

QCR HOLDINGS INC
Form 10-K
March 08, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011.

Commission file number: 0-22208

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

Delaware
(State of incorporation)

42-1397595
(I.R.S. Employer Identification No.)

3551 7th Street, Moline, Illinois 61265
(Address of principal executive offices)

(309) 743-7761
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:
Common stock, \$1.00 Par Value The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Exchange Act:
Preferred Share Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 definitions of “large accelerated filer,” “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 [X]

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

Yes [] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on The NASDAQ Global Market on June 30, 2011, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$35,749,379.

As of February 29, 2012, the Registrant had outstanding 4,823,150 shares of common stock, \$1.00 par value per share.

Documents incorporated by reference:

Part III of Form 10-K - Proxy statement for annual meeting of stockholders to be held in May 2012.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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Part I

Item 1. Business

General. QCR Holdings, Inc. (the “Company”) is a multi-bank holding company headquartered in Moline, Illinois, that was formed in February 1993 under the laws of the state of Delaware. The Company serves the Quad Cities, Cedar Rapids, and Rockford communities through the following three wholly-owned banking subsidiaries, which provide full-service commercial and consumer banking and trust and asset management services:

- Quad City Bank and Trust Company (“QCBT”), which is based in Bettendorf, Iowa, and commenced operations in 1994;
- Cedar Rapids Bank and Trust Company (“CRBT”), which is based in Cedar Rapids, Iowa, and commenced operations in 2001; and
- Rockford Bank and Trust Company (“RB&T”), which is based in Rockford, Illinois, and commenced operations in 2005.

The Company also engages in direct financing lease contracts through the 80% equity investment of QCBT in m2 Lease Funds, LLC (“m2”), based in Brookfield, Wisconsin, and in real estate holdings through its 91% equity investment in Velie Plantation Holding Company, LLC (“VPHC”), based in Moline, Illinois.

Quad City Bancard, Inc. (“Bancard”), previously a wholly-owned subsidiary of the Company, conducted the Company’s credit card issuing operation. Effective December 31, 2009, Bancard was dissolved and liquidated. The credit card issuing operation was merged in as a department of QCBT.

During 2008, Bancard sold its merchant credit card acquiring business. The resulting gain on sale, net of taxes and related expenses, was approximately \$3.0 million. The comparative financial results associated with the merchant credit card acquiring business have been reflected as discontinued operations throughout the annual report.

On December 31, 2008, the Company sold its Milwaukee, Wisconsin subsidiary, First Wisconsin Bank and Trust Company (“FWBT”), for \$13.7 million which resulted in a pre-tax gain on sale of approximately \$495 thousand. The comparative financial results associated with FWBT have been reflected as discontinued operations throughout the annual report.

Subsidiary Banks. QCBT was capitalized on October 13, 1993, and commenced operations on January 7, 1994. QCBT is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the Federal Deposit Insurance Corporation (the “FDIC”) to the maximum amount permitted by law. QCBT provides full service commercial and consumer banking and trust and asset management services in the Quad Cities and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and in Moline, Illinois. QCBT has the 80% equity investment in m2. QCBT, on a consolidated basis with m2, had total segment assets of \$1.11 billion and \$1.03 billion as of December 31, 2011 and 2010, respectively.

CRBT is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. The Company commenced operations in Cedar Rapids in June 2001, operating a branch of QCBT. The Cedar Rapids branch operation then began functioning under the CRBT charter in September 2001. CRBT provides full-service commercial and consumer banking and trust and asset management services to Cedar Rapids, Iowa and adjacent communities through its two facilities. The headquarters for CRBT is located in downtown Cedar Rapids, and its first branch location is located in northern Cedar Rapids. CRBT had total segment assets of \$560.1 million and \$546.8 million as of December 31, 2011 and 2010, respectively.

RB&T is an Illinois-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. The Company commenced operations in Rockford, Illinois in September 2004, operating a branch of QCBT, and that operation began functioning under the Rockford Bank & Trust charter in January 2005. RB&T provides full-service commercial and consumer banking and trust and asset management services to Rockford and adjacent communities through its original office located in downtown Rockford and its branch facility located on Guilford Road at Alpine Road in Rockford. RB&T had total segment assets of \$294.4 million and \$271.4 million as of December 31, 2011 and 2010, respectively.

See Financial Statement Note 21 for additional business segment information.

Other Operating Subsidiaries. On August 26, 2005, QCBT acquired 80% of the membership units of m2. John Engelbrecht, the President and Chief Executive Officer of m2, retained 20% of the membership units. m2, which is based in Brookfield, Wisconsin, is engaged in the business of leasing machinery and equipment to commercial and industrial businesses under direct financing lease contracts.

Beginning in 1998, the Company held a 20% equity investment in VPHC. In 2006, the Company acquired an additional 37% of the membership units bringing its total equity investment to 57%. During 2009, the Company acquired an additional 16% of the membership units to bring its total equity investment to 73%. And, during the fourth quarter of 2010, the Company acquired an additional 18% of the membership units to bring its total equity investment to 91%. VPHC is engaged in holding the real estate property known as the Velie Plantation Mansion in Moline, Illinois.

On January 1, 2008, QCBT acquired 100% of the membership units of CMG Investment Advisors, LLC, which is an investment management and advisory company. During 2010, the operating subsidiary was renamed Quad City Investment Advisors, LLC.

Trust Preferred Subsidiaries. Following is a listing of the Company's non-consolidated subsidiaries formed for the issuance of trust preferred securities, including pertinent information as of December 31, 2011 and 2010:

Name	Date Issued	Amount Issued	Interest Rate	Interest Rate as of 12/31/11	Interest Rate as of 12/31/10
QCR Holdings Statutory Trust II	February 2004	\$ 12,372,000	2.85% over 3-month LIBOR *	3.22 %	6.93 %
QCR Holdings Statutory Trust III	February 2004	8,248,000	2.85% over 3-month LIBOR	3.22 %	3.15 %
QCR Holdings Statutory Trust IV	May 2005	5,155,000	1.80% over 3-month LIBOR	2.20 %	2.09 %
QCR Holdings Statutory Trust V	February 2006	10,310,000	1.55% over 3-month LIBOR **	1.95 %	6.62 %
		\$36,085,000	Weighted Average Rate	2.71 %	5.29 %

*Rate was fixed at 6.93% until March 31, 2011 when it became variable based on 3-month LIBOR plus 2.85%, reset quarterly.

**Rate was fixed at 6.62% until April 7, 2011 when it became variable based on 3-month LIBOR plus 1.55%, reset quarterly.

Securities issued by Trust II, Trust III, Trust IV, and Trust V mature in thirty years, but are all currently callable at par anytime.

Other Ownership Interests. The Company invests limited amounts of its capital in stocks of financial institutions and mutual funds. In addition to its wholly-owned and majority-owned subsidiaries, the Company owns a 20% equity position in Nobel Real Estate Investors, LLC. In June 2005, CRBT entered into a joint venture as a 50% owner of Cedar Rapids Mortgage Company, LLC.

The Company previously owned a 2.25% equity investment in Trisource Solutions, LLC (“Trisource”). On July 2, 2010, the Company exercised a put option and sold its equity investment back to the majority owner of Trisource for \$750 thousand to be received in monthly installments of \$10 thousand through July 2012, with a final balloon payment to be made in August 2012. As a result, the gain (materially all of the sales proceeds) is deferred and recognized on a cash basis.

Business. The Company’s principal business consists of attracting deposits and investing those deposits in loans/leases and securities. The deposits of the subsidiary banks are insured to the maximum amount allowable by the FDIC. The Company’s results of operations are dependent primarily on net interest income, which is the difference between the interest earned on its loans/leases and securities and the interest paid on deposits and borrowings. The Company’s operating results are affected by economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities, as described more fully in this Form 10-K. Its operating results also can be affected by trust fees, investment advisory and management fees, deposit service charge fees, gains on the sale of residential real estate and government guaranteed loans, earnings from bank-owned life insurance and other income. Operating expenses include employee compensation and benefits, occupancy and equipment expense, professional and data processing fees, advertising and marketing expenses, bank service charges, FDIC and other insurance, loan/lease expenses and other administrative expenses.

The Company and its subsidiaries collectively employed 355 and 350 full-time equivalents (“FTEs”) at December 31, 2011 and 2010, respectively.

The Board of Governors of the Federal Reserve System (the “Federal Reserve”) is the primary federal regulator of the Company and its subsidiaries. In addition, QCBT and CRBT are regulated by the Iowa Superintendent of Banking and RB&T is regulated by the State of Illinois Department of Financial and Professional Regulation. The FDIC, as administrator of the Deposit Insurance Fund, has regulatory authority over the subsidiary banks.

Lending/Leasing. The Company and its subsidiaries provide a broad range of commercial and retail lending and investment services to corporations, partnerships, individuals and government agencies. The subsidiary banks actively market their services to qualified lending and deposit clients. Officers actively solicit the business of new clients entering their market areas as well as long-standing members of the local business community. The Company has an established lending/leasing policy which includes a number of underwriting factors to be considered in making a loan/lease, including, but not limited to, location, loan-to-value ratio, cash flow, collateral and the credit history of the borrower.

In accordance with Iowa regulation, the legal lending limit to one borrower for QCBT and CRBT, calculated as 15% of aggregate capital, was \$14.5 million and \$8.8 million, respectively, as of December 31, 2011. In accordance with Illinois regulation, the legal lending limit to one borrower for RB&T, calculated as 25% of aggregate capital, totaled \$9.2 million as of December 31, 2011.

The Company recognizes the need to prevent excessive concentrations of credit exposure to any one borrower or group of related borrowers. As such, the Company has established an in-house lending limit, which is lower than each subsidiary bank’s legal lending limit, in an effort to manage individual borrower exposure levels.

The in-house lending limit is the maximum amount of credit each subsidiary bank will extend to a single borrowing entity or group of related entities. Under the in-house limit, total credit exposure to a single borrowing entity or group of related entities will not exceed the following, subject to certain exceptions:

Quad City Bank & Trust:	\$7.5 million
Cedar Rapids Bank & Trust:	\$5.0 million
Rockford Bank & Trust:	\$3.5 million

On a consolidated basis, the in-house lending limit is \$10.0 million, which is the maximum amount of credit that all affiliated banks when combined will extend to a single borrowing entity or group of related entities, subject to certain exceptions.

As part of the loan monitoring activity at the three subsidiary banks, credit administration personnel interact closely with senior bank management. The Company has a separate in-house loan review function to analyze credits of the subsidiary banks. To complement the in-house loan review, an independent third-party performs external loan reviews. Management has attempted to identify problem loans at an early stage and to aggressively seek a resolution of those situations.

The Company recognizes that a diversified loan/lease portfolio contributes to reducing risk in the overall loan/lease portfolio. The specific loan/lease portfolio mix is subject to change based on loan/lease demand, the business environment and various economic factors. The Company actively monitors concentrations within the loan/lease portfolio to ensure appropriate diversification and concentration risk is maintained.

Specifically, each subsidiary bank's total loans as a percentage of average assets may not exceed 85%. In addition, following are established policy limits and the actual allocations for the three subsidiary banks as of December 31, 2011 for the loan portfolio on a per loan type basis, reflected as a percentage of the subsidiary bank's average gross loans:

Type of Loan *	As of December 31, 2011							
	Maximum Percentage per Loan Policy **		QCBT		CRBT		RB&T	
One-to-four family residential	30	%	13	%	13	%	19	%
Multi-family	15	%	3	%	7	%	3	%
Farmland	5	%	0	%	0	%	1	%
Non-farm, nonresidential	50	%	31	%	39	%	45	%
Construction and land development	20	%	5	%	6	%	6	%
Commercial and industrial	60	%	22	%	30	%	25	%
Loans to individuals	10	%	3	%	1	%	1	%
Lease financing	20	%	15	%	0	%	0	%
All other loans	10	%	8	%	4	%	0	%
			100	%	100	%	100	%
Bank stock loans ***	15	%	8	%	0	%	0	%

* The loan types above are as defined and reported in the subsidiary banks' quarterly Reports of Condition and Income (also known as Call Reports).

** The maximum percentages listed are the same for all subsidiary banks except for CRBT where the maximum percentage for one-to-four family residential is 25%, the maximum percentage for construction and land development is 15%, and the maximum percentage for lease financing receivables is 5%. Additionally, both CRBT and RB&T have maximum percentages for bank stock loans of 10%.

*** Bank stock loans are not a separate reportable line item on the Call Reports. The loans are reported within "all other loans" above.

The following table presents total loans/leases by major loan/lease type and subsidiary as of December 31, 2011 and 2010. Residential real estate loans held for sale are included in residential real estate loans below.

Quad City Bank & Trust		m2 Lease Funds		Cedar Rapids Bank & Trust		Rockford Bank & Trust		Intercompany Elimination		Consolidated Total	
\$	%	\$	%	\$	%	\$	%	\$	\$	\$	%

As of December (dollars in thousands)

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31, 2011:

Commercial and industrial loans	\$ 177,069	34 %	\$ -	0 %	\$ 116,714	34 %	\$ 57,011	25 %	\$ -	\$ 350,794	29 %
Commercial real estate loans	260,895	49 %	-	0 %	184,338	53 %	134,580	59 %	(2,009)	577,804	48 %
Direct financing leases	-	0 %	93,212	97 %	-	0 %	-	0 %	-	93,212	8 %
Residential real estate loans	43,405	8 %	-	0 %	29,847	8 %	24,855	11 %	-	98,107	8 %
Installment and other consumer loans	48,590	9 %	-	0 %	17,846	5 %	11,787	5 %	-	78,223	7 %
Deferred loan/lease origination costs, net of fees	56	0 %	3,217	3 %	(703)	0 %	35	0 %	-	2,605	0 %
	\$ 530,015	100 %	\$ 96,429	100 %	\$ 348,042	100 %	\$ 228,268	100 %	\$ (2,009)	\$ 1,200,745	100 %

As of
December
31, 2010:

Commercial and industrial loans	\$ 194,316	38 %	\$ -	0 %	\$ 117,236	32 %	\$ 54,073	27 %	\$ -	\$ 365,625	31 %
Commercial real estate loans	239,338	46 %	-	0 %	197,774	54 %	118,763	58 %	(2,158)	553,717	47 %
Direct financing leases	-	0 %	83,010	97 %	-	0 %	-	0 %	-	83,010	7 %
Residential real estate loans	34,820	7 %	-	0 %	32,155	9 %	15,222	7 %	-	82,197	7 %
Installment and other consumer loans	49,664	9 %	-	0 %	21,243	5 %	15,333	8 %	-	86,240	8 %
Deferred loan/lease origination costs, net of	30	0 %	2,342	3 %	(628)	0 %	6	0 %	-	1,750	0 %

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\$518,168	100%	\$85,352	100%	\$367,780	100%	\$203,397	100%	\$(2,158)	\$1,172,539	100%
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Proper pricing of loans is necessary to provide adequate return to the Company's shareholders. Loan pricing, as established by the subsidiary banks' Asset/Liability Committee, shall include consideration for the cost of funds, loan maturity and risk, origination and maintenance costs, appropriate shareholder return, competitive factors, and the economic environment. The portfolio contains a mix of loans with fixed and floating interest rates. Management attempts to maximize the use of interest rate floors on its variable rate loan portfolio. Refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk for more discussion on the Company's management of interest rate risk.

Commercial and Industrial Lending

As noted above, the subsidiary banks are active commercial and industrial lenders. The current areas of emphasis include loans to small and mid-sized businesses with a wide range of operations such as wholesalers, manufacturers, building contractors, business services companies, other banks, and retailers. The banks provide a wide range of business loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of facilities, equipment and other purposes. Since 2010, the subsidiary banks have been active in participating in lending programs offered by the Small Business Administration ("SBA") and the United States Department of Agriculture ("USDA"). Under these programs, the government entities will generally provide a guarantee of repayment ranging from 50% to 85% of the principal amount of the qualifying loan.

Loan approval is generally based on the following factors:

- Ability and stability of current management of the borrower;
- Stable earnings with positive financial trends;
- Sufficient cash flow to support debt repayment;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

For commercial and industrial loans, the Company assigns internal risk ratings which are largely dependent upon the aforementioned approval factors. The risk rating is reviewed annually or on an as needed basis depending on the specific circumstances of the loan. See Financial Statement Note 1 for additional information, including the internal risk rating scale.

