UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from ______to________

Commission file number 0 22208

QCR HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

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

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 736 3580

(Registrant's telephone number, including area code)

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

Yes [X]   No [   ]

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

Yes [X] No [ ]

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

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

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

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

Yes [ ] No [X]

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

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QCR HOLDINGS, INC. AND SUBSIDIARIES

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Throughout this Quarterly Report on Form 10-Q, we use certain acronyms and abbreviations, as defined in Note 1.

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of June 30, 2018 and December 31, 2017

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

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

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended June 30,

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

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

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Six Months Ended June 30,

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

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

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three and Six Months Ended June 30, 2018 and 2017

	Three Months Ended June 30,	
	2018	2017
Net income	$ 10,445,385	$ 8,766,017
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(1,512,488)	1,170,310
Less reclassification adjustment for gains included in net income before tax	—	38,464
	(1,512,488)	1,131,846
Unrealized gains (losses) on derivatives:		
Unrealized holding gains (losses) arising during the period before tax	(322,937)	(132,352)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	177,688	(136,639)
	(500,625)	4,287
Other comprehensive income (loss), before tax	(2,013,113)	1,136,133
Tax expense (benefit)	(678,492)	434,394
Other comprehensive income (loss), net of tax	(1,334,621)	701,739
Comprehensive income	$ 9,110,764	$ 9,467,756

	Six Months Ended June 30,	
	2018	2017
Net income	$ 20,995,346	$ 17,950,982
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(6,878,601)	1,768,500
Less reclassification adjustment for gains (losses) included in net income before tax	—	38,464
Less reclassification adjustment for adoption of ASU 2016-01	855,039	—
	(6,023,562)	1,730,036
Unrealized gains (losses) on derivatives:		
Unrealized holding gains (losses) arising during the period before tax	(172,459)	(177,554)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	97,173	(259,452)

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

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Three and Six Months Ended June 30, 2018 and 2017

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

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

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

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

See Notes to Consolidated Financial Statements (Unaudited)

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six Months Ended June 30, 2018 and 2017

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

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

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QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued

Six Months Ended June 30, 2018 and 2017

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

See Notes to Consolidated Financial Statements (Unaudited)

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Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2017, included in the Company's Annual Report on Form 10 K filed with the SEC on March 12, 2018. Accordingly, footnote disclosures, which would substantially duplicate the disclosures contained in the audited consolidated financial statements, have been omitted.

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

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

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

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

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Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

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

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

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

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

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

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

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

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

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

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

NOTE 2 – INVESTMENT SECURITIES

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

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

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

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

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

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

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2018 and December 31, 2017, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2018:						
Securities HTM:						
Municipal securities	$ 140,257,617	$ (3,873,043)	$ 61,121,755	$ (3,827,871)	$ 201,379,372	$ (7,700,914)
Other securities	1,034,649	(15,350)	—	—	1,034,649	(15,350)
	$ 141,292,266	$ (3,888,393)	$ 61,121,755	$ (3,827,871)	$ 202,414,021	$ (7,716,264)

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017:						
Securities HTM:						
Municipal securities	$ 23,750,826	$ (354,460)	$ 72,611,780	$ (2,133,659)	$ 96,362,606	$ (2,488,119)
Securities AFS:						
U.S. govt. sponsored agency securities	$ 28,576,258	$ (200,022)	$ 3,640,477	$ (149,945)	$ 32,216,735	$ (349,967)
Residential mortgage-backed and related securities	88,927,779	(871,855)	57,931,731	(1,441,674)	146,859,510	(2,313,529)
Municipal securities	10,229,337	(41,151)	9,997,433	(169,949)	20,226,770	(211,100)
Other securities	923,535	(25,815)	—	—	923,535	(25,815)
	$ 128,656,909	$ (1,138,843)	$ 71,569,641	$ (1,761,568)	$ 200,226,550	$ (2,900,411)

At June 30, 2018, the investment portfolio included 602 securities. Of this number, 303 securities were in an unrealized loss position. The aggregate losses of these securities totaled approximately 2.4% of the total amortized cost of the portfolio. Of these 303 securities, 42 securities had an unrealized loss for twelve months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence,

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including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company lacks the intent to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery.

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

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

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

The amortized cost and fair value of securities as of June 30, 2018 by contractual maturity are shown below. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed and related securities may be prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table.

