1,444,507 | 10,189 | 1.42 | % \$1,429,080 | 12,353 | 1.73 | % |

| | | | | |
|--|-----------|----------|-------------|----------|
| Noninterest-bearing demand deposits | 390,021 | | \$297,220 | |
| Other noninterest-bearing liabilities | 26,046 | | 27,833 | |
| Total liabilities | 1,860,574 | | \$1,754,133 | |
| Stockholders' equity | 143,882 | | 132,920 | |
| Total liabilities and stockholders' equity | 2,004,456 | | \$1,887,053 | |
| Net interest income | | \$29,173 | | \$26,406 |
| Net interest spread | | 2.80 | % | 2.66 |
| | | | | % |
| Net interest margin | | 3.13 | % | 2.99 |
| | | | | % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 129.89 | % | 123.54 | % |

- (1) Interest earned and yields on nontaxable investment securities are determined on a tax equivalent basis using a 34% tax rate for each period presented.
- (2) Loan/lease fees are not material and are included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.
- (3) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.
- (4) In accordance with ASC 860, effective January 1, 2010, the Company accounts for some participations sold, including sales of SBA-guaranteed portions of loans during the recourse period, as secured borrowings. As such, these amounts are included in the average balance for gross loans/leases receivable and other borrowings. For the six months ended June 30, 2012 and 2011, this totaled \$0.0 million and \$4.9 million, respectively. During the second quarter of 2011, SBA removed the recourse provision for sales which allowed for sale accounting treatment at the time of sale; thus, the decline in average balance.

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For the six months ended June 30, 2012

| | Inc./(Dec.) from Prior Period | Components of Change (1) | |
|---|--|-----------------------------|------------------|
| | | Rate 2012 vs. 2011 | Volume |
| (dollars in thousands) | | | |
| INTEREST INCOME | | | |
| Federal funds sold | \$ (90) | \$ (45) | \$ (45) |
| Interest-bearing deposits at financial institutions | (1) | (246) | 245 |
| Investment securities (2) | 1,056 | (866) | 1,922 |
| Restricted investment securities | (55) | (44) | (11) |
| Gross loans/leases receivable (3) (4) (5) | (307) | (2,626) | 2,319 |
| Total change in interest income | \$603 | \$ (3,827) | \$4,430 |
| INTEREST EXPENSE | | | |
| Interest-bearing demand deposits | \$ (524) | \$ (595) | \$71 |
| Savings deposits | (18) | (27) | 9 |
| Time deposits | (860) | (747) | (113) |
| Short-term borrowings | (40) | (148) | 108 |
| Federal Home Loan Bank advances | (429) | (192) | (237) |
| Junior subordinated debentures | (206) | (206) | - |
| Other borrowings (5) | (87) | 192 | (279) |
| Total change in interest expense | \$ (2,164) | \$ (1,723) | \$ (441) |
| Total change in net interest income | \$2,767 | \$ (2,104) | \$4,871 |

(1) The column "Inc./(Dec.) from Prior Period" is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

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

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

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

(5) In accordance with ASC 860, effective January 1, 2010, the Company accounts for some participations sold, including sales of SBA-guaranteed portions of loans during the recourse period, as secured borrowings. As such, these amounts are included in the average balance for gross loans/leases receivable and other borrowings. For the three months ended June 30, 2012 and 2011, this totaled \$0.0 million and \$4.9 million, respectively. During the second quarter of 2011, SBA removed the recourse provision for sales which allowed sale accounting treatment at the time of sale; thus, the decline in average balance.

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CRITICAL ACCOUNTING POLICIES

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

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for estimated losses on loans/leases. The Company's allowance for estimated losses on loans/leases methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for estimated losses on loans/leases that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans/leases, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest, and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. Management may report a materially different amount for the provision for loan/lease losses in the statement of operations to change the allowance for estimated losses on loans/leases if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion in the section entitled "Financial Condition" of this Management's Discussion and Analysis that discusses the allowance for estimated losses on loans/leases. Although management believes the level of the allowance as of June 30, 2012 is adequate to absorb losses inherent in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

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

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RESULTS OF OPERATIONS

INTEREST INCOME

Interest income fell 2% comparing the second quarter of 2012 to the second quarter of 2011. The effect of declines in yield more than offset the growth in loans/leases and securities. Specifically, over the year, the average balance for loans/leases grew \$40.9 million, or 3%, while yields declined 34 basis points. As deposit growth continues to outpace loan growth, the Company has focused on growing and diversifying its securities portfolio, including increasing its portfolio of agency-sponsored mortgage-backed securities as well as municipal securities. Of the latter, the large majority are located in or near our existing markets with strong underwriting conducted before investment. Over the year, the average balance for securities grew \$111.5 million, or 22%, while yields declined 22 basis points. With the extended historical low interest rate environment, management's execution on diversification of the securities portfolio has helped limit the yield decline with only modest duration extension.

For the first half of 2012, interest income grew 1% compared to the first half of 2011. Growth and diversification of the securities portfolio (average balances grew \$120.3 million, or 25%) more than offset the effect of declining yields (decline of 13 basis points year over year). The impact of loan growth (average balances grew \$43.0 million, or 4%) fell short of the effect of declining yields (decline of 22 basis points year over year) leading to a net decline in interest income on loans.

Management understands the importance of quality, well-priced loan/lease growth and has worked hard to grow assets in a prudent and sustainable manner.

INTEREST EXPENSE

Interest expense for the second quarter of 2012 declined \$892 thousand, or 15%, from the second quarter of 2011, and declined \$2.2 million, or 18%, comparing the first half of 2012 to the same period of 2011. As the Company continues to grow noninterest bearing deposits, this has provided management increased flexibility to decrease pricing on its interest-bearing deposits. Also contributing to the decline in interest expense, the Company has been successful in decreasing the cost of borrowings. Management has placed a strong focus on reducing the reliance on wholesale funding as it tends to be higher cost than deposits. In recent years, the majority of maturing wholesale funds have not been replaced, or, to a lesser extent, have been replaced at significantly reduced cost. In addition, management executed on three separate strategies during 2011 and 2012 which strongly contributed to the declining borrowing costs:

1. During the first quarter of 2011, QCBT utilized excess liquidity and prepaid \$15.0 million of FHLB advances with a weighted average interest rate of 4.87% and a weighted average maturity of May 2012.
2. The Company modified \$33.4 million (\$20.4 million in first quarter of 2011 and \$13.0 million in the fourth quarter of 2011) of fixed rate FHLB advances into new fixed rate FHLB advances at significantly reduced interest rates and extended maturities.
3. During the second quarter of 2012, the Company modified \$25.0 million of fixed rate wholesale structured repurchase agreements ("structured repos") into new fixed rate structured repos at significantly reduced interest rates and extended maturities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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PROVISION FOR LOAN/LEASE LOSSES