As part of the underwriting process, management reviews current borrower financial statements. When appropriate, certain commercial and industrial loans may contain covenants requiring maintenance of financial performance ratios such as, but not limited to:

- Minimum debt service coverage ratio;
- Minimum current ratio;
- Maximum debt to tangible net worth ratio; and/or
- Minimum tangible net worth

Establishment of these financial performance ratios depends on a number of factors, including risk rating and the specific industry.

Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans must exceed the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash. Approved non-real estate

collateral types and corresponding maximum advance percentages for each are listed below.

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Approved Collateral Type	Maximum Advance %
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Financial Instruments

U.S. Government Securities	90% of market value
Securities of Federal Agencies	90% of market value
Municipal Bonds rated by Moody's	
As "A" or better	80% of market value
Listed Stocks	75% of market value
Mutual Funds	75% of market value
Cash Value Life Insurance	95%, less policy loans
Savings/Time Deposits (Bank)	100% of current value

General Business

Accounts Receivable	80% of eligible A/R
Inventory	50% of value
Fixed Assets (Existing)	50% of net book value, or 75% of orderly liquidation appraised value
Fixed Assets (New)	80% of cost
Leasehold Improvements	0%

Generally, if the above collateral is part of a cross-collateralization with other approved assets, then the maximum advance percentage may be higher.

The lending policy specifies maximum term limits for commercial and industrial loans. For term loans, the maximum term is generally 7 years. Generally, term loans range from 3 to 5 years. For lines of credit, the maximum term is typically 365 days.

In addition, the subsidiary banks often take personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Commercial Real Estate Lending

The subsidiary banks also make commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those standards and processes specific to real estate loans. Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of commercial real estate (commercial real estate loans on improved property, raw land, land development, and commercial construction). These limits are the same limits or, in some situations, more conservative limits than those established by regulatory authorities. Following is a listing of these limits as well as some of the other guidelines included in the lending policy for the major categories of commercial real estate loans:

Commercial Real Estate Loan Types	Maximum Advance Rate **	Maximum Term
Commercial Real Estate Loans on Improved Property *	80%	7 years
Raw Land	Lesser of 90% of project cost, or 65% of "as is" appraised value	12 months

Land Development	Lesser of 90% of project cost, or 75% of appraised value	24 months
Commerical Construction Loans	Lesser of 90% of project cost, or 80% of appraised value	365 days

* Generally, the debt service coverage ratio must be a minimum of 1.15x for non-owner occupied loans and 1.00x for owner-occupied loans. For loans greater than \$500 thousand, the subsidiary banks sensitivity test this ratio for deteriorated economic conditions, major changes in interest rates, and/or significant increases in vacancy rates.

** These maximum rates are consistent or, in some situations, more conservative than those established by regulatory authorities.

The lending policy also includes guidelines for real estate appraisals and evaluations, including minimum appraisal and evaluation standards based on certain transactions. In addition, the subsidiary banks often take personal guarantees to help assure repayment.

In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. Owner-occupied loans are generally considered to have less risk. As of December 31, 2011 and 2010, approximately 29% and 26%, respectively, of the commercial real estate loan portfolio was owner-occupied.

The Company's lending policy limits non-owner occupied commercial real estate lending to 300% of total risk-based capital, and limits construction, land development, and other land loans to 100% of total risk-based capital. Exceeding these limits warrants the use of heightened risk management practices in accordance with regulatory guidelines. As of December 31, 2011, all three subsidiary banks were in compliance with these limits.

Following is a listing of the significant industries within the Company's commercial real estate loan portfolio as of December 31, 2011 and 2010:

	2011		2010	
	Amount	%	Amount	%
(dollars in thousands)				
Lessors of Nonresidential Buildings	\$ 179,511	31 %	\$ 154,427	28 %
Lessors of Residential Buildings	50,029	9 %	52,582	9 %
Land Subdivision	33,252	6 %	30,572	6 %
New Car Dealers	25,223	4 %	6,521	1 %
Hotels	19,061	3 %	16,081	3 %
Lessors of Other Real Estate Property	15,830	3 %	19,688	4 %
New Single Family Construction	10,788	2 %	16,053	3 %
Other *	244,110	42 %	257,793	46 %
Total Commercial Real Estate Loans	\$ 577,804	100 %	\$ 553,717	100 %

* "Other" consists of all other industries. None of these had concentrations greater than \$12.5 million, or 2.5% of total commercial real estate loans.

Direct Financing Leasing

m2 leases machinery and equipment to commercial and industrial customers under direct financing leases. All lease requests are subject to the credit requirements and criteria as set forth in the lending/leasing policy. In all cases, a formal independent credit analysis of the lessee is performed.

The following private and public sector business assets are generally acceptable to consider for lease funding:

- Computer systems
- Photocopy systems
- Fire trucks
- Specialized road maintenance equipment
- Medical equipment
- Commercial business furnishings

- - Vehicles classified as heavy equipment
 - Aircraft
- Equipment classified as plant or office equipment
 - Marine boat lifts

m2 will generally refrain from funding leases of the following type:

- Leases collateralized by non-marketable items
- Leases collateralized by consumer items, such as vehicles, household goods, recreational vehicles, boats, etc.
 - Leases collateralized by used equipment, unless its remaining useful life can be readily determined
 - Leases with a repayment schedule exceeding 7 years

Residential Real Estate Lending

Generally, the subsidiary banks' residential real estate loans conform to the underwriting requirements of Freddie Mac and Fannie Mae to allow the subsidiary banks to resell loans in the secondary market. The subsidiary banks structure most loans that will not conform to those underwriting requirements as adjustable rate mortgages that adjust in one to five years, and then retain these loans in their portfolios. During 2011, the subsidiary banks originated and held a limited amount of 15-year fixed rate residential real estate loans that met certain credit guidelines. Servicing rights are not presently retained on the loans sold in the secondary market. The lending policy establishes minimum appraisal and other credit guidelines.

As mentioned above, the subsidiary banks sell the majority of their residential real estate loans in the secondary market. The following table presents the originations and sales of residential real estate loans for the Company.

For the year ended December 31,
2011 2010 2009

(dollars in thousands)

Originations of residential real estate loans	\$ 117,914	\$ 164,572	\$ 157,180
Sales of residential real estate loans	\$ 83,926	\$ 134,304	\$ 141,619
Percentage of sales to originations	71 %	82 %	90 %

Installment and Other Consumer Lending

The consumer lending department of each bank provides many types of consumer loans, including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type. In particular, for home equity loans and home equity lines of credit, the minimum credit bureau score is 680. For both home equity loans and lines of credit, the maximum advance rate is 90% of value with a minimum credit bureau score of 720, and the maximum advance rate is 80% of value with a credit bureau score of 680 to 719. The maximum term on home equity loans is 10 years and maximum amortization is 15 years. The maximum term on home equity lines of credit is 5 years.

In some instances for all loans/leases, it may be appropriate to originate or purchase loans/leases that are exceptions to the guidelines and limits established within the lending policy described above. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are generally noted as such and specifically identified in loan/lease approval documents.

Competition. The Company currently operates in the highly competitive Quad Cities, Cedar Rapids, and Rockford markets. Competitors include not only other commercial banks, credit unions, thrift institutions, and mutual funds, but also, insurance companies, finance companies, brokerage firms, investment banking companies, and a variety of

other financial services and advisory companies. Many of these competitors are not subject to the same regulatory restrictions as the Company. Many of these unregulated competitors compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services. The Company competes in markets with a number of much larger financial institutions with substantially greater resources and larger lending limits.

Appendices. The commercial banking business is a highly regulated business. See Appendix A for a summary of the federal and state statutes and regulations that are applicable to the Company and its subsidiaries. Supervision, regulation and examination of banks and bank holding companies by bank regulatory agencies are intended primarily for the protection of depositors rather than stockholders of bank holding companies and banks.

See Appendix B for tables and schedules that show selected comparative statistical information relating to the business of the Company required to be presented pursuant to federal securities laws. Consistent with the information presented in Form 10-K, results are presented for the fiscal years ended December 31, 2011, 2010, 2009, 2008, and 2007 and have been reclassified, as appropriate, for discontinued operations during the years ended December 31, 2008 and 2007.

Internet Site, Securities Filings and Governance Documents. The Company maintains Internet sites for itself and each of its three banking subsidiaries. The Company makes available free of charge through these sites its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Also available are many of its corporate governance documents, including the Code of Conduct and Ethics Policy. The sites are www.qcrh.com, www.qcbt.com, www.crbt.com, and www.rkfdbank.com.

Item 1A. Risk Factors

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors:

Difficult market conditions have affected the financial industry and may adversely affect us in the future.

Dramatic declines in the U.S. housing market over the past few years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial banks and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital from private and government entities, to merge with larger and stronger financial institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets in general and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, erosion of consumer confidence, increased market volatility and widespread reduction of business activity in general. The resulting economic pressure on consumers and erosion of confidence in the financial markets has already adversely affected our industry and may adversely affect our business, financial condition and results of operations. Although we believe that these difficult conditions in the financial markets have recently improved, a worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and other financial institutions. In particular, we may face the following risks in connection with these events:

- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite the loans become less predictive of future behaviors.

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The models used to estimate losses inherent in the credit exposure require difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of the borrowers to repay their loans, which may no longer be capable of accurate estimation and which may, in turn, impact the reliability of the models.

- Our ability to borrow from other financial institutions or to engage in sales of mortgage loans to third parties on favorable terms, or at all, could be adversely affected by further disruptions in the capital markets or other events, including deteriorating investor expectations.
- Competitive dynamics in the industry could change as a result of consolidation of financial services companies in connection with current market conditions.
 - We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- We expect to face increased capital requirements, both at the Company level and at each of the subsidiary banks. In this regard, the Collins Amendment to the Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. Furthermore, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, recently announced an agreement to a strengthened set of capital requirements for internationally active banking organizations, known as Basel III. We expect U.S. banking authorities to follow the lead of Basel III and require all U.S. banking organizations to maintain significantly higher levels of capital, which may limit our ability to pursue business opportunities and adversely affect our results of operations and growth prospects.
- We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the Deposit Insurance Fund, or DIF, and reduced the ratio of reserves to insured deposits. Furthermore, the Dodd-Frank Act requires the FDIC to increase the DIF's reserves against future losses, which will necessitate increased assessments on depository institutions. Although the precise impact on us will not be clear until implementing rules are issued, any future increases in assessments applicable to us will decrease our earnings and could have a material adverse effect on the value of, or market for, our common stock.

If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Our business is concentrated in and dependent upon the continued growth and welfare of the Quad Cities, Cedar Rapids, and Rockford markets.

We operate primarily in the Quad Cities, Cedar Rapids, and Rockford markets, and as a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in those areas. We have developed a particularly strong presence in Bettendorf, Cedar Rapids and Davenport, Iowa and Moline and Rockford, Illinois and their surrounding communities. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce demand for our products and services, affect the ability of our customers to repay their loans to us, increase the levels of our non-performing and problem loans, and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

We face intense competition in all phases of our business from other banks and financial institutions.

The banking and financial services businesses in our markets are highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank

financial services providers. Many of these competitors are not subject to the same regulatory restrictions as we are. Many of our unregulated competitors compete across geographic boundaries and are able to provide customers with a feasible alternative to traditional banking services.

Increased competition in our markets may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to modify our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, have larger lending limits and offer a broader range of financial services than we can offer.

We must effectively manage our credit risk.

There are risks inherent in making any loan, including risks inherent in dealing with specific borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department and an external third party. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.

The majority of our subsidiary banks' loan portfolios are invested in commercial and industrial and commercial real estate loans, and we focus on lending to small to medium-sized businesses. The size of the loans we can offer to commercial customers is less than the size of the loans that our competitors with larger lending limits can offer. This may limit our ability to establish relationships with the area's largest businesses. Smaller companies tend to be at a competitive disadvantage and generally have limited operating histories, less sophisticated internal record keeping and financial planning capabilities and fewer financial resources than larger companies. As a result, we may assume greater lending risks than financial institutions that have a lesser concentration of such loans and tend to make loans to larger, more established businesses. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. In addition to commercial and commercial real estate loans, our subsidiary banks are also active in residential mortgage and consumer lending. Should the economic climate fail to improve or worsen, our borrowers may experience financial difficulties, and the level of non-performing loans, charge-offs and delinquencies could rise, which could negatively impact our business through increased provision for loan/lease losses, reduced interest income on loans/leases, and increased expenses incurred to carry and resolve problem loans/leases.

Commercial and industrial loans make up a large portion of our loan/lease portfolio.

Commercial and industrial loans were \$350.8 million, or approximately 29% of our total loan/lease portfolio, as of December 31, 2011. Our commercial and industrial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment and real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the pledged collateral and enforcement of a personal guarantee, if any exists. Whenever possible, we require a personal guarantee on commercial loans. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing these loans may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. In addition, if the United States economy experiences a prolonged recovery period, it could harm or continue to harm the businesses of our commercial and industrial customers and reduce the value of the collateral securing these loans.

Our loan/lease portfolio has a significant concentration of commercial real estate loans, which involve risks specific to real estate values.

Commercial real estate lending comprises a significant portion of our lending business. Specifically, commercial real estate loans were \$577.8 million, or approximately 48% of our total loan/lease portfolio, as of December 31, 2011. Of this amount, \$167.8 million, or approximately 29%, is owner-occupied. The market value of real estate securing our commercial real estate loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located and in the past several years our market areas have experienced a general weakening in real estate valuations. Continued adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

The problems that have occurred in the residential real estate and mortgage markets throughout much of the United States also affected the commercial real estate market. In our market areas, we have generally experienced a downturn in credit performance by our commercial real estate loan customers, and in light of the uncertainty that exists in the economy and credit markets, there can be no guarantee that we will not experience further deterioration in the performance of commercial real estate and other real estate loans in the future. In such case, we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results, financial condition and/or capital.

Our allowance for loan/lease losses may prove to be insufficient to absorb potential losses in our loan/lease portfolio.

We establish our allowance for loan/lease losses in consultation with management of our subsidiaries and maintain it at a level considered adequate by management to absorb loan/lease losses that are inherent in the portfolio. The amount of future loan/lease losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2011, our allowance for loan/lease losses as a percentage of total gross loans/leases was 1.56% and as a percentage of total nonperforming loans/leases was approximately 59%. In addition, we had net charge-offs as a percentage of gross average loans/leases of 0.70% for the year ended December 31, 2011. Because of the concentration of commercial and industrial and commercial real estate loans in our loan portfolio, which tend to be larger in amount than residential real estate loans, the movement of a small number of loans to nonperforming status can have a significant impact on this ratio. Although management believes that the allowance for loan/lease losses as of December 31, 2011 was adequate to absorb losses on any existing loans/leases that may become uncollectible, in light of the current economic environment, we cannot predict loan/lease losses with certainty, and we cannot assure you that our allowance for loan/lease losses will prove sufficient to cover actual loan/lease losses in the future, particularly if economic conditions worsen beyond what management currently expects. Additional provisions to the allowance for loan/lease losses and loan/lease losses in excess of our allowance for loan/lease losses may adversely affect our business, financial condition and results of operations.

Liquidity risks could affect operations and jeopardize our business, results of operations and financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our primary sources of funds consist of cash from operations, deposits, investment maturities and calls, and loan/lease repayments. Additional liquidity is provided by federal funds purchased from the Federal Reserve Bank or other correspondent banks, FHLB advances, wholesale and customer repurchase agreements, brokered time deposits, and the ability to borrow at the Federal Reserve Bank's

Discount Window. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as further disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Since mid-2007, the financial services industry and the credit markets generally have been materially and adversely affected by significant declines in asset values and by a lack of liquidity. The liquidity issues have been particularly acute for regional and community banks, as many of the larger financial institutions have significantly curtailed their lending to regional and community banks to reduce their exposure to the risks of other banks. In addition, many of the larger correspondent lenders have reduced or even eliminated federal funds lines for their correspondent customers. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size and limited analyst coverage. Any decline in available funding could adversely impact our ability to originate loans/leases, invest in securities, meet our expenses, pay dividends to our shareholders, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

Our community banking strategy relies heavily on our subsidiaries' independent management teams, and the unexpected loss of key managers may adversely affect our operations.