	Amortized Cost	Fair Value
Securities HTM:		
Due in one year or less	$ 1,732,495	$ 1,737,807
Due after one year through five years	25,021,326	25,051,928
Due after five years	373,298,523	370,462,633
	$ 400,052,344	$ 397,252,368
Securities AFS:		
Due in one year or less	$ 2,882,932	$ 2,891,934
Due after one year through five years	25,265,433	24,969,540
Due after five years	73,034,280	71,548,749
	101,182,645	99,410,223
Residential mortgage-backed and related securities	164,791,715	158,534,448
	$ 265,974,360	$ 257,944,671

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

	Amortized Cost	Fair Value
Securities HTM:		
Municipal securities	$ 232,556,893	$ 230,900,385
Securities AFS:		
U.S. govt. sponsored agency securities	4,998,914	4,873,050
Municipal securities	52,730,591	51,992,220
	$ 57,729,505	$ 56,865,270

As of June 30, 2018, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 122 issuers with fair values totaling $94.8 million and revenue bonds issued by 150 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling $360.9 million. The Company held investments in general obligation bonds in 26 states, including six states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 16 states, including seven states in which the aggregate fair value exceeded $5.0 million.

As of December 31, 2017, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 131 issuers with fair values totaling $108.0 million and revenue bonds issued by 145 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling $337.3 million. The Company held investments in general obligation bonds in 26 states, including six states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 16 states, including seven states in which the aggregate fair value exceeded $5.0 million.

Both general obligation and revenue bonds are diversified across many issuers. As of June 30, 2018 and December 31, 2017, the Company did not hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded 5% of the Company's stockholders' equity. Of the general obligation and revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated bonds were underwritten according to loan underwriting standards and have an average loan risk rating of 2, indicating very high quality. Additionally, many of these bonds are funding essential municipal services such as water, sewer, education, and medical facilities.

The Company's municipal securities are owned by each of the four charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually, and as of June 30, 2018, all were well within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of each charter's total risk-based capital.

As of June 30, 2018, the Company's standard monitoring of its municipal securities portfolio had not uncovered any facts or circumstances resulting in significantly different credit ratings than those assigned by a nationally recognized statistical rating organization, or in the case of unrated bonds, the rating assigned using the credit underwriting standards.

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NOTE 3 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of June 30, 2018 and December 31, 2017 is presented as follows:

	As of June 30, 2018	As of December 31, 2017
C&I loans*	$ 1,273,000,094	$ 1,134,516,315
CRE loans		
Owner-occupied CRE	349,007,830	332,742,477
Commercial construction, land development, and other land	162,644,566	186,402,404
Other non owner-occupied CRE	837,666,518	784,347,000
	1,349,318,914	1,303,491,882
Direct financing leases **	133,196,613	141,448,232
Residential real estate loans ***	257,433,713	258,646,265
Installment and other consumer loans	92,952,124	118,610,799
	3,105,901,458	2,956,713,493
Plus deferred loan/lease origination costs, net of fees	8,890,965	7,771,907
	3,114,792,423	2,964,485,400
Less allowance	(37,545,076)	(34,355,728)
	$ 3,077,247,347	$ 2,930,129,672
** Direct financing leases:		
Net minimum lease payments to be received	$ 147,388,211	$ 156,583,887
Estimated unguaranteed residual values of leased assets	929,932	929,932
Unearned lease/residual income	(15,121,530)	(16,065,587)
	133,196,613	141,448,232
Plus deferred lease origination costs, net of fees	4,159,711	4,624,027
	137,356,324	146,072,259
Less allowance	(2,724,355)	(2,382,098)
	$ 134,631,969	$ 143,690,161

* Includes equipment financing agreements outstanding at m2, totaling $92,815,742 and $66,758,397 as of June 30, 2018 and December 31, 2017, 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, which is combined with management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider, which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal. There were no losses related to residual values for the three and six months ended June 30, 2018 and 2017.

*** Includes residential real estate loans held for sale totaling $1,033,700 and $645,001 as of June 30, 2018, and December 31, 2017, respectively.

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Changes in accretable yield for acquired loans were as follows:

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	PCI Loans	Performing Loans	Total	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$ (156,896)	$ (5,659,543)	$ (5,816,439)	$ (191,132)	$ (6,280,075)	$ (6,471,207)
Accretion recognized	14,848	608,119	622,967	49,084	1,228,651	1,277,735
Balance at the end of the period	$ (142,048)	$ (5,051,424)	$ (5,193,472)	$ (142,048)	$ (5,051,424)	$ (5,193,472)

	Three months ended June 30, 2017			Six months ended June 30, 2017		
	PCI Loans	Performing Loans	Total	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$ (127,616)	$ (6,944,074)	$ (7,071,690)	$ (194,306)	$ (9,115,614)	$ (9,309,920)
Accretion recognized	43,756	1,618,603	1,662,359	110,446	3,790,143	3,900,589
Balance at the end of the period	$ (83,860)	$ (5,325,471)	$ (5,409,331)	$ (83,860)	$ (5,325,471)	$ (5,409,331)