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

The Company's provision for loan/lease losses totaled \$1.0 million for the second quarter of 2012, a decline of \$624 thousand over the second quarter of 2011. For the first half of 2012, the Company's provision totaled \$1.8 million, which is a decline of \$911 thousand over the first half of 2011. The declines were the result of the following:

- The Company continued to experience improving loan quality as evidenced by the declining trend in the level of classified and criticized loans (see table and further discussion in the "Financial Condition" section).
- The Company's nonperforming loans/leases continued to decline and the mix of these loans/leases continued to improve. Nonaccrual loans/leases declined from \$23.3 million at June 30, 2011 to \$16.3 million at June 30, 2012; while accruing TDRs grew \$6.3 million over that same time period. Generally, nonaccrual loans/leases have a greater risk of loss and require more reserves than accruing TDRs.
- The Company experienced modest growth and a slight shift in mix in its loan/lease portfolio. Specifically, loans/leases grew \$28.7 million, or 2%, since June 30, 2011. With commercial loans relatively flat, most of the growth was in residential real estate loans and direct financing leases, which have smaller average balances and are historically less risky than the Company's commercial loan portfolio.

With net charge-offs for the second quarter totaling \$1.3 million more than offsetting the provision for loan/lease losses of \$1.0 million, the Company's allowance for estimated losses on loan/lease losses to total loans/leases declined slightly to 1.54% at June 30, 2012 from 1.56% at December 31, 2011. A more detailed discussion of the Company's allowance for estimated losses on loans/leases can be found in the "Financial Condition" section of this report.

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NONINTEREST INCOME

The following tables set forth the various categories of noninterest income for the three and six months ended June 30, 2012 and 2011.

| | Three Months Ended | | \$ Change | % Change |
|---|--------------------|---------------|--------------|----------|
| | June 30, 2012 | June 30, 2011 | | |
| Trust department fees | \$852,234 | \$894,733 | \$(42,499) | (4.7)% |
| Investment advisory and management fees, gross | 679,326 | 550,243 | 129,083 | 23.5 |
| Deposit service fees | 875,073 | 856,661 | 18,412 | 2.1 |
| Gains on sales of loans, net | 882,321 | 755,128 | 127,193 | 16.8 |
| Securities gains | 104,600 | 148,602 | (44,002) | (29.6) |
| Losses on sales of other real estate owned, net | (389,465) | (107,656) | (281,809) | 261.8 |
| Earnings on bank-owned life insurance | 358,660 | 356,642 | 2,018 | 0.6 |
| Credit card fees, net of processing costs | 142,173 | 77,336 | 64,837 | 83.8 |
| Other | 562,587 | 641,692 | (79,105) | (12.3) |
| | \$4,067,509 | \$4,173,381 | \$(105,872) | (2.5)% |

| | Six Months Ended | | \$ Change | % Change |
|---|------------------|---------------|---------------|----------|
| | June 30, 2012 | June 30, 2011 | | |
| Trust department fees | \$1,735,966 | \$1,845,535 | \$(109,569) | (5.9)% |
| Investment advisory and management fees, gross | 1,200,788 | 1,081,461 | 119,327 | 11.0 |
| Deposit service fees | 1,779,479 | 1,729,333 | 50,146 | 2.9 |
| Gains on sales of loans, net | 1,281,411 | 1,514,821 | (233,410) | (15.4) |
| Securities gains | 104,600 | 1,028,914 | (924,314) | (89.8) |
| Losses on sales of other real estate owned, net | (578,669) | (132,754) | (445,915) | 335.9 |
| Earnings on bank-owned life insurance | 797,062 | 701,053 | 96,009 | 13.7 |
| Credit card fees, net of processing costs | 269,188 | 218,496 | 50,692 | 23.2 |
| Other | 1,434,562 | 1,243,646 | 190,916 | 15.4 |
| | \$8,024,387 | \$9,230,505 | \$(1,206,118) | (13.1)% |

Trust department fees continue to be a significant contributor to noninterest income. Trust department fees declined 5% from the second quarter of 2011 to the second quarter of 2012, and declined 6% for the first half of 2012 compared to the same period of 2011. The majority of the trust department fees are determined based on the value of the investments within the managed trusts. As markets have experienced volatility with the national economy's recovery from recession, the Company's fee income has experienced similar volatility and fluctuation. In recent years, the Company has been successful in expanding its customer base which has helped to offset some of the volatility and limit the recent declines.

In recent years, the Company has placed a stronger emphasis on growing its investment advisory and management services. Fee income for investment advisory and management services grew 24% comparing second quarter of 2012 to the same period of 2011, and grew 11% year over year. Similar to trust department fees, these fees are largely determined based on the value of the investments managed. Continued expansion of the customer base coupled with several larger customer transactions in the second quarter more than offset the impact of market volatility.

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As management understands the importance of growing fee income, expanding market share in trust and investment advisory services will continue to be a primary strategic focus.

Deposit service fees have increased over the past several years. The Company has placed an emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits. With this shift in mix, the Company has increased the number of demand deposit accounts which tend to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to focus on growing deposit service fees.

Gains on sales of loans, net, consists of sales of residential mortgages and the government guaranteed portions of small business loans. Following is the breakdown of the gains recognized for these types of sales for the three and six months ended June 30, 2012 and 2011.

| | For the three months ended | | For the six months ended | |
|---|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Gains on sales of residential mortgages | \$ 271,333 | \$ 164,305 | \$ 562,765 | \$ 296,534 |
| Gains on sales of government guaranteed portions of loans | 610,988 | 590,823 | 718,646 | 1,218,287 |
| | \$ 882,321 | \$ 755,128 | \$ 1,281,411 | \$ 1,514,821 |

Regarding sales of residential mortgages, growth is the result of a slow and steady recovery with increased buying and selling activity as well as an increase in refinancing activity. The latter is the result of continued flattening of the yield curve driving mortgage rates downward and allowing opportunities for additional refinancing. Sales activity for government guaranteed portions of loans tends to fluctuate depending on the demand for small business loans that fit the criteria for the government guarantee. Further, some of the transactions can be large and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can be large. Lastly, a strategy for improved pricing is packaging loans together for sale. From time to time, the Company may execute on this strategy, which may delay the gains on sales of some loans to achieve better pricing. Despite the fluctuation, the Company will continue to focus on growing small business lending and selling the government guaranteed portion as it continues to be beneficial.

During the first quarter of 2011, in an effort to offset the \$832 thousand of fees for prepaying \$15.0 million of FHLB advances, QCBT sold \$37.4 million of government agency securities for a pre-tax gain totaling \$880 thousand.