We rely heavily on the success of our bank subsidiaries' independent management teams. Accordingly, much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain the executive officers and current management teams of our operating subsidiaries will continue to be important to the successful implementation of our strategy. It is also critical, as we manage our existing portfolio and grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

The Company and each of its banking subsidiaries are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations and, due to the recent financial crisis, we expect that the capital requirements imposed by the regulators will increase in the future. Our ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market condition, and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. Our failure to meet these capital and other regulatory requirements could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock and to make distributions on our trust preferred securities, our ability to make acquisitions, and our business, results of operations and financial condition.

Interest rates and other conditions impact our results of operations.

Our profitability is in large part a function of the spread between the interest rates earned on investments and loans/leases and the interest rates paid on deposits and other interest bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan/lease terms or the mix of adjustable and fixed rate loans/leases in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations is presented at "Quantitative and Qualitative Disclosures about Market Risk" included under Item 7A of Part II of this Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

Failure to pay interest on our debt or dividends on our preferred stock may adversely impact our ability to pay common stock dividends.

As of December 31, 2011, we had \$36.1 million of junior subordinated debentures held by four business trusts that we control. Interest payments on the debentures, which totaled \$1.2 million for 2011, must be paid before we pay dividends on our capital stock, including our common stock. We have the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if we elect to defer interest payments, all deferred interest must be paid before we may pay dividends on our capital stock.

As of December 31, 2011, the Company had 25,000 shares of non-cumulative convertible perpetual preferred stock issued and outstanding. Although these non-cumulative preferred shares will accrue no dividends, dividends will be payable on the preferred shares if declared, and no dividends may be declared on the Company's common stock unless and until dividends have been declared on the outstanding shares. Deferral, of either interest payments on the debentures or preferred dividends on the preferred shares, could cause a subsequent decline in the market price of our common stock because the Company would not be able to pay dividends on its common stock.

In addition, on September 15, 2011, we issued 40,090 shares of senior non-cumulative perpetual preferred stock to Treasury as part of the Small Business Lending Fund Program. The terms of the senior preferred stock impose limits on our ability to pay dividends on and repurchase shares of our common stock and other securities. In general, we may declare and pay dividends on our common stock or any other stock junior to the senior preferred stock, or repurchase shares of any such stock, only if after payment of such dividends or repurchase of such shares, our Tier 1 Capital would be at least 90% of our consolidated Tier 1 Capital on the date of issuance of the senior preferred stock. If we fail to declare and pay dividends on the senior preferred stock in a given quarter, then during such quarter and for the next three quarters following such missed dividend payment we may not pay dividends on or repurchase any common stock or any other securities that are junior to (or in parity with) the senior preferred stock, except that dividends may be paid on parity stock to the extent necessary to avoid any material breach of a covenant by which our company is bound. Although we expect to be able to pay all required dividends on the senior preferred stock (and to continue to pay dividends on common stock at current levels), there is no guarantee that we will be able to do so.

Declines in asset values may result in impairment charges and adversely affect the value of our investments, financial performance and capital.

The market value of investments in our securities portfolio has become increasingly volatile over the past year, and as of December 31, 2011, we had gross unrealized losses of \$114 thousand in our investment portfolio (more than offset by gross unrealized gains of \$7.8 million). The market value of investments may be affected by factors other than the underlying performance of the servicer of the securities or the mortgages underlying the securities, such as ratings downgrades, adverse changes in the business climate and a lack of liquidity in the secondary market for certain investment securities. On a quarterly basis, we formally evaluate investments and other assets for impairment indicators. We may be required to record additional impairment charges if our investments suffer a decline in value that is considered other-than-temporary. If we determine that a significant impairment has occurred, we would be required to charge against earnings the credit-related portion of the other-than-temporary impairment, which could have a material adverse effect on our results of operations in the periods in which the write-offs occur.

The soundness of other financial institutions could negatively affect us.

Our ability to engage in routine funding and other transactions could be negatively affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of the difficulties or failures of other banks, which would increase the capital we need to support our growth.

Legislative and regulatory reforms applicable to the financial services industry may, if enacted or adopted, have a significant impact on our business, financial condition and results of operations.

On July 21, 2010, the Dodd-Frank Act was signed into law, which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act, together with the regulations to be developed thereunder, included provisions affecting large and small financial institutions alike, including several provisions that will affect how community banks, thrifts and small bank and thrift holding companies will be regulated in the future.

The Dodd-Frank Act, among other things, imposed new capital requirements on bank holding companies; changed the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base, and permanently raised the current standard deposit insurance limit to \$250,000; and expanded the FDIC's authority to raise insurance premiums. The legislation also called for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to "offset the effect" of increased assessments on insured depository institutions with assets of less than \$10 billion. The Dodd-Frank Act also authorized the Federal Reserve to limit interchange fees payable on debit card transactions, established the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contained provisions on mortgage-related matters, such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. The Dodd-Frank Act also included provisions that affect corporate governance and executive compensation at all publicly-traded companies and allowed financial institutions to pay interest on business checking accounts.

The Collins Amendment to the Dodd-Frank Act, among other things, eliminated certain trust preferred securities from Tier 1 capital, but certain trust preferred securities issued prior to May 19, 2010 by bank holding companies with total consolidated assets of \$15 billion or less will continue to be includible in Tier 1 capital. This provision also required the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies.

These provisions, or any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations. Our management is actively reviewing the provisions of the Dodd-Frank Act, many of which are to be phased-in over the next several months and years, and assessing its probable impact on our operations. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and us in particular, is uncertain at this time.

The U.S. Congress has also recently adopted additional consumer protection laws such as the Credit Card Accountability Responsibility and Disclosure Act of 2010, and the Federal Reserve has adopted numerous new regulations addressing banks' credit card, overdraft and mortgage lending practices. Additional consumer protection legislation and regulatory activity is anticipated in the near future.

The Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III in September 2010, which is a strengthened set of capital requirements for banking organizations in the United States and around the world. Basel III is currently supported by the U.S. federal banking agencies. As agreed to, Basel III is intended to be fully-phased in on a global basis on January 1, 2019. However, the

ultimate timing and scope of any U.S. implementation of Basel III remains uncertain. As agreed to, Basel III would require, among other things: (i) an increase in the minimum required common equity to 7% of total assets; (ii) an increase in the minimum required amount of Tier 1 capital from the current level of 4% of total assets to 8.5% of total assets; and (iii) an increase in the minimum required amount of total capital, from the current level of 8% to 10.5%. Each of these increased requirements includes 2.5% attributable to a capital conservation buffer to position banking organizations to absorb losses during periods of financial and economic stress. Basel III also calls for certain items that are currently included in regulatory capital to be deducted from common equity and Tier 1 capital. The Basel III agreement calls for national jurisdictions to implement the new requirements beginning January 1, 2013. At that time, the U.S. federal banking agencies will be expected to have implemented appropriate changes to incorporate the Basel III concepts into U.S. capital adequacy standards. Basel III changes, as implemented in the United States, will likely result in generally higher regulatory capital standards for all banking organizations.

Such proposals and legislation, if finally adopted, would change banking laws and our operating environment and that of our subsidiaries in substantial and unpredictable ways. We cannot determine whether such proposals and legislation will be adopted, or the ultimate effect that such proposals and legislation, if enacted, or regulations issued to implement the same, would have upon our business, financial condition or results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

The downgrade of the U.S. credit rating and Europe's debt crisis could have a material adverse effect on our business, financial condition and liquidity.

Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+ on August 5, 2011. A further downgrade or a downgrade by other rating agencies could have a material adverse impact on financial markets and economic conditions in the United States and worldwide. Any such adverse impact could have a material adverse effect on our liquidity, financial condition and results of operations. Many of our investment securities are issued by U.S. government sponsored entities.

In addition, the possibility that certain European Union ("EU") member states will default on their debt obligations have negatively impacted economic conditions and global markets. The continued uncertainty over the outcome of international and the EU's financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. The negative impact on economic conditions and global markets could also have a material adverse effect on our liquidity, financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology.

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services. In addition to enabling us to better serve our customers, the effective use of technology increases efficiency and the potential for cost reduction. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow our market share. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, and if any resulting loss is not insured or exceeds applicable insurance limits, such failure could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

There are no unresolved staff comments.

Item 2. Properties

The following table is a listing of the Company's operating facilities for its subsidiary banks:

Facility Address	Facility Square Footage	Facility Owned or Leased
Quad City Bank & Trust		
2118 Middle Road in Bettendorf, IA	6,700	Owned
4500 Brady Street in Davenport, IA	36,000	Owned
3551 7th Street in Moline, IL	30,000	Owned *
5405 Utica Ridge Road in Davenport, IA	7,400	Leased
1700 Division Street in Davenport, IA	12,000	Owned
Cedar Rapids Bank & Trust		
500 1st Avenue NE, Suite 100 in Cedar Rapids, IA	36,000	Owned
5400 Council Street in Cedar Rapids, IA	5,900	Owned
Rockford Bank & Trust		
127 North Wyman Street in Rockford, IL	7,800	Leased
4571 Guilford Road in Rockford, IL	20,000	Owned

* The building is owned by VPHC, in which the Company has a 91% interest.

The subsidiary banks intend to limit their investment in premises to no more than 50% of their capital. Management believes that the facilities are of sound construction, in good operating condition, are appropriately insured and are adequately equipped for carrying on the business of the Company.

No individual real estate property or mortgage amounts to 10% or more of consolidated assets.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information. The common stock, par value \$1.00 per share, of the Company is listed on The NASDAQ Global Market under the symbol "QCRH". The stock began trading on NASDAQ on October 6, 1993. The Company transferred its listing from the NASDAQ Capital Market to the NASDAQ Global Market on March 1, 2010. As of December 31, 2011, there were 4,758,189 shares of common stock outstanding held by approximately 2,600 holders of record. The following table sets forth the high and low sales prices of the common stock, as reported by NASDAQ for the periods indicated.

	2011 Sales Price		2010 Sales Price		2009 Sales Price	
	High	Low	High	Low	High	Low
First quarter	\$8.670	\$7.220	\$10.000	\$7.650	\$11.930	\$7.120
Second quarter	9.470	7.290	14.400	8.730	11.000	7.760
Third quarter	9.928	8.701	10.970	8.930	10.980	9.470
Fourth quarter	9.234	8.420	9.520	6.745	10.490	7.060

Dividends on Common Stock. On May 4, 2011, the Company declared a cash dividend of \$0.04 per share, or \$183 thousand, which was paid on July 7, 2011, to stockholders of record as of June 23, 2011. On November 3, 2011, the Company declared a cash dividend of \$0.04 per share, or \$183 thousand, which was paid on January 6, 2012, to stockholders of record as of December 26, 2011. In the future, it is the Company's intention to continue to consider the payment of dividends on a semi-annual basis. The Company anticipates an ongoing need to retain much of its operating income to help provide the capital to redeem the Series F Preferred Stock (see Financial Statement Note 11 for detailed discussion of preferred stock) in the short-term and for continued growth in the long-term, but believes that operating results have reached a level that can sustain dividends to stockholders as well.

The Company is heavily dependent on dividend payments from its subsidiary banks to make dividend payments on the Company's preferred and common stock. Under applicable state laws, the banks are restricted as to the maximum amount of dividends that they may pay on their common stock. Iowa and Illinois law provide that state-chartered banks in those states may not pay dividends in excess of their undivided profits.

The Company's ability to pay dividends to its stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized.

The Company also has certain contractual restrictions on its ability to pay dividends. The Company has issued junior subordinated debentures in four private placements. Under the terms of the debentures, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. Additionally, the Company has issued shares of non-cumulative perpetual preferred stock and under the terms of this preferred stock, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. See Financial Statement Note 11 for additional detail on preferred stock. None of these circumstances existed through the date of filing of this Form 10-K filed with the U.S. Securities and Exchange Commission.

Purchase of Equity Securities by the Company. There were no purchases of common stock by the Company for the years ended December 31, 2011, 2010, and 2009.

Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2006 and ending December 31, 2011, a comparison of cumulative total returns for the Company, the NASDAQ Composite Index and the SNL Bank NASDAQ Index prepared by SNL Securities, Charlottesville, Virginia. The graph was prepared at the Company's request by SNL Securities. The information assumes that \$100 was invested at the closing price in December 31, 2006 in the common stock of the Company and each index, and that all dividends were reinvested.

Item 6. Selected Financial Data

The following “Selected Financial Data” of the Company is derived in part from, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto. See Item 8 “Financial Statements.” Results for past periods are not necessarily indicative of results to be expected for any future period.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
STATEMENT OF INCOME DATA					
Continuing Operations:					
Interest income	\$77,723	\$80,097	\$85,611	\$85,147	\$82,491
Interest expense	23,578	30,233	34,949	40,524	48,139
Net interest income	54,145	49,864	50,662	44,623	34,352
Provision for loan/lease losses	6,616	7,464	16,976	9,222	2,336
Non-interest income	17,462	15,406	15,547	13,931	13,499
Non-interest expense	50,993	48,549	46,937	42,334	35,734
Income tax expense	3,868	2,449	247	1,735	2,893
Income from continuing operations	10,130	6,808	2,049	5,263	6,888
Discontinued Operations:					
Income (loss) from discontinued operations, before taxes	-	-	-	2,580	(1,221)
Income tax expense (benefit)	-	-	-	846	(498)
Income (loss) from discontinued operations	-	-	-	1,734	(723)
Net income	10,130	6,808	2,049	6,997	6,165
Less: net income attributable to noncontrolling interests	438	221	277	288	388
Net income attributable to QCR Holdings, Inc.	9,692	6,587	1,772	6,709	5,777
Less: preferred stock dividends and discount accretion	5,284	4,128	3,844	1,785	1,072
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	4,408	2,459	(2,072)	4,924	4,705
PER COMMON SHARE DATA					
Income (loss) from continuing operations - BASIC (1)	\$0.93	\$0.54	\$(0.46)	\$0.69	\$1.19
Income (loss) from discontinued operations - BASIC (1)	-	-	-	0.38	(0.16)
Net income (loss) - BASIC (1)	0.93	0.54	(0.46)	1.07	1.03
Income (loss) from continuing operations - DILUTED (1)	0.92	0.53	(0.46)	0.69	1.18
Income (loss) from discontinued operations - DILUTED (1)	-	-	-	0.37	(0.16)
Net income (loss) - DILUTED (1)	0.92	0.53	(0.46)	1.06	1.02

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Cash dividends declared	0.08		0.08		0.08		0.08		0.08	
Dividend payout ratio	8.60	%	14.81	%	(17.39)) %	7.48	%	7.77	%

BALANCE SHEET DATA

Total assets	\$1,966,610	\$1,836,635	\$1,779,646	\$1,605,629	\$1,476,564
Securities	565,229	424,847	370,520	256,076	220,557
Total loans/leases	1,200,745	1,172,539	1,244,320	1,214,690	1,056,988
Allowance for estimated losses on loans/leases	18,789	20,365	22,505	17,809	11,315
Deposits	1,205,458	1,114,816	1,089,323	1,058,959	884,005
Borrowings	590,603	566,060	542,895	431,820	435,786
Stockholders' equity:					
Preferred	63,386	62,214	58,578	20,158	20,158
Common	81,047	70,357	67,017	72,337	67,629

KEY RATIOS

Return on average assets (2)	0.51	%	0.36	%	0.10	%	0.43	%	0.43	%
Return on average common stockholders' equity (3)	5.82		3.58		(2.97))	7.07		7.40	
Return on average total stockholder's equity (2)	7.09		5.03		1.43		7.47		7.55	
Net interest margin, tax equivalent yield (4)	3.08		2.92		3.14		3.27		2.86	
Efficiency ratio (5)	71.21		74.38		70.89		72.30		74.68	
Loans to deposits	99.61		105.18		114.23		114.71		119.57	
Nonperforming assets to total assets	2.06		2.73		2.27		1.58		0.51	
Allowance for estimated losses on loans/leases to total loans/leases	1.56		1.74		1.81		1.47		1.07	
Net charge-offs to average loans/leases	0.70		0.79		1.00		0.24		0.16	
Average total stockholders' equity to average total assets	7.17		7.13		7.18		5.78		5.66	

(1) Income (loss) amounts are attributable to QCR Holdings, Inc.

(2) Numerator is net income attributable to QCR Holdings, Inc.

