

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
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Distributions to
noncontrolling
interests

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

Part I
Item 1

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
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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	%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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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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.

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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