The Company incurred increased writedowns of existing other real estate owned as the result of further declines in appraised values. Two properties contributed to the majority of the writedowns in the second quarter of 2012. Management continues to proactively manage its other real estate owned portfolio in an effort to sell timely at minimum loss.

Included in 'other' noninterest income, CRBT recognized \$207 thousand of fee income for the execution of interest rate swaps related to two commercial loans during the first quarter of 2012. The interest rate swaps allow the commercial borrowers to pay a fixed interest rate while CRBT receives a variable interest rate. Management believes that these swaps help position CRBT more favorably for rising rate environments.

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NONINTEREST EXPENSE

The following table sets forth the various categories of noninterest expense for the three and six months ended June 30, 2012 and 2011.

| | Three Months Ended | | \$ Change | % Change | |
|--|--------------------|------------------|-------------|----------|---|
| | June 30, 2012 | June 30, 2011 | | | |
| Salaries and employee benefits | \$8,255,639 | \$7,355,533 | \$900,106 | 12.2 | % |
| Occupancy and equipment expense | 1,364,912 | 1,368,293 | (3,381) | (0.2 |) |
| Professional and data processing fees | 1,126,877 | 1,136,978 | (10,101) | (0.9 |) |
| FDIC and other insurance | 576,215 | 687,587 | (111,372) | (16.2 |) |
| Loan/lease expense | 263,166 | 656,069 | (392,903) | (59.9 |) |
| Advertising and marketing | 344,100 | 334,354 | 9,746 | 2.9 | |
| Postage and telephone | 236,942 | 231,515 | 5,427 | 2.3 | |
| Stationery and supplies | 135,211 | 123,529 | 11,682 | 9.5 | |
| Bank service charges | 198,492 | 177,478 | 21,014 | 11.8 | |
| Other-than-temporary impairment losses on securities | 62,400 | 118,847 | (56,447) | (47.5 |) |
| Other | 545,129 | 365,364 | 179,765 | 49.2 | |
| | \$13,109,083 | \$12,555,547 | \$553,536 | 4.4 | % |
| | | | | | |
| | Six Months Ended | | \$ Change | % Change | |
| | June 30, 2012 | June 30, 2011 | | | |
| Salaries and employee benefits | \$16,380,319 | \$14,829,036 | \$1,551,283 | 10.5 | % |
| Occupancy and equipment expense | 2,717,175 | 2,657,748 | 59,427 | 2.2 | |
| Professional and data processing fees | 2,277,067 | 2,261,500 | 15,567 | 0.7 | |
| FDIC and other insurance | 1,157,071 | 1,570,317 | (413,246) | (26.3 |) |
| Loan/lease expense | 481,900 | 932,297 | (450,397) | (48.3 |) |
| Advertising and marketing | 620,116 | 559,083 | 61,033 | 10.9 | |
| Postage and telephone | 525,182 | 461,700 | 63,482 | 13.7 | |
| Stationery and supplies | 278,177 | 258,172 | 20,005 | 7.7 | |
| Bank service charges | 398,221 | 338,656 | 59,565 | 17.6 | |
| Prepayment fees on Federal Home Loan Bank advances | - | 832,099 | (832,099) | (100.0 |) |
| Other-than-temporary impairment losses on securities | 62,400 | 118,847 | (56,447) | (47.5 |) |
| Other | 949,535 | 748,363 | 201,172 | 26.9 | |
| | \$25,847,163 | \$25,567,818 | \$279,345 | 1.1 | % |

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Salaries and employee benefits, which is the largest component of noninterest expense, increased from prior year. This increase is largely the result of:

- Customary annual salary and benefits increases for the majority of the Company's employee base in 2012.
- Continued increases in health insurance-related employee benefits for the majority of the Company's employee base.
 - Higher accrued incentive compensation based on improved performance for the first half of 2012.
- An increase in the Company's employee base as full-time equivalents increased from 352 at June 30, 2011 to 359 at June 30, 2012. Specifically, the Company added four business development officers (three in the Wealth Management division and one in the Correspondent Banking division) in an effort to continue to grow market share.

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

Loan/lease expense declined significantly in the first half of 2012. Generally, loan/lease expense has a direct relationship with the level of nonperforming loans/leases. Over the past several quarters, the Company has been successful in resolving several nonperforming loans that incurred significant recurring costs.

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

In an effort to utilize some of its excess liquidity and improve net interest margin by eliminating some of its higher cost wholesale funding, QCBT prepaid \$15.0 million of FHLB advances during the first quarter of 2011. As a result, QCBT incurred a prepayment fee totaling \$832 thousand. To offset these fees, QCBT sold \$37.4 million of government sponsored agency securities for a pre-tax gain totaling \$880 thousand.

INCOME TAXES

The provision for income taxes totaled \$1.2 million, or an effective tax rate of 26%, for the second quarter of 2012 compared to \$1.1 million, or an effective tax rate of 29%, for the same quarter in 2011. For the first half of 2012, the provision for income taxes totaled \$2.4 million, or an effective tax rate of 26%, compared to \$2.1 million, or an effective tax rate of 29%, for the first half of 2011. The increases in provision for income taxes are the result of growth in income before taxes which is discussed previously throughout this Management's Discussion and Analysis. Regarding the declines in the effective tax rates, this is primarily the result of the following:

- The continued application of tax credits that were acquired in the third quarter of 2011.
- The increase in tax-exempt municipal securities during the first half of 2012, which, in turn, resulted in an increase in nontaxable income. Specifically, the Company grew its municipal securities portfolio from \$25.7 million at December 31, 2011 to \$81.1 million at June 30, 2012.