(3) Numerator is net income (loss) available to QCR Holdings, Inc. common stockholders

(4) Interest earned and yields on nontaxable investments are determined on a tax equivalent basis using a 34% tax rate

(5) Non-interest expenses divided by the sum of net interest income before provision for loan/lease losses and non-interest income

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information regarding our operations for the years ending December 31, 2011, 2010, and 2009, and our financial condition at December 31, 2011 and 2010. This discussion should be read in conjunction with "Selected Financial Data" and our consolidated financial statements and the accompanying notes thereto included or incorporated by reference elsewhere in this document.

OVERVIEW

The Company was formed in February 1993 for the purpose of organizing QCBT. Over the past nineteen years, the Company has grown to include two additional banking subsidiaries and a number of nonbanking subsidiaries. As of December 31, 2011, the Company had \$1.97 billion in consolidated assets, including \$1.20 billion in total loans/leases and \$1.21 billion in deposits.

The Company recognized net income of \$10.1 million for the year ended December 31, 2011, and net income attributable to QCR Holdings, Inc. of \$9.7 million, which excludes the net income attributable to noncontrolling interests of \$438 thousand. After preferred stock dividends and discount accretion of \$5.3 million, the Company reported net income available to common stockholders of \$4.4 million, or diluted earnings per share of \$0.92. The \$5.3 million of preferred stock dividends and discount accretion included \$1.2 million of accelerated discount accretion on the repurchased Treasury Capital Purchase Program ("TCP") preferred shares. Excluding the impact of the accelerated accretion, the Company's diluted earnings per share for 2011 would have been \$1.18. For the same period in 2010, the Company recognized net income of \$6.8 million, and net income attributable to QCR Holdings, Inc. of \$6.6 million, which excludes the net income attributable to noncontrolling interests of \$221 thousand. After preferred stock dividends and discount accretion of \$4.1 million, the Company reported net income available to common stockholders of \$2.5 million, or diluted earnings per share of \$0.53. By comparison, for 2009, the Company recognized net income of \$2.0 million, and net income attributable to QCR Holdings, Inc. of \$1.8 million, which excludes the net income attributable to noncontrolling interests of \$277 thousand. After preferred stock dividends of \$3.8 million, the Company reported a net loss available to common stockholders of \$2.1 million, or diluted loss per share of \$0.46.

Following is a table that represents the various net income (loss) measurements for the years ended December 31, 2011, 2010, and 2009.

	Year Ended December 31,		
	2011	2010	2009
Net income	\$ 10,129,869	\$ 6,807,726	\$ 2,048,831
Less: Net income attributable to noncontrolling interests	438,221	221,047	276,923
Net income attributable to QCR Holdings, Inc.	\$ 9,691,648	\$ 6,586,679	\$ 1,771,908
Less: Preferred stock dividends and discount accretion	5,283,885 *	4,128,104	3,843,924
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	\$ 4,407,763	\$ 2,458,575	\$ (2,072,016)
Diluted earnings (loss) per common share	\$ 0.92	\$ 0.53	\$ (0.46)

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Weighted average common and common equivalent shares outstanding	4,789,026	4,618,242	4,540,792 **
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*Includes \$1.2 million of accelerated accretion of discount on the TCPP preferred shares repurchased during the third quarter of 2011. See Financial Statement Note 11 for detailed discussion of preferred stock.

**In accordance with U.S. GAAP, the common equivalent shares are not considered in the calculation of diluted earnings per share as the numerator is a net loss.

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

	Year Ended December 31,		
	2011	2010	2009
Net interest income	\$ 54,144,856	\$ 49,863,768	\$ 50,661,667
Provision for loan/lease losses	(6,616,014)	(7,463,618)	(16,975,517)
Noninterest income	17,461,878	15,405,888	15,547,047
Noninterest expense	(50,992,652)	(48,549,063)	(46,937,026)
Federal and state income tax	(3,868,199)	(2,449,249)	(247,340)
Net income	\$ 10,129,869	\$ 6,807,726	\$ 2,048,831

Net interest income, on a tax equivalent basis, grew \$4.3 million, or 9% in 2011 compared to 2010. Declines in interest income were more than offset by significant declines in interest expense. For 2011, average earning assets increased by \$53.0 million, or 3%, and average interest-bearing liabilities declined by \$25.3 million, or 2%, when compared with average balances for 2010. Offsetting this decline and primarily funding the growth in average earning assets, noninterest-bearing deposits grew \$84.5 million, or 36%. A comparison of yields, spreads and margins from 2011 to 2010 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 27 basis points from 4.68% to 4.41%.
- The average cost of interest-bearing liabilities decreased 43 basis points from 2.08% to 1.65%.
 - The net interest spread improved 16 basis points from 2.60% to 2.76%.
 - The net interest margin improved 16 basis points from 2.92% to 3.08%.

Net interest income, on a tax equivalent basis, declined slightly in 2010 compared to 2009. Specifically, on a tax equivalent basis, net interest income totaled \$50.3 million for 2010 compared to \$51.1 million for 2009. Excluding the one-time positive adjustment to interest income in 2009, declines in interest income were effectively offset by declines in interest expense. For 2010, average earning assets increased by \$94.9 million, or 6%, and average interest-bearing liabilities increased by \$46.9 million, or 3%, when compared with average balances for 2009. A comparison of yields, spreads and margins from 2010 to 2009 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 61 basis points from 5.29% to 4.68%.
- The average cost of interest-bearing liabilities decreased 41 basis points from 2.49% to 2.08%.
 - The net interest spread declined 20 basis points from 2.80% to 2.60%.
 - The net interest margin declined 22 basis points from 3.14% to 2.92%.

The Company's management closely monitors and manages net interest margin. From a profitability standpoint, an important challenge for the Company's subsidiary banks and majority-owned leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing and other balance sheet management strategies including, but not limited to, the use of alternative funding sources.

For example, the Company's largest subsidiary bank, QCBT, executed a balance sheet restructuring during the first quarter of 2011. Specifically, the bank utilized excess liquidity and prepaid \$15.0 million of FHLB advances with a weighted average interest rate of 4.87% and a weighted average maturity of May 2012. The fees for prepayment totaled \$832 thousand. The Company sold \$37.4 million of government sponsored agency securities and recognized pre-tax gains of \$880 thousand which more than offset the prepayment fees. The proceeds from the sales of the government sponsored agency securities were reinvested into government guaranteed residential mortgage-backed securities with reduced risk-weighting for regulatory capital purposes and yields that were comparable to the sold securities. The resulting impacts were significant and included:

- Significantly reduced interest expense and improved net interest margin
 - Stronger regulatory capital
 - Reduced reliance on wholesale funding

Separately, during the first quarter of 2011, QCBT modified \$20.4 million of fixed rate FHLB advances with a weighted average interest rate of 4.33% and a weighted average maturity of October 2013 into new fixed rate advances with a weighted average interest rate of 3.35% and a weighted average maturity of February 2014.

Additionally, during the fourth quarter of 2011, the Company's newest subsidiary bank, RB&T, modified \$13.0 million of fixed rate FHLB advances with a weighted average interest rate of 3.37% and a weighted average maturity of March 2013 into new fixed rate FHLB advances with a weighted average interest rate of 2.29% and a weighted average maturity of February 2016.

These modifications reduce interest expense and improve net interest margin, and minimize the exposure to rising rates through the duration extension of fixed rate liabilities.

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

	Years Ended December 31, 2011			2010			2009		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
(dollars in thousands)									
ASSETS									
Interest earnings assets:									
Federal funds sold	\$49,510	\$92	0.19%	\$63,430	\$174	0.27%	\$45,850	\$134	0.29%
Interest-bearing deposits at financial institutions	29,691	405	1.36	31,002	411	1.33	31,090	313	1.01
Investment securities (1)	501,470	12,344	2.46	400,224	11,457	2.86	312,043	12,180	3.90
Restricted investment securities	15,573	558	3.58	16,750	497	2.97	14,595	303	2.08
Gross loans/leases receivable (2) (3) (4)	1,177,705	64,808	5.50	1,209,587	67,999	5.62	1,222,493	73,145	5.98
Total interest earning assets	\$1,773,949	78,207	4.41	\$1,720,993	80,538	4.68	\$1,626,071	86,075	5.29
Noninterest-earning assets:									
Cash and due from banks	\$48,797			\$34,559			\$30,521		
Premises and equipment, net	30,848			31,557			30,868		
Less allowance for estimated losses on loans/leases	(19,902)			(21,678)			(21,831)		
Other	73,346			73,887			59,018		
Total assets	\$1,907,038			\$1,839,318			\$1,724,647		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand deposits	\$492,080	3,865	0.79%	\$388,207	3,674	0.95%	\$366,687	3,834	1.05%
Savings deposits	38,260	62	0.16	37,495	97	0.26	48,596	323	0.66

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Time deposits	363,337	5,012	1.38	465,160	8,911	1.92	511,359	14,217	2.78
Short-term borrowings	144,267	290	0.20	142,197	628	0.44	113,614	712	0.63
Federal Home Loan Bank advances	211,361	7,972	3.77	233,384	9,247	3.96	212,494	9,082	4.27
Junior subordinated debentures	36,085	1,228	3.40	36,085	1,945	5.39	36,085	2,016	5.59
Other borrowings (4)	142,281	5,149	3.62	150,430	5,732	3.81	117,271	4,765	4.06
Total interest-bearing liabilities	\$ 1,427,670	23,578	1.65	\$ 1,452,958	30,234	2.08	\$ 1,406,106	34,949	2.49
Noninterest-bearing demand deposits	\$ 316,110			\$ 231,604			\$ 171,968		
Other noninterest-bearing liabilities	26,558			23,690			22,759		
Total liabilities	\$ 1,770,338			\$ 1,708,252			\$ 1,600,833		
Stockholders' equity	136,700			131,066			123,814		
Total liabilities and stockholders' equity	\$ 1,907,038			\$ 1,839,318			\$ 1,724,647		
Net interest income		\$ 54,629			\$ 50,304			\$ 51,126	
Net interest spread			2.76 %			2.60 %			2.80 %
Net interest margin			3.08 %			2.92 %			3.14 %
Ratio of average interest earning assets to average interest-bearing liabilities	124.25	%		118.45	%		115.64	%	

(1) Interest earned and yields on nontaxable investment securities are determined on a tax equivalent basis using a 34% tax rate in each year presented.

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

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

(4) In accordance with ASC 860, effective January 1, 2010, the Company accounts for some participations sold, including sales of government-guaranteed portions of loans during the recourse period, as secured borrowings. As such, these amounts are included in the average balance for gross loans/leases receivable and other borrowings. For the years ended December 31, 2011 and 2010, this totaled \$2.5 million and \$9.6 million, respectively. During the second quarter of 2011, SBA removed the recourse provision for sales which allowed for sale accounting treatment at the time of sale; thus, the decline in average balance.

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For the years ended December 31, 2011, 2010 and 2009

	Inc./(Dec.) from Prior Year	Components of Change (1) Rate 2011 vs. 2010	Volume
(dollars in thousands)			
INTEREST INCOME			
Federal funds sold	\$(82)	\$(49)	\$(33)
Interest-bearing deposits at other financial institutions	(6)	12	(18)
Investment securities (2)	887	(1,750)	2,637
Restricted investment securities	61	98	(37)
Gross loans/leases receivable (3) (4) (5)	(3,191)	(1,420)	(1,771)
Total change in interest income	\$(2,331)	\$(3,109)	\$778
INTEREST EXPENSE			
Interest-bearing demand deposits	\$191	\$(690)	\$881
Savings deposits	(35)	(37)	2
Time deposits	(3,899)	(2,188)	(1,711)
Short-term borrowings	(338)	(347)	9
Federal Home Loan Bank advances	(1,275)	(430)	(845)
Junior subordinated debentures	(717)	(717)	-
Other borrowings (5)	(583)	(281)	(302)
Total change in interest expense	\$(6,656)	\$(4,690)	\$(1,966)
Total change in net interest income	\$4,325	\$1,581	\$2,744

	Inc./(Dec.) from Prior Year	Components of Change (1) Rate 2010 vs. 2009	Volume
(dollars in thousands)			
INTEREST INCOME			
Federal funds sold	\$40	\$(8)	\$48
Interest-bearing deposits at other financial institutions	98	99	(1)
Investment securities (2)	(723)	(3,693)	2,970
Restricted investment securities	194	144	50
Gross loans/leases receivable (3) (4)	(5,146)	(4,381)	(765)
Total change in interest income	\$(5,537)	\$(7,839)	\$2,302
INTEREST EXPENSE			
Interest-bearing demand deposits	\$(160)	\$(377)	\$217
Savings deposits	(226)	(164)	(62)
Time deposits	(5,306)	(4,112)	(1,194)
Short-term borrowings	(84)	(239)	155

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Federal Home Loan Bank advances	165	(691)	856	
Junior subordinated debentures	(71)	(71)	-
Other borrowings	967	(311)	1,278	
Total change in interest expense	\$(4,715)	\$(5,965)	\$1,250
Total change in net interest income	\$(822)	\$(1,874)	\$1,052

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

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

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

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

(5) In accordance with ASC 860, effective January 1, 2010, the Company accounts for some participations sold, including sales of government-guaranteed portions of loans during the recourse period, as secured borrowings. As such, these amounts are included in the average balance for gross loans/leases receivable and other borrowings. For the years ended December 31, 2011 and 2010, this totaled \$2.5 million and \$9.6 million, respectively. During the second quarter of 2011, SBA removed the recourse provision for sales which allowed sale accounting treatment at the time of the sale; thus, the decline in average balance.

The Company's operating results are also impacted by various sources of noninterest income, including trust department fees, investment advisory and management fees, deposit service fees, gains from the sales of residential real estate loans and government guaranteed loans, earnings on bank-owned life insurance, and other income. Offsetting these items, the Company incurs noninterest expenses which include salaries and employee benefits, occupancy and equipment expense, professional and data processing fees, FDIC and other insurance expense, loan/lease expense, and other administrative expenses.

The Company's operating results are also affected by economic and competitive conditions, particularly changes in interest rates, income tax rates, government policies and actions of regulatory authorities.

CRITICAL ACCOUNTING POLICIES

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

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan/lease losses (also referred to as "allowance for estimated losses on loans/leases"). The Company's allowance for loan/lease losses methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan/lease loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, governmental guarantees, payment status, changes in nonperforming loans/leases, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest, and in particular, the economic health of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan/lease portfolio, it enhances its methodology accordingly. Management may report a materially different amount for the provision for loan/lease losses in the statement of operations to change the allowance for loan/lease losses if its assessment of the above factors were different. The discussion regarding the Company's allowance for loan/lease losses should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere in this Form 10-K, as well as the portion of this Management's Discussion and Analysis section entitled "Financial Condition – Allowance for Estimated Losses on Loans/Leases." Although management believes the level of the allowance as of December 31, 2011 was adequate to absorb losses inherent in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

The Company's assessment of other-than-temporary impairment of its available-for-sale securities portfolio is another critical accounting policy as a result of the level of judgment required by management. Available-for-sale securities are evaluated to determine whether declines in fair value below their cost are other-than-temporary. In estimating other-than-temporary impairment losses management considers a number of factors including, but not limited to, (1) the length of time and extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions, and (4) the intent of the Company to not sell the security prior to recovery and whether it is not more-likely-than-not that the Company will be required to sell the security prior to recovery. The discussion regarding the Company's assessment of other-than-temporary impairment should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere in this Form 10-K.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, and 2009

OVERVIEW. Net income attributable to QCR Holdings, Inc. for 2011 was \$9.7 million, or diluted earnings per share of \$0.92 after preferred stock dividends and discount accretion of \$5.3 million, compared to \$6.6 million, or diluted earnings per share of \$0.53 after preferred stock dividends of \$4.1 million, for 2010. The \$5.3 million of preferred stock dividends and discount accretion included \$1.2 million of accelerated discount accretion on the repurchased TCPP preferred shares. Excluding the impact of the accelerated accretion, the Company's diluted earnings per share for 2011 would have been \$1.18. Net interest income grew \$4.3 million, or 9%, year-over-year. The Company's noninterest income increased \$2.1 million, or 13%, during 2011. As part of the balance sheet restructuring at QCBT and as a result of favorable market conditions, the Company sold \$54.3 million of securities at pre-tax gains totaling \$1.5 million. The remaining increase consisted of modest growth across the majority of the Company's major noninterest income sources. Noninterest expense increased \$2.4 million, or 5%, during 2011. The large majority of this increase was salaries and employee benefits as the Company resumed customary annual salary and benefits increases for the majority of the employee base, increased health insurance costs, and increased incentive compensation based on improved financial performance. Lastly, the Company's provision for loan/lease losses declined \$848 thousand, or 11%, during 2011.