The aging of the loan/lease portfolio by classes of loans/leases as of June 30, 2018 and December 31, 2017 is presented as follows:

	As of June 30, 2018					
Classes of Loans/Leases	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total

C&I	$ 1,270,508,073	$ 602,885	$ 403,841	$ —	$ 1,485,295	$ 1,273,000,094
CRE Owner-Occupied CRE	348,357,289	228,703	—	—	421,838	349,007,830
Commercial Construction, Land Development, and Other Land	158,999,305	1,758,740	—	—	1,886,521	162,644,566
Other Non Owner-Occupied CRE	832,861,572	91,345	—	—	4,713,601	837,666,518
Direct Financing Leases	129,115,766	1,019,243	532,600	—	2,529,004	133,196,613
Residential Real Estate	254,927,412	374,480	816,670	—	1,315,151	257,433,713
Installment and Other Consumer	92,086,640	588,332	55,189	19,573	202,390	92,952,124
	$ 3,086,856,057	$ 4,663,728	$ 1,808,300	$ 19,573	$ 12,553,800	$ 3,105,901,458
As a percentage of total loan/lease portfolio	99.39 %	0.15 %	0.06 %	0.00 %	0.40 %	100.00 %

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	As of December 31, 2017					
Classes of Loans/Leases	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
C&I	$ 1,124,734,486	$ 8,306,829	$ 243,647	$ —	$ 1,231,353	$ 1,134,516,315
CRE Owner-Occupied CRE	331,868,142	540,435	—	—	333,900	332,742,477
Commercial Construction, Land Development, and Other Land	181,558,092	—	—	—	4,844,312	186,402,404
Other Non Owner-Occupied CRE	782,526,249	572,877	4,146	—	1,243,728	784,347,000
Direct Financing Leases	137,708,397	1,305,191	259,600	—	2,175,044	141,448,232
Residential Real Estate	253,261,821	3,552,709	393,410	74,519	1,363,806	258,646,265
Installment and Other Consumer	117,773,259	517,537	56,760	14,152	249,091	118,610,799
	$ 2,929,430,446	$ 14,795,578	$ 957,563	$ 88,671	$ 11,441,234	$ 2,956,713,493
As a percentage of total loan/lease portfolio	99.08 %	0.50 %	0.03 %	0.00 %	0.39 %	100.00 %

NPLs by classes of loans/leases as of June 30, 2018 and December 31, 2017 are presented as follows:

	As of June 30, 2018				
Classes of Loans/Leases	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases*	Accruing TDRs	Total NPLs	Percentage of Total NPLs
C&I	$ —	$ 1,485,295	$ 800,176	$ 2,285,471	16.44 %
CRE					

Owner-Occupied CRE	—	421,838	106,874	528,712	3.80	%
Commercial Construction, Land Development, and Other Land	—	1,886,521	—	1,886,521	13.57	%
Other Non Owner-Occupied CRE	—	4,713,601	—	4,713,601	33.92	%
Direct Financing Leases	—	2,529,004	137,432	2,666,436	19.18	%
Residential Real Estate	—	1,315,151	270,903	1,586,054	11.41	%
Installment and Other Consumer	19,573	202,390	11,623	233,586	1.68	%
	$ 19,573	$ 12,553,800	$ 1,327,008	$ 13,900,381	100.00	%

* Nonaccrual loans/leases included $1,841,006 of TDRs, including $66,021 in C&I loans, $1,066,701 in CRE loans, $619,727 in direct financing leases, $83,287 in residential real estate loans, and $5,270 in installment loans.

	As of December 31, 2017					
Classes of Loans/Leases	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases **	Accruing TDRs	Total NPLs	Percentage of Total NPLs	
C&I	$ —	$ 1,231,353	$ 5,224,182	$ 6,455,535	34.63	%
CRE						
Owner-Occupied CRE	—	333,900	107,322	441,222	2.37	%
Commercial Construction, Land Development, and Other Land	—	4,844,312	—	4,844,312	25.99	%
Other Non Owner-Occupied CRE	—	1,243,728	—	1,243,728	6.67	%
Direct Financing Leases	—	2,175,044	1,494,448	3,669,492	19.68	%
Residential Real Estate	74,519	1,363,806	272,493	1,710,818	9.18	%
Installment and Other Consumer	14,152	249,091	14,027	277,270	1.49	%
	$ 88,671	$ 11,441,234	$ 7,112,472	$ 18,642,377	100.00	%

** Nonaccrual loans/leases included $2,282,495 of TDRs, including $122,598 in C&I loans, $1,336,871 in CRE loans, $700,255 in direct financing leases, $115,190 in residential real estate loans, and $7,581 in installment loans.