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FINANCIAL CONDITION

Following is a table that represents the major categories of the Company's balance sheet.

| | June 30, 2012 | | As of December 31, 2011 | | June 30, 2011 | |
|---|---------------|-------|----------------------------|-------|---------------|-------|
| | Amount | % | Amount | % | Amount | % |
| (dollars in thousands) | | | | | | |
| Cash, federal funds sold, and interest-bearing deposits | \$ 83,717 | 4 % | \$ 100,673 | 5 % | \$ 80,374 | 4 % |
| Securities | 638,838 | 31 % | 565,229 | 29 % | 513,905 | 27 % |
| Net loans/leases | 1,194,579 | 58 % | 1,181,956 | 60 % | 1,164,091 | 62 % |
| Other assets | 126,292 | 7 % | 118,752 | 6 % | 120,118 | 7 % |
| Total assets | \$ 2,043,426 | 100 % | \$ 1,966,610 | 100 % | \$ 1,878,488 | 100 % |
| Total deposits | \$ 1,315,470 | 64 % | \$ 1,205,458 | 61 % | \$ 1,214,314 | 65 % |
| Total borrowings | 563,470 | 28 % | 590,603 | 30 % | 504,146 | 27 % |
| Other liabilities | 25,164 | 1 % | 26,116 | 1 % | 22,703 | 1 % |
| Total stockholders' equity | 139,322 | 7 % | 144,433 | 8 % | 137,325 | 7 % |
| Total liabilities and stockholders' equity | \$ 2,043,426 | 100 % | \$ 1,966,610 | 100 % | \$ 1,878,488 | 100 % |

During the first half of 2012, the Company's total assets increased \$76.8 million, or 4%, to a total of \$2.04 billion. This marks the first quarter end the Company has exceeded \$2.0 billion in total assets. The Company continued to grow its securities portfolio with an increase of \$73.6 million, or 13%, during the first six months of 2012. Additionally, the Company experienced net growth of loan/leases in the amount of \$12.6 million, or 1%, over the first half of 2012. The growth was partially offset by a decline in federal funds sold and interest-bearing deposits at financial institutions as the Company invested some of its excess liquidity. The net increase in assets during the first half of 2012 was funded by strong and continued growth of the Company's deposit portfolio as balances grew \$110.0 million, or 9%.

The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on asset-liability position and maximizing return. With the strong growth in deposits and the continued weak loan demand, the Company has grown and diversified its securities portfolio, including increasing the portfolio of agency-sponsored mortgage-backed securities as well as more than tripling the portfolio of municipal securities. Of the latter, the large majority are located in or near the Company's existing markets and require a thorough underwriting process before investment. Thus far, this diversification has led to only modest extension of duration on the

portfolio. As the portfolio has grown over the recent years, management has elevated its focus on maximizing return while minimizing credit and interest rate risk.

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

Following is a breakdown of the Company's securities portfolio by type:

| | June 30, 2012 | | As of December 31, 2011 | | | | June 30, 2011 | |
|--|------------------------|-------|----------------------------|-------|------------|-------|---------------|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | (dollars in thousands) | | | | | | | |
| U.S. govt. sponsored agency securities | \$ 389,600 | 61 % | \$ 428,955 | 76 % | \$ 403,766 | 79 % | | |
| Residential mortgage-backed and related securities | 165,827 | 26 % | 108,854 | 19 % | 82,038 | 16 % | | |
| Municipal securities | 81,072 | 13 % | 25,689 | 5 % | 26,200 | 5 % | | |
| Other securities, including held-to-maturity | 2,339 | 0 % | 1,731 | 0 % | 1,901 | 0 % | | |
| | \$ 638,838 | 100 % | \$ 565,229 | 100 % | \$ 513,905 | 100 % | | |

The Company has not invested in commercial mortgage-backed securities or pooled trust preferred securities.

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

Total loans/leases grew slightly in the second quarter of 2012, and grew \$12.6 million, or 1%, during the first half of 2012. Although the growth continues to be modest, this marked the fifth consecutive quarter of net loan/lease growth. The mix of the loan/lease types within the Company's loan/lease portfolio is presented in the following table.

| | June 30, 2012 | | As of December 31, 2011 | | | | June 30, 2011 | |
|--------------------------------------|------------------------|------|----------------------------|------|------------|------|---------------|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | (dollars in thousands) | | | | | | | |
| Commercial and industrial loans | \$ 350,780 | 29 % | \$ 350,794 | 29 % | \$ 368,565 | 31 % | | |
| Commercial real estate loans | 576,287 | 48 % | 577,804 | 48 % | 559,777 | 47 % | | |
| Direct financing leases | 98,568 | 8 % | 93,212 | 8 % | 85,564 | 7 % | | |
| Residential real estate loans | 107,450 | 9 % | 98,107 | 8 % | 86,059 | 8 % | | |
| Installment and other consumer loans | 77,417 | 6 % | 78,223 | 7 % | 81,858 | 7 % | | |

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| | | | | | | |
|---|--------------|-------|--------------|-------|--------------|-------|
| Total loans/leases | \$ 1,210,502 | 100 % | \$ 1,198,140 | 100 % | \$ 1,181,823 | 100 % |
| Plus deferred loan/lease origination costs, net of fees | 2,802 | | 2,605 | | 2,071 | |
| Less allowance for estimated losses on loans/leases | (18,725) | | (18,789) | | (19,803) | |
| Net loans/leases | \$ 1,194,579 | | \$ 1,181,956 | | \$ 1,164,091 | |

Regarding the Company's levels of qualified small business lending as defined by the U.S. Treasury as part of the Company's participation in the Small Business Lending Fund ("SBLF"), see the discussion later in this section of the Management's Discussion and Analysis.

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Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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As commercial real estate loans are the largest portfolio segment, management places a strong emphasis on monitoring the composition of the Company's commercial real estate loan portfolio. Management tracks the level of owner-occupied commercial real estate loans versus non owner-occupied loans. Owner-occupied loans are generally considered to have less risk. As of June 30, 2012 and December 31, 2011, approximately 33% and 29%, respectively, of the commercial real estate loan portfolio was owner-occupied. The Company's commercial real estate portfolio declined slightly over the first half of 2012. Further, there was a favorable shift in mix as owner-occupied loans grew \$21.2 million, or 13%, while non owner-occupied loans (including commercial construction and land development) declined \$22.7 million, or 6%.

Following is a listing of significant industries within the Company's commercial real estate loan portfolio as of June 30, 2012 and December 31, 2011:

| | As of June 30, 2012 | | As of December 31, 2011 | |
|---|------------------------|--------------|----------------------------|--------------|
| | Amount | % | Amount | % |
| (dollars in thousands) | | | | |
| Lessors of Nonresidential Buildings | \$ 176,705 | 31 % | \$ 179,511 | 31 % |
| Lessors of Residential Buildings | 47,615 | 8 % | 50,029 | 9 % |
| Land Subdivision | 29,203 | 5 % | 33,252 | 6 % |
| Hotels | 26,748 | 5 % | 19,061 | 3 % |
| New Car Dealers | 23,961 | 4 % | 25,223 | 4 % |
| Lessors of Other Real Estate Property | 14,764 | 3 % | 15,830 | 3 % |
| Other * | 257,291 | 44 % | 254,898 | 44 % |
| Total Commercial Real Estate Loans | \$ 576,287 | 100 % | \$ 577,804 | 100 % |

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

The Company's residential real estate loan portfolio consists of the following:

- Certain loans that do not meet the criteria for sale into the secondary market. These are often structured as adjustable rate mortgages with maturities ranging from three to seven years to avoid the long-term interest rate risk.
 - A limited amount of 15-year fixed rate residential real estate loans that met certain credit guidelines.