Net income attributable to QCR Holdings, Inc. for 2010 was \$6.6 million, or diluted earnings per share of \$0.53 after preferred stock dividends and discount accretion of \$4.1 million, compared to \$1.8 million, or diluted loss per share of \$0.46 after preferred stock dividends of \$3.8 million, for 2009. Net interest income declined slightly year-over-year. Excluding a one-time positive adjustment to interest income related to the resolution of a contingency related to a certain credit for \$1.3 million in 2009, net interest income increased \$475 thousand, or 1%, year-over-year. Similarly, noninterest income declined slightly year-over-year; however, excluding one-time gains on sales of securities of \$1.5 million, noninterest income grew \$1.3 million, or 10%, year-over-year. Noninterest expense increased \$1.6 million, or 3%, as a result of increased health insurance cost across the employee base and \$617 thousand of losses on lease residual values. More than offsetting these items, the Company's provision for loan/lease losses decreased \$9.5 million.

INTEREST INCOME. Interest income declined \$2.4 million, or 3%, primarily as a result of the continued shift in interest-earning asset mix and the extended historical low interest rate environment. The Company's average interest-earning assets increased \$53.0 million, or 3%, year-over-year. Most notably, the Company grew its securities portfolio as the average balance of investment securities increased \$101.3 million, or 25%. Partially offsetting this growth, the average balance of loans/leases declined \$31.9 million, or 3%, and the average balance of federal funds sold fell \$13.9 million, or 22%. This continued shift in interest-earning asset mix is the result of weak loan demand and the Company's strategy to invest some of its excess liquidity in government sponsored agency securities and government guaranteed residential mortgage-backed securities.

Interest income decreased \$5.5 million, or 6%, from \$85.6 million for 2009 to \$80.1 million for 2010. The Company grew its interest-earning assets as the average balance increased \$94.9 million, or 6%, year-over-year. Most notably, the average balance of gross loans/leases declined slightly, while the average balance of investment securities portfolio grew \$88.2 million, or 28%. This shift in interest-earning asset mix was the result of the Company's strong liquidity position and sources of funding coupled with weak loan/lease demand. The impact on interest income of the net growth overall was more than offset by the shift in interest-earning asset mix and the historically low interest rate environment.

INTEREST EXPENSE. Interest expense declined \$6.7 million, or 22%, year-over-year. The Company's average interest-bearing liabilities decreased \$25.3 million, or 2%, from 2010 to 2011. Also contributing to the decline in interest expense, the Company has been successful in shifting the mix of funding from wholesale borrowings and brokered time deposits to core deposits. The aforementioned balance sheet strategies executed by QCBT and RB&T

were major contributors to the shift in mix and the decline in interest expense. Lastly, management continues to focus on driving down deposit pricing. Including non-interest bearing deposits, the average cost of deposits declined 39 basis points from 1.13% for 2010 down to 0.74% for 2011.

Interest expense decreased \$4.7 million, or 13%, from \$34.9 million for 2009 to \$30.2 million for 2010. The Company was successful in leveraging the historically low interest environment and its strong core deposit portfolio as it continued to manage down its cost of deposits. Including non-interest bearing deposits, the average cost of deposits declined 54 basis points from 1.67% for 2009 down to 1.13% for 2010. The Company has placed an emphasis on shifting the mix of deposits from brokered and other time deposits to non-maturity demand deposits.

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

The Company had an allowance for estimated losses on loans/leases of 1.56% of total gross loans/leases at December 31, 2011, compared to 1.74% of total gross loans/leases at December 31, 2010, and compared to 1.81% of total gross loans/leases at December 31, 2009.

The Company's provision for loan/lease losses declined \$848 thousand, or 11%, from \$7.5 million for 2010 to \$6.6 million for 2011. The decline was the result of the following:

- The Company continued to experience improving loan quality as evidenced by the declining trend in the level of classified and criticized loans (see table and further discussion in the Allowance for Estimated Losses on Loans/Leases section). This trend translated over to nonperforming loans/leases for the year as the Company's level of nonperforming loans/leases declined \$9.1 million, or 22%.
- Modest growth in the Company's loan/lease portfolio. Specifically, loans/leases grew \$28.2 million, or 2%, with a strong portion of the growth in residential real estate loans which have smaller average balances and are historically less risky than the Company's commercial loan portfolio.

The Company's provision for loan/lease losses declined sharply from \$17.0 million for 2009 to \$7.5 million for 2010. The decline was the result of the following:

- The Company experienced strengthening in its core loan portfolio as the level of classified and criticized loans declined throughout the year (see table and further discussion in the Allowance for Estimated Losses on Loans/Leases section). This trend contributed to a reduction in nonperforming loans/leases in the fourth quarter of 2010.
- Despite the decline in the fourth quarter, nonperforming loans/leases experienced a net increase during 2010. The majority of the additions consisted of commercial credits which management thoroughly reviewed and identified a strong collateral position that didn't require significant additional specific reserves, or the Company had already reserved adequate amounts in the prior years while the loan/lease was still performing.
 - The Company's loan/lease portfolio declined \$71.8 million, or 6%, in 2010.

NONINTEREST INCOME. The following tables set forth the various categories of noninterest income for the years ended December 31, 2011, 2010 and 2009.

	Years Ended		\$ Change	% Change	
	December 31, 2011	December 31, 2010			
Trust department fees	\$3,368,995	\$3,290,844	\$78,151	2.4	%
Investment advisory and management fees, gross	2,108,918	1,812,903	296,015	16.3	
Deposit service fees	3,493,001	3,478,743	14,258	0.4	
Gains on sales of loans, net	2,565,043	3,169,514	(604,471)	(19.1)	
Securities gains, net	1,472,528	-	1,472,528	100.0	
Losses on sales of other real estate owned, net	(374,910)	(835,163)	460,253	(55.1)	
Earnings on bank-owned life insurance	1,445,891	1,331,085	114,806	8.6	
Credit card fees, net of processing costs	500,544	259,590	240,954	92.8	
Other	2,881,868	2,898,372	(16,504)	(0.6)	
	\$17,461,878	\$15,405,888	\$2,055,990	13.3	%

	Years Ended		\$ Change	% Change	
	December 31, 2010	December 31, 2009			
Trust department fees	\$3,290,844	\$2,883,482	\$407,362	14.1	%
Investment advisory and management fees, gross	1,812,903	1,507,557	305,346	20.3	
Deposit service fees	3,478,743	3,319,967	158,776	4.8	
Gains on sales of loans, net	3,169,514	1,677,312	1,492,202	89.0	
Securities gains, net	-	1,488,391	(1,488,391)	(100.0)	
Gains (losses) on sales of other real estate owned, net	(835,163)	177,736	(1,012,899)	(569.9)	
Earnings on bank-owned life insurance	1,331,085	1,243,324	87,761	7.1	
Credit card fees, net of processing costs	259,590	930,435	(670,845)	(72.1)	
Other	2,898,372	2,318,843	579,529	25.0	
	\$15,405,888	\$15,547,047	\$(141,159)	(0.9)	%

Trust department fees continue to be a significant contributor to noninterest income. Income is generated primarily from fees charged based on assets under administration for corporate and personal trusts and for custodial services. Total trust assets under administration were \$1.06 billion at December 31, 2011, flat from the level at December 31, 2010 and down from \$1.22 billion at December 31, 2009. The decline in total trust assets during 2010 was planned and consisted of approximately \$281 million of assets held in safekeeping by QCBT that were outsourced. Management determined outsourcing allowed for enhanced service to the clients and increased profitability for the Company. The majority of the trust department fees are determined based on the value of the investments within the fully managed trusts. As the markets have experienced volatility with the national economy's recovery from recession, the Company's fee income has experienced similar volatility, but has realized net growth year-over-year in fee income for 2010 (14.1%) and 2011 (2.4%). In recent years, the Company has been successful in expanding its customer base which has helped to offset some of the volatility and contributed to the net growth in fee income.

Over the past year, management has placed a stronger emphasis on growing its investment advisory and management services. Fee income from investment advisory and management services increased in consecutive years with

year-over-year increases of 20.3% and 16.3% for 2010 and 2011, respectively. Similar to trust department fees, these fees are largely determined based on the value of the investments managed. And, similar to the trust department, the Company has had some success in expanding its customer base which has helped to offset the market volatility affecting asset values as the national economy continues to slowly recover.

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

Gains on sales of loans, net, experienced major fluctuation over the past two years. Specifically, gains on sales of loans, net, increased \$1.5 million, or 89%, in 2010 over 2009, and subsequently declined \$604 thousand, or 19%, in 2011 over 2010. This consists of sales of residential mortgages and the government guaranteed portions of small business loans. Following is the breakdown of the gains recognized for these types of sales for the years ended December 31, 2011, 2010, and 2009.

	2011	2010	2009
Gains on sales of residential mortgages	\$ 999,162	\$ 1,655,570	\$ 1,582,714
Gains on sales of government guaranteed portions of loans	1,565,881	1,513,944	94,598
	\$ 2,565,043	\$ 3,169,514	\$ 1,677,312

Regarding sales of residential mortgages, after experiencing elevated activity in 2009 and 2010 with reduced interest rates to historically low levels, the Company experienced a decline in activity in 2011. This is consistent across the industry as the majority of the activity in 2009 and 2010 consisted of residential mortgage refinancing transactions and although the interest rates have remained historically low throughout 2011, the majority of qualified borrowers have already refinanced. In addition, a sluggish housing market continues to keep new loan origination and sales activity at low levels. In 2010, the Company elevated its focus on small business lending by taking advantage of programs offered by the SBA and USDA. In some cases, it is more beneficial for the Company to sell the government guaranteed portion at a premium. The Company will continue to focus on growing small business lending and selling the government guaranteed portion as it continues to be beneficial.

During 2011, as a result of favorable market conditions, QCBT sold \$8.6 million of government agency securities for a pre-tax gain totaling \$444 thousand. The related sales proceeds were reinvested into residential mortgage-backed securities with higher yields and similar credit risk to the sold securities. Similarly, as a result of favorable market conditions, RB&T sold \$8.3 million of government agency securities for a pre-tax gain totaling \$149 thousand. The sales proceeds were utilized to diversify RB&T's securities portfolio and fund loan growth. Separately, during the first quarter of 2011, in an effort to offset the \$832 thousand of fees for prepaying \$15.0 million of FHLB advances, QCBT sold \$37.4 million of government agency securities for a pre-tax gain totaling \$880 thousand. See detailed discussion of this restructuring transaction in the Overview section earlier in Management's Discussion and Analysis. In 2009, the Company identified several U.S. government-sponsored agency securities with favorable market positions which were sold at pre-tax gains totaling \$1.5 million.

The Company recognized net losses on sales of other real estate owned during 2011 and 2010. By comparison, the Company recognized net gains on sales of other real estate owned for 2009. These amounts tend to fluctuate depending on the individual property being sold.

NONINTEREST EXPENSES. The following tables set forth the various categories of noninterest expenses for the years ended December 31, 2011, 2010 and 2009.

	Years Ended		\$ Change	% Change	
	December 31, 2011	December 31, 2010			
Salaries and employee benefits	\$30,365,020	\$27,843,127	\$2,521,893	9.1	%
Occupancy and equipment expense	5,297,949	5,472,248	(174,299)	(3.2)
Professional and data processing fees	4,461,187	4,524,519	(63,332)	(1.4)
FDIC and other insurance	2,698,282	3,528,267	(829,985)	(23.5)
Loan/lease expense	2,160,674	1,657,552	503,122	30.4	
Advertising and marketing	1,288,797	1,053,909	234,888	22.3	
Postage and telephone	937,557	1,004,176	(66,619)	(6.6)
Stationery and supplies	516,873	491,252	25,621	5.2	
Bank service charges	725,717	420,252	305,465	72.7	
Prepayment fees on Federal Home Loan Bank advances	832,099	-	832,099	100.0	
Other-than-temporary impairment losses on securities	118,847	113,800	5,047	4.4	
Losses on lease residual values	-	617,000	(617,000)	(100.0)
Other	1,589,650	1,822,961	(233,311)	(12.8)
	\$50,992,652	\$48,549,063	\$2,443,589	5.0	%

	Years Ended		\$ Change	% Change	
	December 31, 2010	December 31, 2009			
Salaries and employee benefits	\$27,843,127	\$26,882,185	\$960,942	3.6	%
Occupancy and equipment expense	5,472,248	5,372,101	100,147	1.9	
Professional and data processing fees	4,524,519	4,664,656	(140,137)	(3.0)
FDIC and other insurance	3,528,267	3,626,027	(97,760)	(2.7)
Loan/lease expense	1,657,552	1,997,583	(340,031)	(17.0)
Advertising and marketing	1,053,909	991,243	62,666	6.3	
Postage and telephone	1,004,176	1,060,690	(56,514)	(5.3)
Stationery and supplies	491,252	528,959	(37,707)	(7.1)
Bank service charges	420,252	306,473	113,779	37.1	
Other-than-temporary impairment losses on securities	113,800	206,369	(92,569)	(44.9)
Losses on lease residual values	617,000	-	617,000	100.0	
Other	1,822,961	1,300,740	522,221	40.1	
	\$48,549,063	\$46,937,026	\$1,612,037	3.4	%

Management has placed strong emphasis on overall cost containment and is committed to improve the Company's general efficiency.

Salaries and employee benefits, which is the largest component of noninterest expense, increased 3.6% and 9.1% in 2010 and 2011, respectively. For 2011, the increase is largely the result of:

- Customary annual salary and benefits increases for the majority of the Company's employee base in 2011. For 2010, the Company did not generally increase salaries across the employee base.
- Continued increase in health insurance-related employee benefits for the majority of the Company's employee base.
 - Higher accrued incentive compensation based on improved financial performance in 2011.
- Increase in the Company's employee base as FTEs increased from 350 at December 31, 2010 to 355 at December 31, 2011.

For 2010, the modest increase was largely the result of increases in health insurance-related employee benefits for the majority of the Company's employees as the Company did not generally increase salaries across the employee base as of January 1, 2010. Additionally, the Company did slightly expand its employee base from 343 FTEs at December 31, 2009 to 350 FTEs at December 31, 2010. The majority of this modest growth occurred in the fourth quarter.

FDIC and other insurance expense experienced a slight decline in 2010, followed by a more significant decline in 2011. FDIC insurance premiums are calculated using a variety of factors, including, but not limited to, balance sheet levels, funding mix, and regulatory compliance. The subsidiary banks have been successful in managing these factors and driving down FDIC insurance cost. In addition, the FDIC modified the calculation for premiums effective during the second quarter of 2011. The modification was favorable for the Company's subsidiary banks.

Loan/lease expense fluctuated significantly over the past two years with a 17% decline during 2010, and a 30% increase in 2011. Generally, loan/lease expense has a direct relationship with the level of nonperforming loans/leases; however, it may deviate as it depends upon the individual nonperforming loans/leases. Over the past few years, the Company has experienced elevated levels of loan/lease expense.

The Company incurred additional expenses for advertising and marketing during 2011. Specifically, the subsidiary banks and the leasing company are pursuing opportunities to reach new targeted customers in their respective markets as a result of the continued uncertainty with some of their competition.

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

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

During the second quarter of 2011, the Company's evaluation of its securities portfolio for other-than-temporary impairment 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 \$119 thousand. Similarly, in the third quarter of 2010, management identified a single issue trust preferred security that experienced a decline in fair value determined to be other-than-temporary. As a result, the Company wrote down the value of this security and recognized a loss totaling \$114 thousand. The Company does not own any other trust preferred securities. For 2009, the Company's periodic evaluation identified 11 publicly-traded equity investment securities owned by the Holding Company that experienced declines in fair value determined to be other-than-temporary. As a result, the Company wrote down the value of these securities and recognized losses in the

amount of \$206 thousand.