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Changes in the allowance by portfolio segment for the three and six months ended June 30, 2018 and 2017, respectively, are presented as follows:

	Three Months Ended June 30, 2018					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 15,065,245	$ 14,938,020	$ 2,730,301	$ 2,375,219	$ 1,423,817	$ 36,532,602
Provisions (credits) charged to expense	777,013	871,475	687,908	57,283	(92,944)	2,300,735
Loans/leases charged off	(728,890)	—	(794,299)	—	(1,086)	(1,524,275)
Recoveries on loans/leases previously charged off	120,503	9,545	100,445	600	4,921	236,014
Balance, ending	$ 15,233,871	$ 15,819,040	$ 2,724,355	$ 2,433,102	$ 1,334,708	$ 37,545,076

	Three Months Ended June 30, 2017					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 12,954,090	$ 12,643,266	$ 2,978,260	$ 2,375,864	$ 1,107,670	$ 32,059,150
Provisions (credits) charged to expense	1,281,786	339,857	297,672	116,151	(12,473)	2,022,993
Loans/leases charged off	(74,071)	(10,375)	(684,079)	(61,561)	(21,518)	(851,604)
Recoveries on loans/leases previously charged off	45,928	26,485	46,448	—	7,232	126,093

Balance, ending	$ 14,207,733	$ 12,999,233	$ 2,638,301	$ 2,430,454	$ 1,080,911	$ 33,356,632

	Six Months Ended June 30, 2018					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 14,323,036	$ 13,962,688	$ 2,382,098	$ 2,466,431	$ 1,221,475	$ 34,355,728
Provisions charged to expense	1,585,174	1,836,858	1,292,691	17,946	107,905	4,840,574
Loans/leases charged off	(824,389)	—	(1,078,186)	(52,325)	(5,833)	(1,960,733)
Recoveries on loans/leases previously charged off	150,050	19,494	127,752	1,050	11,161	309,507
Balance, ending	$ 15,233,871	$ 15,819,040	$ 2,724,355	$ 2,433,102	$ 1,334,708	$ 37,545,076

	Six Months Ended June 30, 2017					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$ 12,545,110	$ 11,670,609	$ 3,111,898	$ 2,342,344	$ 1,087,487	$ 30,757,448
Provisions (credits) charged to expense	1,875,144	1,306,128	802,687	159,671	(15,528)	4,128,102
Loans/leases charged off	(292,344)	(10,375)	(1,342,763)	(75,184)	(23,564)	(1,744,230)
Recoveries on loans/leases previously charged off	79,823	32,871	66,479	3,623	32,516	215,312
Balance, ending	$ 14,207,733	$ 12,999,233	$ 2,638,301	$ 2,430,454	$ 1,080,911	$ 33,356,632

The allowance by impairment evaluation and by portfolio segment as of June 30, 2018 and December 31, 2017 is presented as follows:

	As of June 30, 2018											
	C&I		CRE		Direct Financing Leases		Residential Real Estate		Installment and Other Consumer		Total	
lowance r impaired ans/leases	$ 308,091		$ 2,109,374		$ 375,803		$ 239,419		$ 106,878		$ 3,139,565	
lowance nimpaired ans/leases	14,925,780		13,709,666		2,348,552		2,193,683		1,227,830		34,405,511	
	$ 15,233,871		$ 15,819,040		$ 2,724,355		$ 2,433,102		$ 1,334,708		$ 37,545,076	
paired ans/leases	$ 1,551,445		$ 6,967,425		$ 2,529,004		$ 1,449,866		$ 214,655		$ 12,712,395	
onimpaired ans/leases	1,271,448,649		1,342,351,489		130,667,609		255,983,847		92,737,469		3,093,189,063	
	$ 1,273,000,094		$ 1,349,318,914		$ 133,196,613		$ 257,433,713		$ 92,952,124		$ 3,105,901,458	
lowance a rcentage impaired ans/leases	19.86	%	30.27	%	14.86	%	16.51	%	49.79	%	24.70	
lowance a rcentage nimpaired ans/leases	1.17	%	1.02	%	1.80	%	0.86	%	1.32	%	1.11	
tal owance as percentage total ans/leases	1.20	%	1.17	%	2.05	%	0.95	%	1.44	%	1.21	