The remaining residential real estate loans originated by the Company were sold on the secondary market to avoid the interest rate risk associated with longer term fixed rate loans. Loans originated for this purpose were classified as held for sale and are included in the residential real estate loans above. In addition, the Company has not originated any subprime, Alt-A, no documentation, or stated income residential real estate loans throughout its history.

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

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Item 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Changes in the allowance for estimated losses on loans/leases for the three and six months ended June 30, 2012 and 2011 are presented as follows:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Balance, beginning | \$ 19,006,644 | \$ 20,730,016 | \$ 18,789,262 | \$ 20,364,656 |
| Provisions charged to expense | 1,048,469 | 1,672,221 | 1,828,915 | 2,739,885 |
| Loans/leases charged off | (1,734,799) | (2,691,705) | (2,559,551) | (3,572,632) |
| Recoveries on loans/leases previously charged off | 404,221 | 92,100 | 665,909 | 270,723 |
| Balance, ending | \$ 18,724,535 | \$ 19,802,632 | \$ 18,724,535 | \$ 19,802,632 |

The allowance for estimated losses on loans/leases was \$18.7 million at June 30, 2012 compared to \$18.8 million at December 31, 2011 and \$19.8 million at June 30, 2011. The allowance for estimated losses on loans/leases was determined based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, past loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, governmental guarantees and other factors that, in management's judgment, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on a number of factors, including the increase/decrease in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed monthly with specific detailed reviews completed on all loans risk-rated worse than "fair quality" and carrying aggregate exposure in excess of \$100 thousand. The adequacy of the allowance for estimated losses on loans/leases is monitored by the loan review staff and reported to management and the board of directors.

The Company continued to strengthen its core loan portfolio as the levels of criticized and classified loans declined further in the second quarter of 2012, as reported in the following table.

| Internally Assigned Risk Rating * | June 30, | As of December | June 30, |
|-----------------------------------|------------------------|-------------------|------------|
| | 2012 | 31, 2011 | 2011 |
| | (dollars in thousands) | | |
| Special Mention (Rating 6) | \$ 21,337 | \$ 26,034 | \$ 41,393 |
| Substandard (Rating 7) | 52,030 | 62,712 | 70,169 |
| Doubtful (Rating 8) | - | - | 1,410 |
| | \$ 73,367 | \$ 88,746 | \$ 112,972 |
| Criticized Loans ** | \$ 73,367 | \$ 88,746 | \$ 112,972 |
| Classified Loans *** | \$ 52,030 | \$ 62,712 | \$ 71,579 |

* Amounts above include the government guaranteed portion, if any. For the calculation of allowance for estimated losses on loans/leases, the Company assigns internal risk ratings of Pass (Rating 2) for the government guaranteed portion.

** Criticized loans are defined as commercial and industrial and commercial real estate loans with internally assigned risk ratings of 6, 7, or 8, regardless of performance.

*** Classified loans are defined as commercial and industrial and commercial real estate loans with internally assigned risk ratings of 7 or 8, regardless of performance.

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The declining trend in criticized and classified loans over the past several quarters translated to a reduction in nonperforming loans/leases and that trend continued during the second quarter of 2012 as nonperforming loans/leases fell \$3.3 million, or 11%. Furthermore, nonperforming loans/leases have declined \$20.0 million, or 42%, from their peak at September 30, 2010. As a direct result, the level of allowance has declined. Notably, the decline in nonperforming loans/leases has outpaced the decline in allowance for estimated losses on loans/leases and strengthened the Company's ratio of allowance to nonperforming loans/leases. The following table summarizes the trend in allowance as a percentage of gross loans/leases and as a percentage of nonperforming loans/leases as of June 30, 2012, December 31, 2011, and December 31, 2010.

| | June 30, 2012 | | As of December 31, 2011 | | December 31, 2010 | |
|--|------------------|---|----------------------------------|---|-------------------------|---|
| Allowance / Gross Loans/Leases | 1.54 | % | 1.56 | % | 1.74 | % |
| Allowance / Nonperforming Loans/Leases * | 68.60 | % | 58.70 | % | 49.49 | % |

*Nonperforming loan/leases consist of nonaccrual loans/leases, accruing loans/leases past due 90 days or more, and accruing troubled debt restructurings.

Although management believes that the allowance for estimated losses on loans/leases at June 30, 2012 was at a level adequate to absorb losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require further increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks and leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

See Note 3 for additional information regarding the Company's allowance for estimated losses on loans/leases.

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The table below presents the amounts of nonperforming assets.

| | As of June 30, 2012 | As of December 31, 2011 | As of June 30, 2011 | As of December 31, 2010 |
|--|---------------------------|----------------------------------|---------------------------|----------------------------------|
| | (dollars in thousands) | | | |
| Nonaccrual loans/leases (1) (2) | \$16,247 | \$18,995 | \$23,295 | \$37,427 |
| Accruing loans/leases past due 90 days or more | 1,152 | 1,111 | 358 | 320 |
| Troubled debt restructures - accruing | 9,897 | 11,904 | 3,592 | 3,405 |
| Other real estate owned | 9,136 | 8,386 | 10,430 | 8,535 |
| Other repossessed assets | 25 | 109 | 194 | 366 |
| | \$36,457 | \$40,505 | \$37,869 | \$50,053 |
| Nonperforming loans/leases to total loans/leases | 2.25 | % 2.67 | % 2.30 | % 3.51 |
| Nonperforming assets to total loans/leases plus repossessed property | 2.98 | % 3.35 | % 3.17 | % 4.24 |
| Nonperforming assets to total assets | 1.78 | % 2.06 | % 2.02 | % 2.73 |
| Texas ratio (3) | 23.91 | % 25.58 | % 24.77 | % 33.57 |

(1) Includes government guaranteed portion of loan.

(2) Includes troubled debt restructurings of \$6.1 million at June 30, 2012, \$8.6 million at December 31, 2011, \$11.0 million at June 30, 2011, and \$12.6 million at December 31, 2010.

(3) Texas Ratio = Nonperforming Assets (excluding Other Repossessed Assets) / Tangible Equity plus Allowance for Estimated Losses on Loans/Leases. Texas Ratio is a non-GAAP financial measure. Management included this ratio as this is considered to be a critical metric with which to analyze and evaluate asset quality. Other companies may calculate this ratio differently.

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

Nonperforming assets at June 30, 2012 were \$36.5 million which is a decline of \$4.0 million, or 10%, from December 31, 2011. Further, nonperforming assets have declined \$22.9 million, or 39%, from their peak position of \$59.4 million at September 30, 2010. Most of the decline from December 31, 2011 was the result of charge-offs (\$2.5 million) and write-downs of other real estate owned (\$579 thousand), while the rest of the decline was due to improved performance.