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During the first quarter of 2010, the Company recognized losses in residual values for two direct financing equipment leases. The sharp declines in value were isolated and attributable to changes in unique market conditions during the quarter related to the specific equipment. Specifically, one of the affected leases related to auto-industry equipment. During the first quarter of 2010, several like equipment dealers declared bankruptcy which led to disruption in the specific market. As a result, pricing for new like equipment declined sharply. Similarly, for the other affected lease, the underlying equipment was a commercial printer. The commercial printing industry has experienced some challenges and pricing for this particular equipment experienced sharp declines during the first quarter of 2010. In both cases, management determined the amount of the loss by comparing the recorded estimated residual value of the affected leases to the estimated value at the end of the lease term, as adjusted for the declined pricing for new like equipment. And, in both cases, the equipment was sold in the second quarter of 2010 without any further losses realized. For 2009 and 2011, there were no losses on residual values. Management continues to perform periodic and specific reviews of its residual values, and has identified modest residual risk remaining in the lease portfolio.

INCOME TAX EXPENSE. The provision for income taxes was \$3.9 million for the year ended December 31, 2011, compared to \$2.5 million for the year ended December 31, 2010 for an increase of \$1.4 million, or 58%. The increase was the result of significant growth in income before taxes of \$4.7 million, or 51%, year-over-year. Additionally, primarily due to a decline in the proportionate share of tax-exempt income to total income year-over-year, the Company experienced a slight increase in the effective tax rate from 26.5% for 2010 to 27.6% for 2011.

The provision for income taxes from continuing operations was \$2.4 million for the year ended December 31, 2010 compared to \$247 thousand for the year ended December 31, 2009 for an increase of \$2.2 million. The increase was the result of significant growth in income from continuing operations before income taxes of \$6.9 million in 2010 compared to 2009. Additionally, primarily due to an increase in the proportionate share of taxable income to total income year-over-year, the Company experienced an increase in the effective tax rate from 10.8% for 2009 to 26.5% for 2010.

FINANCIAL CONDITION

OVERVIEW. Total assets grew \$130.0 million, or 7%, to \$1.97 billion at December 31, 2011, from \$1.84 billion at December 31, 2010. The Company grew its securities portfolio \$140.4 million, or 33%, during 2011. Additionally, gross loans/leases grew \$28.2 million, or 2%. The growth was partially offset by a decline in federal funds sold and interest-bearing deposits at financial institutions as the Company invested some of its excess liquidity. The net increase in assets was funded primarily by strong and continued growth of the Company's deposit portfolio as balances grew \$90.6 million, or 8%.

Total assets grew \$57.0 million, or 3%, to \$1.84 billion at December 31, 2010, from \$1.78 billion at December 31, 2009. The growth resulted primarily from an increase in its securities available for sale portfolio and a net increase in the Company's federal funds sold position offset by a net decline in loans/leases. This net growth was funded primarily by non-interest bearing deposits and Federal Home Loan Bank advances offset by a decline in brokered and other time deposits.

INVESTMENT SECURITIES. The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on asset-liability position and maximizing return. With the strong growth in deposits and the continued weak loan demand, the Company has carried excess liquidity on the balance sheet over the past year. During 2011, the Company invested a portion of its excess liquidity in government guaranteed and government sponsored residential mortgage-backed and related securities and additional government sponsored agency securities. The former is a shift in mix for the Company's securities portfolio in an effort to diversify and adapt to the changing balance sheet. As a result, the Company grew its securities portfolio \$140.4 million, or 33%, during

2011. Similarly, during 2010, the Company grew securities \$54.3 million, or 15%, as a result of strong deposit growth and weak loan demand. As the portfolio has grown over the recent years, management has elevated its focus on maximizing return while minimizing credit and interest rate risk.

Following is a breakdown of the Company's securities portfolio by type as of December 31, 2011, 2010, and 2009.

	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
U.S. govt. sponsored agency securities	\$ 428,955	76 %	\$ 402,225	95 %	\$ 345,024	93 %
Residential mortgage-backed and related securities	108,854	19 %	70	0 %	496	0 %
Municipal securities	25,689	5 %	20,603	5 %	22,850	6 %
Trust preferred securities	81	0 %	78	0 %	99	0 %
Other securities	1,650	0 %	1,871	0 %	2,051	1 %
	\$ 565,229	100 %	\$ 424,847	100 %	\$ 370,520	100 %
As a % of Total Assets	29 %		23 %		21 %	

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

See Note 3 to the consolidated financial statements for additional information regarding the Company's investment securities.

LOANS/LEASES. The Company's gross loan/lease portfolio grew \$28.2 million, or 2%, from \$1.17 billion at December 31, 2010, to \$1.20 billion at December 31, 2011. The growth was spread out over owner-occupied commercial real estate loans (\$26.4 million, or 19%), direct financing leases (\$10.2 million, or 12%), and residential real estate loans (\$15.9 million, or 19%). Partially offsetting this growth, commercial and industrial loans declined \$14.8 million, or 4%. The net decline in commercial and industrial loans is primarily a function of:

- The residual impact of the economic downturn whereby originations have been outpaced by payments and maturities, and
- The Company's strategy to sell the government guaranteed portions of certain commercial and industrial loans at a premium. The guaranteed portion typically ranges from 70% to 90% of the total outstanding loan balance. For 2011, the Company sold \$27.1 million of government guaranteed portions of commercial and industrial loans.

The Company's loan/lease portfolio declined \$71.8 million, or 6%, from \$1.24 billion at December 31, 2009, to \$1.17 billion at December 31, 2010. The majority of the decline was within the commercial and industrial loan portfolio. Similar to 2011 discussed above but with a more significant impact, the residual impact of the economic downturn and the introduction of the strategy to sell the government guaranteed portion of commercial and industrial loans at a premium were the primary factors driving the net decline. Specifically, the Company sold \$30.4 million of government guaranteed portions of commercial and industrial loans during 2010.

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

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The mix of loan/lease types within the Company's loan/lease portfolio is presented in the following table.

	2011		2010		As of December 31, 2009		2008		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(dollars in thousands)										
Commercial and industrial loans	\$350,794	29 %	\$365,625	31 %	\$441,536	36 %	\$439,117	36 %	\$353,401	33 %
Commercial real estate loans	577,804	48 %	553,717	47 %	556,007	45 %	526,669	43 %	472,284	45 %
Direct financing leases	93,212	8 %	83,010	7 %	90,059	7 %	79,408	7 %	67,224	6 %
Residential real estate loans	98,107	8 %	82,197	7 %	70,608	6 %	79,228	7 %	83,328	8 %
Installment and other consumer loans	78,223	7 %	86,240	8 %	84,271	6 %	88,540	7 %	79,220	8 %
Total loans/leases	\$1,198,140	100%	\$1,170,789	100%	\$1,242,481	100%	\$1,212,962	100%	\$1,055,457	100%
Plus deferred loan/lease origination costs, net of fees	2,605		1,750		1,839		1,727		1,531	
Less allowance for estimated losses on loans/leases	(18,789)		(20,365)		(22,505)		(17,809)		(11,315)	
Net loans/leases	\$1,181,956		\$1,152,174		\$1,221,815		\$1,196,880		\$1,045,673	

During 2011, the Company originated and held a limited amount of 15-year fixed rate residential real estate loans that met certain credit guidelines. This represented a good portion of the net growth reference above. The remaining residential real estate loans originated by the Company were sold on the secondary market to avoid the interest rate risk associated with longer term fixed rate loans. Loans originated for this purpose were classified as held for sale and

are included in the residential real estate loans above. In addition, the Company has not originated any subprime, Alt-A, no documentation, or stated income residential real estate loans throughout its history.

The following table sets forth the remaining maturities by loan/lease type as of December 31, 2011. Maturities are based on contractual dates.

	Due in one year or less	Due after one through 5 years	Maturities After One Year		
			Due after 5 years	Predetermined interest rates	Adjustable interest rates
(dollars in thousands)					
Commerical and industrial loans	\$ 144,928	\$ 150,567	\$ 55,299	\$ 108,815	\$ 97,051
Commercial real estate loans	129,446	332,610	115,748	336,709	111,649
Direct financing leases	3,109	86,663	3,440	90,103	-
Residential real estate loans	825	1,064	96,218	57,244	40,038
Installment and other consumer loans	27,389	43,869	6,965	27,333	23,501
	\$ 305,697	\$ 614,773	\$ 277,670	\$ 620,204	\$ 272,239

Although the Company grew loans/leases during 2011, loan/lease demand remains weakened from historical levels. Management continues to focus on growing quality loans/leases and carefully monitors maturities and interest rate sensitivity of the current portfolio.

See Note 4 to the consolidated financial statements for additional information regarding the Company's loan/lease portfolio.

ALLOWANCE FOR ESTIMATED LOSSES ON LOANS/LEASES. The allowance for estimated losses on loans/leases was \$18.8 million at December 31, 2011, which is a decline of \$1.6 million, or 8%, from \$20.4 million at December 31, 2010. Further, during 2010, the Company's allowance for estimated losses on loans/leases decreased \$2.1 million, or 10%, from \$22.5 million at December 31, 2009. For both 2010 and 2011, net charge-offs exceeded provision leading to the net declines. The following table summarizes the activity in the allowance for estimated losses on loans/leases.

	Years ended December 31,				
	2011	2010	2009	2008	2007
	(dollars in thousands)				
Average amount of loans/leases outstanding, before allowance for estimated losses on loans/leases	\$1,177,705	\$1,209,587	\$1,222,493	\$1,124,255	\$1,001,633
Allowance for estimated losses on loans/leases:					
Balance, beginning of fiscal period	\$20,365	\$22,505	\$17,809	\$11,315	\$10,612
Charge-offs:					
Commercial and industrial	(3,334)	(2,609)	(7,510)	(1,205)	(754)
Commercial real estate	(3,682)	(5,922)	(2,824)	(805)	(300)
Direct financing leases	(1,101)	(999)	(1,255)	(264)	(527)
Residential real estate	-	(35)	(314)	(326)	(174)
Installment and other consumer	(945)	(1,135)	(2,104)	(1,085)	(469)
Subtotal charge-offs	(9,062)	(10,700)	(14,007)	(3,685)	(2,224)
Recoveries:					
Commercial and industrial	414	380	344	313	160
Commercial real estate	287	381	98	420	167
Direct financing leases	3	163	52	-	-
Residential real estate	-	-	40	81	173
Installment and other consumer	166	172	1,193	143	91
Subtotal recoveries	870	1,096	1,727	957	591
Net charge-offs	(8,192)	(9,604)	(12,280)	(2,728)	(1,633)
Provision charged to expense	6,616	7,464	16,976	9,222	2,336
Balance, end of fiscal year	\$18,789	\$20,365	\$22,505	\$17,809	\$11,315
Ratio of net charge-offs to average loans/leases outstanding	0.70	% 0.79	% 1.00	% 0.24	% 0.16

The adequacy of the allowance for estimated losses on loans/leases was determined by management based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, historical loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, government guarantees and other factors that, in management's judgment, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on the increase/decrease in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed monthly with specific detailed reviews completed on all credits risk-rated less than "fair quality" and carrying aggregate exposure in excess of \$100 thousand. The adequacy of the allowance for estimated losses on loans/leases was monitored by the credit administration staff and reported to management and the board of directors.

During the year ended December 31, 2010, the Company's two newest subsidiary banks, CRBT and RB&T, decreased the duration for the historical charge-off experience used in the quantitative factor from five years to three years. Based on the change (growth, mix, and quality) of the loan portfolios of CRBT and RB&T over the past several years, management determined decreasing the duration appropriately addressed the credit risk within the current portfolios.

The Company continued the strengthening of its core loan portfolio as the levels of criticized and classified loans declined further in 2011, as reported in the following table.

Internally Assigned Risk Rating *	As of December 31,		
	2011	2010	2009
	(dollars in thousands)		
Special Mention (Rating 6)	\$ 26,034	\$ 43,551	\$ 53,665
Substandard (Rating 7) - Performing	36,278	42,498	87,892
Substandard (Rating 7) - Nonperforming	26,434	32,612	22,885
Doubtful (Rating 8)	-	21	1,203
	\$ 88,746	\$ 118,682	\$ 165,645
Criticized Loans **	\$ 88,746	\$ 118,682	\$ 165,645
Classified Loans ***	\$ 62,712	\$ 75,131	\$ 111,980

* Amounts above exclude the government guaranteed portion, if any. The Company assigns internal risk ratings of Pass (Rating 2) for the government guaranteed portion.

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

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

The declining trend in criticized and classified loans over the past two years translated to a reduction in nonperforming loans/leases of \$9.1 million, or 22%, during 2011. Furthermore, nonperforming loans/leases have declined \$15.3 million, or 32%, from their peak at September 30, 2010. As a direct result, the level of allowance has declined. Notably, the decline in nonperforming loans/leases has outpaced the decline in allowance for estimated losses on loans/leases and strengthened the Company's allowance to nonperforming loans/leases. The following table summarizes the trend in allowance as a percentage of gross loans/leases and as a percentage of nonperforming loans/leases as of December 31, 2011, 2010, and 2009.

	As of December 31,					
	2011		2010		2009	
Allowance / Gross Loans/Leases	1.56	%	1.74	%	1.81	%
Allowance / Nonperforming Loans/Leases *	58.70	%	49.49	%	74.94	%

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

The following table presents the allowance for estimated losses on loans/leases by type and the percentage of type to total loans/leases.

As of December 31,									
2011		2010		2009		2008		2007	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%

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(dollars in thousands)

Commercial and industrial loans	4,878	29 %	7,549	31 %	6,239	35 %	8,260	36 %	4,697	33 %
Commercial real estate loans	10,597	48 %	9,087	47 %	11,147	45 %	6,255	43 %	4,064	45 %
Direct financing leases	1,339	8 %	1,531	7 %	1,681	7 %	1,402	7 %	874	6 %
Residential real estate loans	705	8 %	748	7 %	737	6 %	690	7 %	580	8 %
Installment and other consumer loans	1,270	7 %	1,450	8 %	2,407	7 %	1,195	7 %	1,090	8 %
Unallocated	-	NA	-	NA	294	NA	7	NA	10	NA
	\$18,789	100 %	\$20,365	100 %	\$22,505	100 %	\$17,809	100 %	\$11,315	100 %

% - Represents the percentage of the certain type of loan/lease to total loans/leases

Although management believes that the allowance for estimated losses on loans/leases at December 31, 2011 was at a level adequate to absorb probable losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require additional increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks and leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

See Note 4 of the consolidated financial statements for additional information on the Company's allowance for estimated losses on loans/leases.

NONPERFORMING ASSETS. The table below presents the amounts of nonperforming assets.

	As of December 31,				
	2011	2010	2009	2008	2007
	(dollars in thousands)				
Nonaccrual loans/leases (1) (2)	\$18,995	\$37,427	\$28,742	\$20,828	\$6,488
Accruing loans/leases past due 90 days or more	1,111	320	89	222	500
Troubled debt restructures - accruing	11,904	3,405	1,201	-	-
Other real estate owned	8,386	8,535	9,286	3,857	496
Other repossessed assets	109	366	1,071	450	-
	\$40,505	\$50,053	\$40,389	\$25,357	\$7,484
Nonperforming loans/leases to total loans/leases	2.67	% 3.51	% 2.41	% 1.73	% 0.66
Nonperforming assets to total loans/leases plus repossessed property	3.35	% 4.24	% 3.22	% 2.08	% 0.71
Nonperforming assets to total assets	2.06	% 2.73	% 2.27	% 1.58	% 0.51
Texas ratio (3)	25.58	% 33.57	% 27.47	% 23.69	% 7.95

(1) Includes government guaranteed portion of loan.

(2) Includes troubled debt restructurings of \$8.6 million at December 31, 2011, and \$12.6 million at December 31, 2010 and none for the other periods presented.

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

Historically, the large majority of the Company's nonperforming assets consisted of nonaccrual loans/leases and other real estate owned. For nonaccrual loans/leases, management has thoroughly reviewed these loans/leases and has provided specific reserves as appropriate. Other real estate owned is carried at the lower of carrying amount or fair value less costs to sell.