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	As of December 31, 2017					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
owance impaired ns/leases	$ 715,627	$ 1,429,460	$ 504,469	$ 355,167	$ 38,596	$ 3,043,319
owance nimpaired ns/leases	13,607,409	12,533,228	1,877,629	2,111,264	1,182,879	31,312,409
	$ 14,323,036	$ 13,962,688	$ 2,382,098	$ 2,466,431	$ 1,221,475	$ 34,355,728
paired ns/leases	$ 6,248,209	$ 6,529,262	$ 3,669,492	$ 1,704,846	$ 202,354	$ 18,354,163
nimpaired ns/leases	1,128,268,106	1,296,962,620	137,778,740	256,941,419	118,408,445	2,938,359,330
	$ 1,134,516,315	$ 1,303,491,882	$ 141,448,232	$ 258,646,265	$ 118,610,799	$ 2,956,713,493
owance a centage mpaired ns/leases	11.45 %	21.89 %	13.75 %	20.83 %	19.07 %	16.58
owance a centage nimpaired ns/leases	1.21 %	0.97 %	1.36 %	0.82 %	1.00 %	1.07
al owance as ercentage otal ns/leases	1.26 %	1.07 %	1.68 %	0.95 %	1.03 %	1.16

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.

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Loans/leases, by classes of financing receivable, considered to be impaired as of and for the six months ended June 30, 2018 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$ 1,159,577	$ 1,173,853	$ —	$ 1,465,402	$ 138,543	$ 138,543
CRE Owner-Occupied CRE	288,813	288,813	—	289,112	11,690	11,690
Commercial Construction, Land Development, and Other Land	—	—	—	—	—	—
Other Non Owner-Occupied CRE	982,428	982,428	—	1,151,245	—	—
Direct Financing Leases	1,903,173	1,903,173	—	2,551,149	9,292	9,292
Residential Real Estate	941,520	1,016,299	—	904,898	—	—
Installment and Other Consumer	99,814	99,814	—	95,448	—	—
	$ 5,375,325	$ 5,464,380	$ —	$ 6,457,254	$ 159,525	$ 159,525
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$ 391,868	$ 391,868	$ 308,091	$ 327,859	$ —	$ —
CRE						
	142,788	142,788	39,288	147,375	—	—

Owner-Occupied CRE						
Commercial Construction, Land Development, and Other Land	5,553,396	5,553,396	2,070,086	5,275,992	—	—
Other Non Owner-Occupied CRE	—	—	—	—	—	—
Direct Financing Leases	625,831	625,831	375,803	521,142	—	—
Residential Real Estate	508,346	531,422	239,419	522,134	5,893	5,893
Installment and Other Consumer	114,841	114,841	106,878	109,254	159	159
	$ 7,337,070	$ 7,360,146	$ 3,139,565	$ 6,903,756	$ 6,052	$ 6,052
Total Impaired Loans/Leases:						
C&I	$ 1,551,445	$ 1,565,721	$ 308,091	$ 1,793,261	$ 138,543	$ 138,543
CRE						
Owner-Occupied CRE	431,601	431,601	39,288	436,487	11,690	11,690
Commercial Construction, Land Development, and Other Land	5,553,396	5,553,396	2,070,086	5,275,992	—	—
Other Non Owner-Occupied CRE	982,428	982,428	—	1,151,245	—	—
Direct Financing Leases	2,529,004	2,529,004	375,803	3,072,291	9,292	9,292
Residential Real Estate	1,449,866	1,547,721	239,419	1,427,032	5,893	5,893
Installment and Other Consumer	214,655	214,655	106,878	204,702	159	159
	$ 12,712,395	$ 12,824,526	$ 3,139,565	$ 13,361,010	$ 165,577	$ 165,577

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended June 30, 2018 and 2017, respectively, are presented as follows:

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
Classes of Loans/Leases	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$ 1,400,498	$ 59,176	$ 59,176	$ 805,309	$ 9,399	$ 9,399
CRE Owner-Occupied CRE	289,036	5,868	5,868	—	—	—
Commercial Construction, Land Development, and Other Land	—	—	—	—	—	—
Other Non Owner-Occupied CRE	1,105,004	—	—	1,160,161	—	—
Direct Financing Leases	2,198,852	2,544	2,544	2,560,019	38,949	38,949
Residential Real Estate	928,809	—	—	712,793	—	—
Installment and Other Consumer	101,582	—	—	173,585	218	218
	$ 6,023,781	$ 67,588	$ 67,588	$ 5,411,867	$ 48,566	$ 48,566
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$ 353,153	$ 1,978	$ 1,978	$ 8,066,702	$ 35,055	$ 35,055
CRE Owner-Occupied CRE	145,082	—	—	238,584	—	—