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Deposits grew \$110.0 million, or 9%, during the first half of 2012. The table below presents the composition of the Company's deposit portfolio.

| | June 30, 2012 | | As of December 31, 2011 | | June 30, 2011 | |
|-------------------------------------|---------------|-------|----------------------------|-------|---------------|-------|
| | Amount | % | Amount | % | Amount | % |
| (dollars in thousands) | | | | | | |
| Noninterest bearing demand deposits | \$ 390,762 | 30 % | \$ 357,184 | 30 % | \$ 297,197 | 24 % |
| Interest bearing demand deposits | 555,804 | 42 % | 510,788 | 42 % | 538,869 | 44 % |
| Time deposits | 316,445 | 24 % | 292,575 | 24 % | 322,466 | 27 % |
| Brokered time deposits | 52,459 | 4 % | 44,911 | 4 % | 55,782 | 5 % |
| | \$ 1,315,470 | 100 % | \$ 1,205,458 | 100 % | \$ 1,214,314 | 100 % |

The Company has been successful in growing its noninterest bearing deposit portfolio over the past few years and this continued into the first half of 2012 with an increase of \$33.6 million, or 9%. Most of this growth continues to derive from QCBT's correspondent banking business. The continued strength of the noninterest bearing deposit portfolio has provided flexibility to manage down deposit pricing and reduce reliance on higher cost wholesale funds which has helped drive down the Company's interest expense.

The subsidiary banks offer short-term repurchase agreements to some of their significant customers. Also, the subsidiary banks purchase federal funds for short-term funding needs from the Federal Reserve Bank or from their correspondent banks. The table below presents the composition of the Company's short-term borrowings.

| | As of December 31, | | June 30, 2011 |
|--|-----------------------|-----------|---------------|
| | June 30, 2012 | 2011 | |
| (dollars in thousands) | | | |
| Overnight repurchase agreements with customers | \$105,249 | \$110,236 | \$93,065 |
| Federal funds purchased | 80,150 | 103,300 | 29,330 |
| | \$185,399 | \$213,536 | \$122,395 |

The Company's federal funds purchased position was temporarily elevated at December 31, 2011, as a result of short-term fluctuations in noninterest bearing correspondent deposit balances for several customers over the end of the year.

As a result of their memberships in either the FHLB of Des Moines or Chicago, the subsidiary banks have the ability to borrow funds for short or long-term purposes under a variety of programs. FHLB advances are utilized for loan matching as a hedge against the possibility of rising interest rates, and when these advances provide a less costly or more readily available source of funds than customer deposits. FHLB advances decreased slightly by \$1.0 million during the first half of 2012.

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Other borrowings consist largely of structured wholesale repurchase agreements which are utilized as an alternative funding source to FHLB advances and customer deposits. The table below presents the composition of the Company's other borrowings.

| | June 30, 2012 | As of December 31, 2011 | June 30, 2011 |
|---------------------------------|---------------|-------------------------------|---------------|
| (dollars in thousands) | | | |
| Wholesale repurchase agreements | \$ 130,000 | \$ 130,000 | \$ 135,000 |
| 364-day revolving note | 5,600 | 3,600 | 2,500 |
| Series A subordinated notes | 2,636 | 2,632 | 2,628 |
| Other | - | - | 788 |
| | \$ 138,236 | \$ 136,232 | \$ 140,916 |

The increase in borrowing on the 364-day revolving note of \$2.0 million was the result of funding needed to execute on the partial redemption of the Series F Preferred Stock previously issued to the Treasury under the Small Business Lending Fund program. For detailed discussion of this partial redemption, see below.

It is management's intention to continue to reduce the reliance on wholesale funding, including FHLB advances, wholesale structured repurchase agreements, and brokered time deposits. Replacement of this funding with core deposits helps to reduce interest expense as the wholesale funding tends to be higher funding cost.

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

| | June 30, 2012 | | As of December 31, 2011 | | June 30, 2011 | |
|--|---------------|------|----------------------------|------|---------------|------|
| | Amount | % | Amount | % | Amount | % |
| (dollars in thousands) | | | | | | |
| Common stock | \$4,968 | | \$4,879 | | \$4,856 | |
| Additional paid in capital - common | 27,071 | | 26,381 | | 24,910 | |
| Retained earnings | 48,831 | | 44,586 | | 43,097 | |
| Accumulated other comprehensive income | 4,479 | | 4,755 | | 1,768 | |
| Noncontrolling interests | 2,415 | | 2,052 | | 1,849 | |
| Less: Treasury stock | (1,606) | | (1,606) | | (1,606) | |
| | 86,158 | 62 % | 81,047 | 56 % | 74,874 | 55 % |

| | | | | | | | | | |
|---|------------|-----|---|------------|-----|---|------------|-----|---|
| Total common stockholders' equity | | | | | | | | | |
| Preferred stock | 55 | | | 65 | | | 63 | | |
| Additional paid in capital - preferred | 53,109 | | | 63,321 | | | 62,388 | | |
| Total preferred stockholders' equity | 53,164 | 38 | % | 63,386 | 44 | % | 62,451 | 45 | % |
| Total stockholders' equity | \$ 139,322 | 100 | % | \$ 144,433 | 100 | % | \$ 137,325 | 100 | % |
| Tangible common equity* / total tangible assets | | | | | | | | | |
| | 3.94 | % | | 3.85 | % | | 3.62 | % | |

*Tangible common equity is defined as total common stockholders' equity excluding equity of noncontrolling interests and excluding goodwill and other intangibles. This ratio is a non-GAAP financial measure. Management included this ratio as it is considered by many investors and analysts to be a metric with which to analyze and evaluate the equity composition. Other companies may calculate this ratio differently.

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Stockholders' equity declined \$5.1 million, or 4%, during the first half of 2012 as a result of the partial redemption of Series F Preferred Stock. On June 29, 2012, the Company redeemed \$10.2 million of the \$40.1 million of Series F Preferred Stock. The Company originally issued this preferred capital in September of 2011. Net income of \$6.7 million grew retained earnings; however, this was partially offset by declaration of preferred stock dividends totaling \$1.9 million (\$876 thousand for Series E Preferred Stock, and \$1.0 million for Series F Preferred Stock). Lastly, the available for sale portion of the securities portfolio experienced a slight decline in fair value for the first half of 2012 as a result of increases in certain market interest rates.