The policy of the Company is to place a loan/lease on nonaccrual status if: (a) payment in full of interest or principal is not expected; or (b) principal or interest has been in default for a period of 90 days or more unless the obligation is both in the process of collection and well secured. A loan/lease is well secured if it is secured by collateral with sufficient market value to repay principal and all accrued interest. A debt is in the process of collection if collection of the debt is proceeding in due course either through legal action, including judgment enforcement procedures, or in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to current status.

During 2011, the Company's nonperforming assets declined \$9.5 million, or 19%, with most of this decline in nonaccrual loans/leases. A combination of improved performance and charge-offs contributed to the general decrease throughout 2011. In addition, there was a significant shift in mix as accruing troubled debt restructurings grew \$8.5 million. This shift in mix from nonaccrual loans/leases to accruing troubled debt restructurings is favorable as the latter are performing on the restructured terms and accruing interest income.

DEPOSITS. Deposits grew \$90.6 million, or 8%, during 2011, and grew \$25.5 million, or 2%, during 2010. The table below presents the composition of the Company's deposit portfolio.

	2011		As of December 31, 2010		2009	
	Amount	%	Amount	%	Amount	%
(dollars in thousands)						
Noninterest bearing demand deposits	\$357,184	30	\$276,827	25	\$207,844	19
Interest bearing demand deposits	470,807	39	424,819	38	393,732	36
Savings deposits	39,981	3	35,805	3	34,620	3
Time deposits	292,575	24	312,010	28	382,373	35
Brokered time deposits	44,911	4	65,355	6	70,754	7
	\$1,205,458	100	\$1,114,816	100	\$1,089,323	100

The Company has been successful in shifting the deposit mix over the past two years with an increase in noninterest bearing deposits and declines in brokered and retail time deposits. Specifically, QCBT continues to have success growing its correspondent banking business as noninterest bearing correspondent deposits grew \$93.5 million from \$55.6 million at December 31, 2009 to \$149.1 million at December 31, 2011. These increases and the Company's overall strong liquidity position have allowed the Company to reduce the level of brokered and other time deposits which drives the reduction in the Company's average cost of deposits.

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

	As of December 31,		
	2011	2010	2009
(dollars in thousands)			
Overnight repurchase agreements with customers	\$110,236	\$118,904	\$94,090
Federal funds purchased	103,300	22,250	56,810
	\$213,536	\$141,154	\$150,900

The large increase in federal funds purchased from December 31, 2010 to December 31, 2011 was temporary and the result of short-term fluctuations in noninterest bearing correspondent deposit balances for several customers over the end of the year.

See Note 7 of the consolidated financial statements for additional information on the Company's short-term borrowings.

FHLB ADVANCES AND OTHER BORROWINGS. As a result of their memberships in the FHLB of Des Moines and Chicago, the subsidiary banks have the ability to borrow funds for short-term or long-term purposes under a variety of programs. The subsidiary banks utilize FHLB advances for loan matching as a hedge against the possibility of rising interest rates or when these advances provide a less costly source of funds than customer deposits. FHLB advances declined \$34.0 million, or 14%, during 2011. The decline was a combination of prepayment (\$15.0 million) and maturities (\$19.0 million). For 2010, FHLB advances increased \$22.9 million, or 11%. The table below presents details of the Company's FHLB advances.

	As of December 31,		
	2011	2010	2009
	(dollars in thousands)		
Amount Due	\$ 204,750	\$ 238,750	\$ 215,850
Weighted Average Interest Rate at Year-End	3.67 %	3.84 %	4.14 %

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

See Note 8 to the consolidated financial statements for additional information regarding FHLB advances.

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

	As of December 31,		
	2011	2010	2009
	(dollars in thousands)		
Wholesale repurchase agreements	\$ 130,000	\$ 135,000	\$ 135,000
364-day revolving note	3,600	2,500	5,000
Series A subordinated notes	2,632	2,624	-
Secured borrowings - loan participations sold	-	9,936	-
Other	-	10	60
	\$ 136,232	\$ 150,070	\$ 140,060

As a result of a change in accounting rules, effective January 1, 2010, the Company recorded \$9.9 million of secured borrowings and \$561 thousand of deferred gains related to sales of the government guaranteed portion of certain loans as of December 31, 2010. These secured borrowings do not bear interest and will mature within 90 days of the sales, at which time the sales will be fully recognized for accounting purposes. In addition, during the first quarter of 2010, the Company issued Series A Subordinated Notes in the amount of \$2.7 million.

Effective with the second quarter of 2011, SBA and USDA removed the recourse provisions for future sales which allows for sale accounting treatment at the time of sale. As a result, the Company was able to recognize gains at the time of sale for the sales during the second quarter and in subsequent periods. In addition, the Company did not have any related secured liabilities at December 31, 2011.

Additional information regarding other borrowings is described in Note 9 to the consolidated financial statements.

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

	2011		As of December 31,			
	Amount	%	2010		2009	
	Amount	%	Amount	%	Amount	%
(dollars in thousands)						
Common stock	\$4,879		\$4,732		\$4,675	
Additional paid in capital - common	26,381		24,328		23,654	
Retained earnings	44,586		40,551		38,458	
Accumulated other comprehensive income	4,755		704		136	
Noncontrolling interests	2,052		1,648		1,700	
Less: Treasury stock	(1,606)		(1,606)		(1,606)	
Total common stockholders' equity	81,047	56 %	70,357	53 %	67,017	53 %
Preferred stock	65		63		39	
Additional paid in capital - preferred	63,321		62,151		58,539	
Total preferred stockholders' equity	63,386	44 %	62,214	47 %	58,578	47 %
Total stockholders' equity	\$144,433	100 %	\$132,571	100 %	\$125,595	100 %
Tangible common equity* / total assets	3.85 %		3.56 %		3.49 %	

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

The following table presents the details of the preferred stock issued and outstanding as of December 31, 2011.

	Date Issued	Aggregate Purchase Price	Stated Dividend Rate	
Series E Non-Cumulative Convertible Perpetual Preferred Stock	June 2010	\$25,000,000	7.00 %	
Series F Non-Cumulative Perpetual Preferred Stock	September 2011	40,090,000	5.00 %	
		\$65,090,000		

See Note 11 to the consolidated financial statements for detail on the issuance of the Series E Preferred Stock.

Regarding the Series F Preferred Stock, non-cumulative dividends are payable quarterly, and the dividend rate is based on changes in the level of “Qualified Small Business Lending” or “QSBL” by the Company’s wholly owned bank subsidiaries, QCBT, CRBT and RB&T. Based upon the change in the banks’ level of QSBL over the baseline level (defined below), the dividend rate for the initial dividend period, which was from the date of issuance through September 30, 2011, was set at 5%, and the dividend rate for the fourth quarter of 2011 was also set at 5%. See Note 11 to the consolidated financial statements for detail on the issuance of the Series F Preferred Stock.

As of December 31, 2011, the Company reported its qualified small business lending in accordance with SBLF guidelines and calculated a net decline from the baseline of \$67.5 million, or 16%. SBLF defines the baseline as the average of the Company's qualified small business loans for the last two quarters of 2009 and the first two quarters of 2010. As a result of the decline, the dividend rate on the Series F Preferred Stock remains at 5%. The decline is primarily a function of the residual impact of the economic downturn on the communities the Company serves over the recent years. Specifically, small business loan demand weakened whereby originations were outpaced by payments and maturities. Notably, despite the net decline in qualified small business lending, the Company had \$57.0 million of qualifying small business loans outstanding at December 31, 2011 that were originated in 2010 and 2011 and where a majority portion is guaranteed by the government, typically SBA or USDA. The government guaranteed portion of these loans totaled \$47.1 million at December 31, 2011, some of which management determined to sell at a premium, and is not eligible per SBLF guidelines; however, it is strong evidence the Company is continuing to support the lending needs of small businesses.

DISCUSSION ON CHANGES IN STOCKHOLDERS' EQUITY FOR 2011. Stockholders' equity increased \$11.9 million, or 9%, during 2011. Net income of \$10.1 million for 2011 increased retained earnings; however, this was partially offset by declaration and accrual of preferred stock dividends and discount accretion totaling \$5.3 million, and declaration of common stock dividends of \$373 thousand. Specifically regarding the preferred stock dividends, the following details the dividend activity for 2011:

- \$1.8 million for the quarterly dividends on the outstanding shares of Series D Cumulative Perpetual Preferred Stock at a stated rate of 5.00%, including the related discount accretion, paid up through redemption which occurred on September 15, 2011,
- \$1.2 million for the accelerated accretion of the remaining discount on the redeemed Series D Cumulative Perpetual Preferred Stock,
- \$1.8 million for the four quarterly dividends on the outstanding shares of Series E Non-Cumulative Perpetual Preferred Stock at a stated dividend rate of 7.00%, and
- \$590 thousand for the first quarterly dividend on the outstanding shares of Series F Non-Cumulative Perpetual Preferred Stock at a stated dividend rate of 5.00%.

The net proceeds from the issuance of the Series F Preferred Stock and the simultaneous redemption of the Series D Preferred Stock totaled \$1.7 million which helped contribute to the increase in stockholder's equity. See Note 11 to the consolidated financial statements for additional information on the Series F Preferred Stock.

Lastly, the available for sale portion of the securities portfolio experienced an increase in fair value of \$4.1 million, net of tax, for 2011 as a result of fluctuation in certain market interest rates.

DISCUSSION ON CHANGES IN STOCKHOLDERS' EQUITY FOR 2010. Stockholders' equity increased \$6.9 million, or 6%, during 2010. The majority of this increase resulted from the issuance of Series E Non-Cumulative Perpetual Preferred Stock on June 30, 2010, for an aggregate purchase price of \$25.0 million. The issuance involved the exchange of \$20.9 million, or all of the Series B and Series C Non-Cumulative Perpetual Preferred Stock, and \$4.1 million of new capital from cash investors. The transaction provided \$3.2 million, net of issuance costs, of new capital to the Company. See Note 11 to the consolidated financial statements for additional detail on this issuance. Additionally, net income attributable to QCR Holdings, Inc. of \$6.8 million increased retained earnings; however, this was partially offset by declaration and accrual of preferred stock dividends and discount accretion totaling \$4.1 million, and declaration of common stock dividends of \$366 thousand. Specifically regarding the preferred stock dividends, the following details the dividend payments in 2010:

- \$536 thousand for two quarterly dividends on the outstanding shares of Series B Non-Cumulative Perpetual Preferred Stock at a stated rate of 8.00% (this has been discontinued with the exchange of this preferred stock as

disclosed in Note 11),

- \$356 thousand for two quarterly dividends on the outstanding shares of Series C Non-Cumulative Perpetual Preferred Stock at a stated rate of 9.50% (this has been discontinued with the exchange of this preferred stock as disclosed in Note 11),
- \$2.4 million for four quarterly dividends on the outstanding shares of Series D Cumulative Perpetual Preferred Stock at a stated rate of 5.00%, including the related discount accretion, and
- \$876 thousand for the first two quarterly dividends on the outstanding shares of Series E Non-Cumulative Perpetual Preferred Stock at a stated dividend rate of 7.00%.

It is the Company's intention to consider the payment of common stock dividends on a semi-annual basis.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers' credit needs. The Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which averaged \$128.0 million during 2011, \$129.0 million during 2010, and \$107.5 million during 2009. The Company's on balance sheet liquidity position has grown significantly over the past several years.

The subsidiary banks have a variety of sources of short-term liquidity available to them, including federal funds purchased from correspondent banks, FHLB advances, structured wholesale repurchase agreements, brokered time deposits, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities available for sale, and loan/lease participations or sales. The Company also generates liquidity from the regular principal payments and prepayments made on its loan/lease portfolio, and on the regular monthly payments on its residential mortgage-backed securities portfolio. At December 31, 2011, the subsidiary banks had 22 lines of credit totaling \$225.4 million, of which \$72.9 million was secured and \$152.5 million was unsecured. At December 31, 2011, \$159.4 million was available as \$66.0 million was utilized as a result of the short-term fluctuations in noninterest bearing correspondent deposit balances for several customers over the end of the year. At December 31, 2010, the subsidiary banks had 16 lines of credit totaling \$153.5 million, of which \$55.0 million was secured and \$98.5 million was unsecured. At December 31, 2010, the entire \$153.5 million was available. Additionally, the Company has a single \$20.0 million secured revolving credit note with a maturity of April 1, 2012. As of December 31, 2011, the Company had \$16.4 million available as the note carried an outstanding balance of \$3.6 million. See Note 9 to the consolidated financial statements for additional information regarding the lines of credit and revolving credit note.

Throughout its history, the Company has secured additional capital through various resources, including the issuance of trust preferred securities and the issuance of preferred stock. See Notes 10 and 11 to the consolidated financial statements for information on the issuance of trust preferred securities and the issuance of preferred stock, respectively.

As of December 31, 2011 and 2010, the Company and subsidiary banks remained "well-capitalized" in accordance with regulatory capital requirements administered by the federal banking authorities. See Financial Statement Note 15 for detail of the capital amounts and ratios for the Company and subsidiary banks.

COMMITMENTS, CONTINGENCIES, CONTRACTUAL OBLIGATIONS, AND OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the subsidiary banks make various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, and standby letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The subsidiary banks evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the banks upon extension of credit, is based upon management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, marketable securities, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the subsidiary banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The banks hold collateral, as described above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the banks would be required to fund the commitments. The maximum potential amount of future payments the banks could be required to make is represented by the contractual amount. If the commitment is funded, the banks would be entitled to seek recovery from the customer. At December 31, 2011 and 2010, no amounts had been recorded as liabilities for the banks' potential obligations under these guarantees.

As of December 31, 2011 and 2010, commitments to extend credit aggregated \$393.6 million and \$471.7 million, respectively. As of December 31, 2011 and 2010, standby letters of credit aggregated \$8.3 million and \$11.5 million, respectively. Management does not expect that all of these commitments will be funded.

Additional information regarding commitments, contingencies, and off-balance sheet arrangements is described in Note 17 of the consolidated financial statements.

The Company has various financial obligations, including contractual obligations and commitments, which may require future cash payments. The following table presents, as of December 31, 2011, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Description	Financial Statement Note Reference	Total	Payments Due by Period			
			One Year or Less	2 - 3 Years	4 - 5 Years	After 5 Years
(dollars in thousands)						
Deposits without a stated maturity	N/A	\$ 867,972	\$ 867,972	\$ -	\$ -	\$ -
Certificates of deposit	6	337,486	244,666	60,698	32,122	-
Short-term borrowings	7	213,536	213,536	-	-	-
FHLB advances	8	204,750	15,400	42,850	73,500	73,000
Other borrowings	9	136,232	3,600	-	45,000	87,632
Junior subordinated debentures	10	36,085	-	-	-	36,085
Rental commitments	5	1,637	328	636	254	419
Operating contracts	N/A	8,470	4,336	4,134	-	-
Total contractual cash obligations		\$ 1,806,168	\$ 1,349,838	\$ 108,318	\$ 150,876	\$ 197,136

Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The Company had no purchase obligations at December 31, 2011. The Company's operating contract obligations represent short and long-term lease payments for data processing equipment and services, software, and other equipment and professional services.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements of the Company and the accompanying notes have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollar amounts without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general

levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

IMPACT OF NEW ACCOUNTING STANDARDS

In April 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-02, A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. ASU 2011-02 amends ASC Topic 310, Receivables, by clarifying guidance for creditors in determining whether a concession has been granted and whether a debtor is experiencing financial difficulties. The Company adopted ASU 2011-02 effective for the interim period ending September 30, 2011 and applied ASU 2011-02 retrospectively to January 1, 2011. Adoption did not have a material impact on the consolidated financial statements. See Note 4 for disclosure of the Company’s troubled debt restructurings.

In April 2011, FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements. ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2011, FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2011, FASB issued ASU 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income. ASU 2011-05 amends Topic 220, Comprehensive Income, to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011. Additionally, in December 2011, FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. ASU 2011-12 defers the effective date for the changes in ASU 2011-05 that specifically refer to the presentation of the effects of reclassifications adjustments out of accumulated other comprehensive income on the components of net income and other comprehensive income on the face of the financial statements for all periods presented. ASU 2011-12 reinstates the requirements of the presentation of reclassifications out of accumulated other comprehensive income that were in place before the issuance of ASU 2011-05. The Company will continue to disclose the effects of reclassifications in the footnotes to the financial statements. See Note 2 for disclosure of the Company's comprehensive income components, including effects of reclassifications. The effective date for ASU 2011-12 is the same for ASU 2011-05. Additionally, ASU 2011-12 is not expected to have a significant impact on the Company's consolidated financial statements.