Commercial Construction, Land Development, and Other Land	5,491,832	—	—	4,348,142	—	—
Other Non Owner-Occupied CRE	—	—	—	38,260	—	—
Direct Financing Leases	566,063	—	—	757,602	—	—
Residential Real Estate	512,222	2,959	2,959	624,641	2,989	2,989
Installment and Other Consumer	116,887	76	76	34,333	—	—
	$ 7,185,239	$ 5,014	$ 5,014	$ 14,108,264	$ 38,044	$ 38,044
Total Impaired Loans/Leases:						
C&I	$ 1,753,651	$ 61,154	$ 61,154	$ 8,872,011	$ 44,454	$ 44,454
CRE Owner-Occupied CRE	434,118	5,868	5,868	238,584	—	—
Commercial Construction, Land Development, and Other Land	5,491,832	—	—	4,348,142	—	—
Other Non Owner-Occupied CRE	1,105,004	—	—	1,198,421	—	—
Direct Financing Leases	2,764,915	2,544	2,544	3,317,621	38,949	38,949
Residential Real Estate	1,441,031	2,959	2,959	1,337,434	2,989	2,989
Installment and Other Consumer	218,469	76	76	207,918	218	218
	$ 13,209,020	$ 72,602	$ 72,602	$ 19,520,131	$ 86,610	$ 86,610

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2017 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
C&I	$ 1,634,269	$ 1,644,706	$ —
CRE			
Owner-Occupied CRE	289,261	289,261	—
Commercial Construction, Land Development, and Other Land	—	—	—
Other Non Owner-Occupied CRE	1,171,565	1,171,565	—
Direct Financing Leases	2,944,540	2,944,540	—
Residential Real Estate	943,388	1,018,167	—
Installment and Other Consumer	134,245	134,245	—
	$ 7,117,268	$ 7,202,484	$ —
Impaired Loans/Leases with Specific Allowance Recorded:			
C&I	$ 4,613,940	$ 4,617,879	$ 715,627
CRE			
Owner-Occupied CRE	151,962	151,962	48,462
Commercial Construction, Land Development, and Other Land	4,844,312	4,844,312	1,379,235
Other Non Owner-Occupied CRE	72,163	72,163	1,763
Direct Financing Leases	724,953	724,953	504,469
Residential Real Estate	761,458	761,458	355,167
Installment and Other Consumer	68,109	68,109	38,596
	$ 11,236,897	$ 11,240,836	$ 3,043,319
Total Impaired Loans/Leases:			
C&I	$ 6,248,209	$ 6,262,585	$ 715,627
CRE			
Owner-Occupied CRE	441,222	441,222	48,462
Commercial Construction, Land Development, and Other Land	4,844,312	4,844,312	1,379,235
Other Non Owner-Occupied CRE	1,243,728	1,243,728	1,763
Direct Financing Leases	3,669,492	3,669,492	504,469
Residential Real Estate	1,704,846	1,779,625	355,167
Installment and Other Consumer	202,354	202,354	38,596

	$ 18,354,163	$ 18,443,318	$ 3,043,319

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

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

For certain C&I loans (equipment financing agreements), 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.

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For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2018 and December 31, 2017:

	As of June 30, 2018						
		CRE					
Internally Assigned Risk Rating	C&I	Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total	
Pass (Ratings 1 through 5)	$ 1,135,035,263	$ 342,518,625	$ 160,224,065	$ 805,031,050	$ 2,442,809,003	96.57	%
Special Mention (Rating 6)	29,414,324	3,984,113	—	10,804,187	44,202,624	1.75	%
Substandard (Rating 7)	15,734,765	2,505,092	2,420,501	21,831,281	42,491,639	1.68	%
Doubtful (Rating 8)	—	—	—	—	—	—	%
	$ 1,180,184,352	$ 349,007,830	$ 162,644,566	$ 837,666,518	$ 2,529,503,266	100.00	%

	As of June 30, 2018						
Delinquency Status *	C&I	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total	
Performing	$ 92,361,366	$ 130,530,177	$ 255,847,659	$ 92,718,538	$ 571,457,740	99.14	%
Nonperforming	454,376	2,666,436	1,586,054	233,586	4,940,452	0.86	%
	$ 92,815,742	$ 133,196,613	$ 257,433,713	$ 92,952,124	$ 576,398,192	100.00	%

As of December 31, 2017

CRE

Non Owner-Occupied

Internally Assigned Risk Rating	C&I	Owner-Occupied CRE	Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total
Pass (Ratings 1 through 5)	$ 1,031,963,703	$ 318,293,608	$ 179,142,839	$ 767,119,909	$ 2,296,520,059	96.85 %
Special Mention (Rating 6)	10,944,924	8,230,060	1,780,000	10,068,870	31,023,854	1.31 %
Substandard (Rating 7)	24,578,731	6,218,809	5,479,565	7,158,221	43,435,326	1.83 %
Doubtful (Rating 8)	270,559	—	—	—	270,559	0.01 %
	$ 1,067,757,917	$ 332,742,477	$ 186,402,404	$ 784,347,000	$ 2,371,249,799	100.00 %

	As of December 31, 2017					
Delinquency Status *	C&I	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$ 65,847,177	$ 137,778,740	$ 256,935,447	$ 118,333,529	$ 578,894,893	98.88 %
Nonperforming	911,220	3,669,492	1,710,818	277,270	6,568,800	1.12 %
	$ 66,758,397	$ 141,448,232	$ 258,646,265	$ 118,610,799	$ 585,463,693	100.00 %

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

As of June 30, 2018 and December 31, 2017, TDRs totaled $3,168,014 and $9,394,967, respectively.