The following table presents the details of the preferred stock issued and outstanding as of June 30, 2012.

| | Date Issued | Aggregate Purchase Price | Stated Dividend Rate | Annual Dividend |
|---|----------------|--------------------------|----------------------|-----------------|
| Series E Non-Cumulative Convertible Perpetual Preferred Stock | June 2010 | \$25,000,000 | 7.00 % | \$1,750,000 |
| Series F Non-Cumulative Perpetual Preferred Stock | September 2011 | 29,867,000 | 5.00 % | 1,493,350 |
| | | \$54,867,000 | | \$3,243,350 |

The Series E Preferred Stock is perpetually convertible by the holder into shares of common stock at a per share conversion price of \$12.15, subject to anti-dilution adjustments upon the occurrence of certain events. In addition, the Company can exercise a conversion option on or after the third anniversary of the issue date (June 30, 2013) at the same \$12.15 conversion price if the Company's common stock price equals or exceeds \$17.22 for at least 20 trading days in a period of 30 consecutive trading days.

Regarding the Series F Preferred Stock, non-cumulative dividends are payable quarterly, and the dividend rate is based on changes in the level of "Qualified Small Business Lending" or "QSBL" by the Company's wholly owned bank subsidiaries, QCBT, CRBT and RB&T. Based upon the change in the banks' level of QSBL over the baseline level (defined below), the dividend rate remained at 5% through the second quarter of 2012. With the partial redemption, assuming a 5% dividend rate, the Company's preferred dividends will be reduced by \$511 thousand annually.

As of June 30, 2012, the Company reported its QSBL in accordance with SBLF guidelines and calculated a net decline from the baseline of \$93.0 million, or 21%. SBLF defines the baseline as the average of the Company's QSBL for the last two quarters of 2009 and the first two quarters of 2010. As a result of the decline, the dividend rate on the Series F Preferred Stock remains at 5%. Although the Company continues to experience a net decline in QSBL since the baseline, it continues to support small businesses in its communities. One example of this support is through its significant participation in the SBA and USDA lending programs. Notably, for 2011, all three of the subsidiary banks were ranked in the top 10 in their respective states for SBA lending volume. CRBT was ranked first in the state of Iowa for both SBA and USDA lending volume. The government guaranteed portions of these loans (typically 70% to 85% of the total principal balance) do not qualify as QSBL, as defined by SBLF guidelines. Through continued participation in these programs and the efforts of the Company's experienced small business bankers, the Company is well positioned to continue to support the lending needs of small businesses in the communities it serves.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers' credit needs. The Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which averaged \$76.4 million for the second quarter of 2012 and \$125.4 million for the first quarter of 2012. The decline was the result of investing some of the excess liquidity during the second quarter.

The Company has a variety of sources of short-term liquidity available, including federal funds purchased from correspondent banks, FHLB advances, structured wholesale repurchase agreements, brokered certificates of deposit, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities available for sale, and loan/lease participations or sales. The Company also generates liquidity from the regular principal payments and prepayments made on its loan/lease portfolio, and on the regular monthly payments on its residential mortgage-backed securities portfolio. At June 30, 2012, the subsidiary banks had 31 lines of credit totaling \$314.7 million, of which \$65.7 million was secured and \$249.0 million was unsecured. At June 30, 2012, the Company borrowed \$56.5 million for short-term funding needs, therefore, \$258.2 million was available. Additionally, the Company has a single \$20.0 million secured revolving line of credit with a maturity date of April 1, 2013. As of June 30 2012, the Company had \$14.4 million available as the line of credit carried an outstanding balance of \$5.6 million.

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

The following table presents the details of the trust preferred securities issued and outstanding as of June 30, 2012.

| Name | Date Issued | Amount Issued | Interest Rate | Interest Rate as of 6/30/12 | Interest Rate as of 12/31/11 |
|----------------------------------|---------------|---------------|--------------------------|--------------------------------|------------------------------------|
| QCR Holdings Statutory Trust II | February 2004 | \$ 12,372,000 | 2.85% over 3-month LIBOR | 3.32 % | 3.22 % |
| QCR Holdings Statutory Trust III | February 2004 | 8,248,000 | 2.85% over 3-month LIBOR | 3.32 % | 3.22 % |
| QCR Holdings Statutory Trust IV | May 2005 | 5,155,000 | 1.80% over 3-month LIBOR | 2.27 % | 2.20 % |
| QCR Holdings Statutory Trust V | February 2006 | 10,310,000 | 1.55% over 3-month LIBOR | 2.02 % | 1.95 % |
| | | | Weighted Average | | |
| | | \$ 36,085,000 | Rate | 2.80 % | 2.71 % |

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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 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 June 30, 2012 and December 31, 2011, that the Company and the subsidiary banks met all capital adequacy requirements to which they were 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 and Tier 1 leverage ratios as set forth in the following tables. The Company and the subsidiary banks' actual capital amounts and ratios as of June 30, 2012 and December 31, 2011 are also presented in the following table (dollars in thousands). As of June 30, 2012 and December 31, 2011, the subsidiary banks met the requirements to be "well capitalized".

| | Actual | | For Capital Adequacy Purposes | | | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|----------------------------|------------|---------|-------------------------------|---------|-----------|-----------|--|--|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | | |
| As of June 30, 2012: | | | | | | | | |
| Company: | | | | | | | | |
| Total risk-based capital | \$ 187,155 | 13.14 % | \$ 113,963 | ≥ 8.0 % | N/A | N/A | | |
| Tier 1 risk-based capital | 164,170 | 11.52 % | \$ 56,982 | ≥ 4.0 | N/A | N/A | | |
| Tier 1 leverage | 164,170 | 8.20 % | 80,095 | ≥ 4.0 | N/A | N/A | | |
| Quad City Bank & Trust: | | | | | | | | |
| Total risk-based capital | \$ 99,594 | 12.62 % | \$ 63,124 | ≥ 8.0 % | \$ 78,904 | ≥ 10.00 % | | |
| Tier 1 risk-based capital | 91,619 | 11.61 % | 31,562 | ≥ 4.0 | 47,343 | ≥ 6.00 % | | |
| Tier 1 leverage | 91,619 | 8.05 % | 45,498 | ≥ 4.0 | 56,873 | ≥ 5.00 % | | |
| Cedar Rapids Bank & Trust: | | | | | | | | |
| Total risk-based capital | \$ 53,166 | 13.27 % | \$ 32,044 | ≥ 8.0 % | \$ 40,055 | ≥ 10.00 % | | |
| | 48,142 | 12.02 % | 16,022 | ≥ 4.0 | 24,033 | ≥ 6.00 % | | |