In September 2011, FASB issued ASU 2011-08, Intangibles – Goodwill and Other: Testing Goodwill for Impairment. ASU 2011-08 allows the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining the need to perform step one of the annual test for goodwill impairment. ASU 2011-08 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2011, FASB 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.

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FORWARD LOOKING STATEMENTS

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

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors that could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the "Risk Factors" section included under Item 1A. of Part I of this Form 10-K. In addition to the risk factors described in that section, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to, the following:

- The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.
 - The costs, effects and outcomes of existing or future litigation.
- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board.
 - The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

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

One method used to quantify interest rate risk is a short-term earnings at risk summary, which is a detailed and dynamic simulation model used to quantify the estimated exposure of net interest income to sustained interest rate changes. This simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest sensitive assets and liabilities reflected on the Company's consolidated balance sheet. This sensitivity analysis demonstrates net interest income exposure annually over a five-year horizon, assuming no balance sheet growth and various interest rate scenarios including no change in rates; 200, 300, 400, and 500 basis point upward shifts; and a 100 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date. The model assumes parallel and pro rata shifts in interest rates over a twelve-month period for the 200 basis point upward shift and 100 basis point downward shift. For the 400 basis point upward shift, the model assumes a parallel and pro rata shift in interest rates over a twenty-four month period. For the 500 basis point upward shift, the model assumes a flattening and pro rata shift in interest rates over a twelve-month period where the short-end of the yield curve shifts upward greater than the long-end of the yield curve. Effective with the modeling for the second quarter of 2010, the Company added an interest rate scenario where interest rates experience a parallel and instantaneous shift upward 300 basis points. The asset/liability management committee of the board of directors has established policy limits of a 10% decline in net interest income for the 200 and the newly added 300 basis point upward shifts and the 100 basis point downward shift.

Application of the simulation model analysis at December 31, 2011 demonstrated the following:

INTEREST RATE SCENARIO	NET INTEREST INCOME EXPOSURE in YEAR 1		
	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009
100 basis point downward shift	-1.5%	-1.9%	-0.9%
200 basis point upward shift	-3.1%	-3.0%	-5.1%
300 basis point upward shift *	-4.2%	-1.6%	N/A

* Began modeling in the second quarter of 2010.

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

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

Item 8. Financial Statements

QCR Holdings, Inc.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Financial Statements

Consolidated balance sheets as of December 31, 2011 and 2010

Consolidated statements of income for the years ended
December 31, 2011, 2010, and 2009

Consolidated statements of changes in stockholders' equity for
the years ended December 31, 2011, 2010, and 2009

Consolidated statements of cash flows for the years ended
December 31, 2011, 2010, and 2009

Notes to consolidated financial statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
QCR Holdings, Inc.

We have audited the accompanying consolidated balance sheets of QCR Holdings, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QCR Holdings, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QCR Holdings, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2012 expressed an unqualified opinion on the effectiveness of QCR Holdings, Inc. and subsidiaries' internal control over financial reporting.

/s/ McGladrey & Pullen, LLP
Davenport, Iowa
March 8, 2012

QCR Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2011 and 2010

Assets	2011	2010
Cash and due from banks	\$53,136,710	\$42,030,806
Federal funds sold	20,785,000	61,960,000
Interest-bearing deposits at financial institutions	26,750,602	39,745,611
Securities held to maturity, at amortized cost	200,000	300,000
Securities available for sale, at fair value	565,029,291	424,546,767
	565,229,291	424,846,767
Loans receivable, held for sale	3,832,760	14,084,859
Loans/leases receivable, held for investment	1,196,912,737	1,158,453,744
	1,200,745,497	1,172,538,603
Less allowance for estimated losses on loans/leases	(18,789,262)	(20,364,656)
	1,181,956,235	1,152,173,947
Premises and equipment, net	31,740,751	31,118,744
Goodwill	3,222,688	3,222,688
Accrued interest receivable	6,510,021	6,435,989
Bank-owned life insurance	42,011,281	33,565,390
Prepaid FDIC insurance	3,683,406	5,361,314
Restricted investment securities	15,253,600	16,668,700
Other real estate owned, net	8,385,758	8,534,711
Other assets	7,944,711	10,970,549
Total assets	\$1,966,610,054	\$1,836,635,216
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$357,183,481	\$276,827,205
Interest-bearing	848,274,307	837,988,652
Total deposits	1,205,457,788	1,114,815,857
Short-term borrowings	213,536,450	141,154,499
Federal Home Loan Bank advances	204,750,000	238,750,000
Other borrowings	136,231,663	150,070,785
Junior subordinated debentures	36,085,000	36,085,000
Other liabilities	26,116,451	23,188,367
Total liabilities	1,822,177,352	1,704,064,508
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$1 par value, shares authorized 250,000	65,090	63,237

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December 2011 - 65,090 shares issued and outstanding		
December 2010 - 63,237 shares issued and outstanding		
Common stock, \$1 par value; shares authorized 20,000,000		
December 2011 - 4,879,435 shares issued and 4,758,189 outstanding		
December 2010 - 4,732,428 shares issued and 4,611,182 outstanding	4,879,435	4,732,428
Additional paid-in capital	89,702,533	86,478,269
Retained earnings	44,585,902	40,550,900
Accumulated other comprehensive income	4,754,714	704,165
Noncontrolling interests	2,051,538	1,648,219
Less treasury stock, December 2011 and 2010 - 121,246 common shares, at cost	(1,606,510)	(1,606,510)
Total stockholders' equity	144,432,702	132,570,708
Total liabilities and stockholders' equity	\$1,966,610,054	\$1,836,635,216

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2011, 2010, and 2009

	2011	2010	2009
Interest and dividend income:			
Loans/leases, including fees	\$64,807,673	\$67,999,191	\$73,145,289
Securities:			
Taxable	10,877,832	10,109,083	10,748,012
Nontaxable	983,040	907,085	967,940
Interest-bearing deposits at financial institutions	404,879	411,079	313,113
Restricted investment securities	557,698	497,214	302,756
Federal funds sold	92,126	173,714	133,723
Total interest and dividend income	77,723,248	80,097,366	85,610,833
Interest expense:			
Deposits	8,939,056	12,681,625	18,374,065
Short-term borrowings	290,450	628,255	711,801
Federal Home Loan Bank advances	7,972,025	9,246,562	9,082,039
Other borrowings	5,149,022	5,732,142	4,764,812
Junior subordinated debentures	1,227,839	1,945,014	2,016,449
Total interest expense	23,578,392	30,233,598	34,949,166
Net interest income	54,144,856	49,863,768	50,661,667
Provision for loan/lease losses	6,616,014	7,463,618	16,975,517
Net interest income after provision for loan/lease losses	47,528,842	42,400,150	33,686,150
Noninterest income:			
Trust department fees	3,368,995	3,290,844	2,883,482
Investment advisory and management fees, gross	2,108,918	1,812,903	1,507,557
Deposit service fees	3,493,001	3,478,743	3,319,967
Gains on sales of loans, net	2,565,043	3,169,514	1,677,312
Securities gains, net	1,472,528	-	1,488,391
Gains (losses) on sales of other real estate owned	(374,910)	(835,163)	177,736
Earnings on bank-owned life insurance	1,445,891	1,331,085	1,243,324
Credit card fees, net of processing costs	500,544	259,590	930,435
Other	2,881,868	2,898,372	2,318,843
Total noninterest income	17,461,878	15,405,888	15,547,047
Noninterest expenses:			
Salaries and employee benefits	30,365,020	27,843,127	26,882,185
Occupancy and equipment expense	5,297,949	5,472,248	5,372,101
Professional and data processing fees	4,461,187	4,524,519	4,664,656
FDIC and other insurance	2,698,282	3,528,267	3,626,027
Loan/lease expense	2,160,674	1,657,552	1,997,583
Advertising and marketing	1,288,797	1,053,909	991,243
Postage and telephone	937,557	1,004,176	1,060,690
Stationery and supplies	516,873	491,252	528,959

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Bank service charges	725,717	420,252	306,473
Prepayment fees on Federal Home Loan Bank advances	832,099	-	-
Other-than-temporary impairment losses on securities	118,847	113,800	206,369
Losses on lease residual values	-	617,000	-
Other	1,589,650	1,822,961	1,300,740
Total noninterest expenses	50,992,652	48,549,063	46,937,026
Income before income taxes	13,998,068	9,256,975	2,296,171
Federal and state income tax expense	3,868,199	2,449,249	247,340
Net income	\$10,129,869	\$6,807,726	\$2,048,831
Less: net income attributable to noncontrolling interests	438,221	221,047	276,923
Net income attributable to QCR Holdings, Inc.	\$9,691,648	\$6,586,679	\$1,771,908
Less: preferred stock dividends and discount accretion	5,283,885	4,128,104	3,843,924
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	4,407,763	2,458,575	(2,072,016)
Basic earnings (loss) per common share	\$0.93	\$0.54	\$(0.46)
Diluted earnings (loss) per common share	\$0.92	\$0.53	\$(0.46)
Weighted average common shares outstanding	4,724,781	4,593,096	4,540,792
Weighted average common and common equivalent shares outstanding	4,789,026	4,618,242	4,540,792
Cash dividends declared per common share	\$0.08	\$0.08	\$0.08

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2011, 2010, and 2009

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Treasury Stock	Total
Balance, December 31, 2008	\$568	\$4,630,883	\$43,090,268	\$40,893,304	\$3,628,360	\$1,858,298	\$(1,606,510)	\$92,495,506
Comprehensive income:								
Net income	-	-	-	1,771,908	-	276,923	-	2,048,831
Other comprehensive loss, net of tax	-	-	-	-	(3,492,752)	-	-	(3,492,752)
Comprehensive loss	-	-	-	-	(3,492,752)	-	-	(3,492,752)
Common cash dividends declared, \$0.08 per share	-	-	-	(362,811)	-	-	-	(362,811)
Preferred cash dividends declared and accrued	-	-	-	(3,467,989)	-	-	-	(3,467,989)
Discount accretion on cumulative preferred stock	-	-	375,935	(375,935)	-	-	-	-
Proceeds from issuance of 38,237 shares of preferred stock and common stock warrant	38,237	-	38,014,586	-	-	-	-	38,052,823
Proceeds from issuance of 28,575 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	28,575	205,585	-	-	-	-	234,160
Exchange of 830 shares of common stock in connection with payroll taxes for restricted stock	-	(830)	(6,889)	-	-	-	-	(7,719)
Stock-based compensation expense	-	-	609,713	-	-	-	-	609,713
	-	15,908	(15,908)	-	-	-	-	-

Restricted stock awards								
Purchase of noncontrolling interests	-	-	(78,960)	-	-	(231,040)	-	(310,000)
Other adjustments to noncontrolling interests	-	-	-	-	-	(204,551)	-	(204,551)
Balance, December 31, 2009	\$38,805	\$4,674,536	\$82,194,330	\$38,458,477	\$135,608	\$1,699,630	\$(1,606,510)	\$125,590,000
Comprehensive income:								
Net income	-	-	-	6,586,679	-	221,047	-	6,807,726
Other comprehensive income, net of tax	-	-	-	-	568,557	-	-	568,557
Comprehensive income								7,376,283
Common cash dividends declared, \$0.08 per share	-	-	-	(366,152)	-	-	-	(366,152)
Preferred cash dividends declared and accrued	-	-	-	(3,679,100)	-	-	-	(3,679,100)
Discount accretion on cumulative preferred stock	-	-	449,004	(449,004)	-	-	-	-
Exchange of 268 shares of Series B Non-Cumulative Perpetual Preferred Stock for 13,400 shares of Series E Non-Cumulative Perpetual Convertible Preferred Stock	13,132	-	(13,132)	-	-	-	-	-
Exchange of 300 shares of Series C Non-Cumulative Perpetual Preferred Stock for 7,500 shares of Series E Non-Cumulative Perpetual Convertible Preferred Stock	7,200	-	(7,200)	-	-	-	-	-
Proceeds from issuance of 4,100 shares of Series E Non-Cumulative	4,100	-	3,183,133	-	-	-	-	3,187,233

Perpetual Convertible Preferred Stock									
Proceeds from issuance of warrants to purchase 54,000 shares of common stock in conjunction with the issuance of Series A Subordinated Notes	-	-	84,240	-	-	-	-	-	84,240
Proceeds from issuance of 28,907 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	28,907	192,362	-	-	-	-	-	221,269
Proceeds from issuance of 5,754 shares of common stock as a result of stock options exercised	-	5,754	37,621	-	-	-	-	-	43,375
Exchange of 367 shares of common stock in connection with payroll taxes for restricted stock	-	(367)	(2,730)	-	-	-	-	-	(3,097)
Stock-based compensation expense	-	-	533,271	-	-	-	-	-	533,271
Restricted stock awards	-	23,598	(23,598)	-	-	-	-	-	-
Purchase of noncontrolling interests	-	-	(149,032)	-	-	-	(270,968)	-	(420,000)
Distributions to noncontrolling interests	-	-	-	-	-	-	(1,490)	-	(1,490)
Balance, December 31, 2010	\$63,237	\$4,732,428	\$86,478,269	\$40,550,900	\$704,165	\$1,648,219	\$(1,606,510)		\$132,577
Comprehensive income:									
Net income	-	-	-	9,691,648	-	438,221	-	-	10,129,871
Other comprehensive income, net of tax	-	-	-	-	4,050,549	-	-	-	4,050,549

Comprehensive income									14,180
Common cash dividends declared, \$0.08 per share	-	-	-	(372,761)	-	-	-	-	(372,761)
Preferred cash dividends declared and accrued	-	-	-	(3,694,441)	-	-	-	-	(3,694,441)
Discount accretion on cumulative preferred stock *	-	-	1,589,444	(1,589,444)	-	-	-	-	-
Proceeds from issuance of 40,090 shares of Series F Non-Cumulative Perpetual Preferred Stock	40,090	-	39,956,832	-	-	-	-	-	39,996,922
Redemption of 38,237 shares of Series D Cumulative Perpetual Preferred Stock	(38,237)	-	(38,198,763)	-	-	-	-	-	(38,237,000)
Redemption of 521,888 shares of common stock warrants issued in conjunction with Series D Cumulative Perpetual Preferred Stock	-	-	(1,100,000)	-	-	-	-	-	(1,100,000)
Proceeds from issuance of 36,174 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	36,174	207,592	-	-	-	-	-	243,766
Proceeds from issuance of 36,459 shares of common stock as a result of stock options exercised	-	36,459	216,765	-	-	-	-	-	253,224
Exchange of 2,550 shares of common stock in connection with stock options exercised	-	(2,550)	(17,101)	-	-	-	-	-	(19,651)

Stock-based compensation expense	-	-	646,419	-	-	-	-	646,419
Restricted stock awards	-	76,924	(76,924)	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-	(34,902)	-	(34,902)
Balance, December 31, 2011	\$65,090	\$4,879,435	\$89,702,533	\$44,585,902	\$4,754,714	\$2,051,538	\$(1,606,510)	\$144,433

* Includes \$1,252,895 of accelerated discount accretion as a result of redeeming Series D Cumulative Perpetual Preferred Stock.

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2011, 2010, and 2009

	2011	2010	2009
Cash Flows from Operating Activities:			
Net income	\$ 10,129,869	\$ 6,807,726	\$ 2,048,831
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	2,442,896	2,533,597	2,780,190
Provision for loan/lease losses	6,616,014	7,463,618	16,975,517
Deferred income taxes	1,228,529	1,256,004	2,758,856
Amortization of offering costs on subordinated debentures	14,317	14,317	14,317
Stock-based compensation expense	696,407	488,112	512,963
Losses (gains) on sales of other real estate owned, net	374,910	835,163	(177,736)
Amortization of premiums on securities, net	3,487,361	3,411,202	2,044,767
Securities gains, net	(1,472,528)	-	(1,488,391)
Other-than-temporary impairment losses on securities	118,847	113,800	206,369
Loans originated for sale	(100,789,010)	(172,623,744)	(140,376,155)
Proceeds on sales of loans	113,606,152	167,843,529	143,295,985
Gains on sales of loans, net	(2,565,043)	(3,169,514)	(1,677,312)