For each class of financing receivable, the following presents the number and recorded investment of TDRs, by type of concession, that were restructured during the three and six months ended June 30, 2018 and 2017. The difference between

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the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring. No loans were restructured during the three months ended June 30, 2018.

	For the three months ended June 30, 2018				For the three months ended June 30, 2017			
Classes of Loans/Leases	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowanc
CONCESSION - Significant Payment Delay								
C&I	—	$ —	$ —	$ —	1	$ 47,509	$ 47,509	$ —
Direct Financing Leases	—	—	—	—	15	802,542	802,542	—
	—	$ —	$ —	$ —	16	$ 850,051	$ 850,051	$ —
CONCESSION - Extension of Maturity								
Direct Financing Leases	—	$ —	$ —	$ —	1	$ 98,119	$ 98,119	$ —
	—	$ —	$ —	$ —	1	$ 98,119	$ 98,119	$ —
TOTAL	—	$ —	$ —	$ —	17	$ 948,170	$ 948,170	$ —

	For the six months ended June 30, 2018				For the six months ended June 30, 2017			
Classes of Loans/Leases	Number of Loans/Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans/Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Spec Allo
CONCESSION - Extension of Maturity								
Direct Financing Leases	—	—	—	—	2	104,382	104,382	–
	—	$ —	$ —	$ —	2	$ 104,382	$ 104,382	$ –

CONCESSION - Significant Payment Delay								
C&I	—	$ —	$ —	$ —	3	$ 181,198	$ 181,198	$ –
Real Estate	1	46,320	46,320	—	—	—	—	
Direct Financing Leases	2	47,524	47,524	—	23	1,472,403	1,472,403	–
	3	$ 93,844	$ 93,844	$ —	26	$ 1,653,601	$ 1,653,601	$ –
TOTAL	3	$ 93,844	$ 93,844	$ —	28	$ 1,757,983	$ 1,757,983	$ –

Of the TDRs reported above, one with a post-modification recorded balance of $46,320 was on nonaccrual as of June 30, 2018. Of the TDRs reported above, none were on nonaccrual as of June 30, 2017.

For the three and six months ended June 30, 2018, seven of the Company's TDRs redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status. Three of these TDRs were related to one customer whose loans were restructured in the second quarter of 2017 with pre-modification balances totaling $78 thousand and the other TDRs related to other customers whose loans were restructured in the second and third quarters of 2017 with pre-modification balances totaling $378 thousand.

For the three and six months ended June 30, 2017, two of the Company's TDRs redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status. These two TDRs were related to the same customer and were restructured in the fourth quarter of 2016 with pre-modification balances totaling $195 thousand.

Not included in the table above, the Company had 8 TDRs that were restructured and charged off in 2018, totaling $577,377. The Company had 2 TDRs that were restructured and charged off in 2017, totaling $65,623.

NOTE 4 – DERIVATIVES

The Company uses interest rate swap and cap instruments to manage interest rate risk related to the variability of interest payments due to changes in interest rates. The Company entered into interest rate caps on June 5, 2014 to hedge against the risk of rising interest rates on short-term liabilities. The short-term liabilities consist of $30.0 million of 1-month FHLB advances, and the benchmark rate hedged is 1-month LIBOR. The interest rate caps are designated as a cash flow

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hedge in accordance with ASC 815. An initial premium of $2.1 million was paid upfront for the two caps. The details of the interest rate caps are as follows:

Hedged Instrument	Effective Date	Maturity Date	Balance Sheet Location	Notional Amount	1-Month LIBOR Strike Rate	Fair Value as of June 30, 2018	Fair Value as of December 31, 2017
1-month FHLB Advance	6/3/2014	6/5/2019	Other Assets	$ 15,000,000	1.00%	$ 199,821	$ 190,085
1-month FHLB Advance	6/5/2014	6/5/2021	Other Assets	15,000,000	1.50%	506,470	316,615
				$ 30,000,000		$ 706,291	$ 506,700

On June 21, 2018, the Company entered into interest rate swaps to hedge against the risk of rising rates on its variable rate trust preferred securities. The floating rate trust preferred securities are tied to 3-month LIBOR, and the interest rate swaps utilize 3-month LIBOR, so the hedge is effective. The interest rate swaps are designated as a cash flow hedge in accordance with ASC 815. The details of the interest rate swaps are as follows:

Hedged Instrument	Effective Date	Maturity Date	Balance Sheet Location	Notional Amount	Receive Rate	Pay Rate	Fair Value as of June 30, 2018
QCR Holdings Statutory Trust II	9/30/2018	9/30/2028	Other Liabilities	$ 10,000,000	5.19%	5.85%	$ (94,210)
QCR Holdings Statutory Trust III	9/30/2018	9/30/2028	Other Liabilities	8,000,000	5.19%	5.85%	(75,368)
QCR Holdings Statutory Trust V	7/7/2018	7/7/2028	Other Liabilities	10,000,000	3.90%	4.54%	(97,961)
Community National Statutory Trust II	9/20/2018	9/20/2028	Other Liabilities	3,000,000	4.49%	5.17%	(28,329)
Community National Statutory Trust III	9/15//2018	9/15/2028	Other Liabilities	3,500,000	4.09%	4.75%	(33,330)
Guaranty Bankshares	9/15/2018	9/15/2028	Other Liabilities	4,500,000	4.09%	4.75%	(42,852)

Statutory Trust I	$ 39,000,000	4.58 %	5.24 %	$ (372,050)

Changes in fair values of derivatives designated as cash flow hedges are recorded in OCI to the extent the hedge is effective, and reclassified to earnings as the hedged transaction (interest payments on debt) impact earnings.

The caps and swaps are valued by the transaction counterparty on a monthly basis and corroborated by a third party annually.

NOTE 5 - EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$ 10,445,385	$ 8,766,017	$ 20,995,346	$ 17,950,982
Basic EPS	$ 0.75	$ 0.67	$ 1.51	$ 1.36
Diluted EPS	$ 0.73	$ 0.65	$ 1.48	$ 1.33
Weighted average common shares outstanding	13,919,565	13,170,283	13,904,113	13,151,833
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	312,858	346,309	314,890	350,672
Weighted average common and common equivalent shares outstanding	14,232,423	13,516,592	14,219,003	13,502,505

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The increase in weighted average common shares outstanding when comparing the three and six months ended June 30, 2018 to June 30, 2017 was primarily due to the common stock issuance discussed in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10 K for the year ended December 31, 2017.

NOTE 6 – FAIR VALUE

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

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

Assets and liabilities measured at fair value on a recurring basis comprise the following at June 30, 2018 and December 31, 2017:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018:				
Securities AFS:				
U.S. govt. sponsored agency securities	$ 35,666,536	$ —	$ 35,666,536	$ —
Residential mortgage-backed and related securities	158,534,448	—	158,534,448	—
Municipal securities	59,507,267	—	59,507,267	—
Other securities	4,236,420	—	4,236,420	—
Interest rate caps	706,291	—	706,291	—
Interest rate swaps - assets	6,171,740	—	6,171,740	
Total assets measured at fair value	$ 264,822,702	$ —	$ 264,822,702	$ —
Interest rate swaps - liabilities	$ 6,543,790	$ —	$ 6,543,790	$ —
Total liabilities measured at fair value	$ 6,543,790	$ —	$ 6,543,790	$ —

December 31, 2017:				
Securities AFS:				
U.S. govt. sponsored agency securities	$ 38,096,534	$ —	$ 38,096,534	$ —
Residential mortgage-backed and related securities	163,301,304	—	163,301,304	—
Municipal securities	66,625,496	—	66,625,496	—
Other securities	4,884,573	1,028	4,883,545	—
Interest rate caps	506,700	—	506,700	—
Interest rate swaps - assets	4,397,238	—	4,397,238	
Total assets measured at fair value	$ 277,811,845	$ 1,028	$ 277,810,817	$ —
Interest rate swaps - liabilities	$ 4,397,238	$ —	$ 4,397,238	$ —
Total liabilities measured at fair value	$ 4,397,238	$ —	$ 4,397,238	$ —

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Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - continued

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, 2018 or 2017.

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

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

Interest rate swaps are executed for select commercial customers. The interest rate swaps are further described in Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10 K for the year ended December 31, 2017. The fair values are determined by comparing the contract rate on the swap with the then-current market rate for the remaining term of the transaction (Level 2 inputs).

Interest rate swaps are also used for the purpose of hedging interest rate risk on junior subordinated debt. The fair values are determined by comparing the contract rate on the swap with the then-current market rate for the remaining term of the transaction (Level 2 inputs).

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

Assets measured at fair value on a non-recurring basis comprise the following at June 30, 2018 and December 31, 2017:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for	Significant Other Observable	Significant Unobservable