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Tier 1 risk-based
capital

| | | | | | | | | | | |
|-----------------|--------|------|---|--------|---|-----|--------|---|------|---|
| Tier 1 leverage | 48,142 | 8.45 | % | 22,789 | ≥ | 4.0 | 28,486 | ≥ | 5.00 | % |
|-----------------|--------|------|---|--------|---|-----|--------|---|------|---|

Rockford Bank &
Trust:

| | | | | | | | | | | | |
|-----------------------------|-----------|-------|---|-----------|---|-----|---|-----------|---|-------|---|
| Total risk-based capital | \$ 36,867 | 15.83 | % | \$ 18,627 | ≥ | 8.0 | % | \$ 23,284 | ≥ | 10.00 | % |
|-----------------------------|-----------|-------|---|-----------|---|-----|---|-----------|---|-------|---|

| | | | | | | | | | | |
|------------------------------|--------|-------|---|-------|---|-----|--------|---|------|---|
| Tier 1 risk-based capital | 33,939 | 14.58 | % | 9,314 | ≥ | 4.0 | 13,970 | ≥ | 6.00 | % |
|------------------------------|--------|-------|---|-------|---|-----|--------|---|------|---|

| | | | | | | | | | | |
|-----------------|--------|-------|---|--------|---|-----|--------|---|------|---|
| Tier 1 leverage | 33,939 | 11.05 | % | 12,283 | ≥ | 4.0 | 15,353 | ≥ | 5.00 | % |
|-----------------|--------|-------|---|--------|---|-----|--------|---|------|---|

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

| | Actual | | For Capital Adequacy Purposes | | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|----------------------------|------------|---------|-------------------------------|---------|-----------|--|--|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | |
| As of December 31, 2011: | | | | | | | |
| Company: | | | | | | | |
| Total risk-based capital | \$ 191,419 | 13.84 % | \$ 110,686 | ≥ 8.0 % | N/A | N/A | |
| Tier 1 risk-based capital | 169,360 | 12.24 % | 55,343 | ≥ 4.0 % | N/A | N/A | |
| Tier 1 leverage | 169,360 | 8.70 % | 77,857 | ≥ 4.0 % | N/A | N/A | |
| Quad City Bank & Trust: | | | | | | | |
| Total risk-based capital | \$ 98,382 | 13.03 % | \$ 60,391 | ≥ 8.0 % | \$ 75,488 | ≥ 10.00 % | |
| Tier 1 risk-based capital | 90,336 | 11.97 % | 30,195 | ≥ 4.0 | 45,293 | ≥ 6.00 % | |
| Tier 1 leverage | 90,336 | 8.21 % | 44,009 | ≥ 4.0 | 55,012 | ≥ 5.00 % | |
| Cedar Rapids Bank & Trust: | | | | | | | |
| Total risk-based capital | \$ 56,312 | 14.44 % | \$ 31,198 | ≥ 8.0 % | \$ 38,998 | ≥ 10.00 % | |
| Tier 1 risk-based capital | 51,415 | 13.18 % | 15,599 | ≥ 4.0 | 23,399 | ≥ 6.00 % | |
| Tier 1 leverage | 51,415 | 9.02 % | 22,807 | ≥ 4.0 | 28,509 | ≥ 5.00 % | |
| Rockford Bank & Trust: | | | | | | | |
| Total risk-based capital | \$ 36,259 | 15.27 % | \$ 19,001 | ≥ 8.0 % | \$ 23,752 | ≥ 10.00 % | |
| Tier 1 risk-based capital | 33,277 | 14.01 % | 9,501 | ≥ 4.0 | 14,251 | ≥ 6.00 % | |
| Tier 1 leverage | 33,277 | 11.31 % | 11,770 | ≥ 4.0 | 14,713 | ≥ 5.00 % | |

The federal bank regulatory agencies recently issued joint proposed rules that would implement an international capital accord called “Basel III,” developed by the Basel Committee on Banking Supervision, a committee of central banks and bank supervisors. The proposed rules would apply to all depository organizations in the United States and most of their parent companies and would increase minimum capital ratios, add a new minimum common equity ratio, add a new capital conservation buffer, and would change the risk-weightings of certain assets for the purposes of calculating certain capital ratios. The proposed changes, if implemented, would be phased in from 2013 through 2019. Management is currently assessing the effect of the proposed rules on the Company and the subsidiary banks’ capital position. Various banking associations and industry groups are providing comments on the proposed rules to

the regulators, and it is unclear when the final rules will be adopted and what changes, if any, may be made to the proposed rules.

Part I
Item 2

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

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

Part I
Item 3

QUANTITATIVE AND QUALITATIVE DISCUSSION ABOUT MARKET RISK

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

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

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

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

Part I
Item 3

QUANTITATIVE AND QUALITATIVE DISCUSSION ABOUT MARKET RISK

Application of the simulation model analysis at the most recent quarter-end available is presented in the following table. Please note the simulation model analysis as of June 30, 2012 is not yet available.

| INTEREST RATE SCENARIO | NET INTEREST INCOME EXPOSURE in | | | | | |
|--------------------------------|---------------------------------|---|----------|---|----------|---|
| | YEAR 1 | | | | | |
| | As of March | | As of | | As of | |
| | 31, 2012 | | December | | December | |
| | | | 31, 2011 | | 31, 2010 | |
| 100 basis point downward shift | -1.6 | % | -1.5 | % | -1.9 | % |
| 200 basis point upward shift | -4.1 | % | -3.1 | % | -3.0 | % |
| 300 basis point upward shock | -6.8 | % | -4.2 | % | -1.6 | % |

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

Interest rate risk is considered to be one of the most significant market risks affecting the Company. For that reason, the Company engages the assistance of a national consulting firm and its risk management system to monitor and control the Company's interest rate risk exposure. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities.

Part I
Item 4

CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of June 30, 2012. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports filed and submitted under the Exchange Act was recorded, processed, summarized and reported as and when required.

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

Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

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

Item 1.A. Risk Factors

There have been no material changes in the risk factors applicable to the Company from those disclosed in Part I, Item 1.A. "Risk Factors," in the Company's 2011 Annual Report on Form 10-K. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

Not applicable

Item 5 Other Information

None

Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION - continued

Item 6 Exhibits

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

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

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

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

101* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2012 and June 30, 2011; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and June 30, 2011; (iv) Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2012 and June 30, 2011; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and June 30, 2011; and (vi) Notes to Consolidated Financial Statements.

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

SIGNATURES

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

QCR HOLDINGS, INC.
(Registrant)

Date August 7, 2012

/s/ Douglas M. Hultquist
Douglas M. Hultquist, President
Chief Executive Officer

Date August 7, 2012

/s/ Todd A. Gipple
Todd A. Gipple, Executive Vice President
Chief Operating Officer
Chief Financial Officer