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 | 42-1397595 |
| (State of incorporation) | (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 [ X ]

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 [ X ]

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 [ X ] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ X ] No [ ]

Indicate by check mark 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

INDEX

3

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:

| | | | | | As of December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Type of Loan * | 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) | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 % |

fees

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $518,168 | 100% | $85,352 | 100% | $367,780 | 100% | $203,397 | 100% | $(2,158) | $1,172,539 | 100% |

7

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.

| Approved Collateral Type | Maximum Advance % |
|---|---|
| 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.

-

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.

14

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.

19

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 |

| | | | | | |
|---|---|---|---|---|---|
| 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 ("TCPP") 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) |

| | | | |
|---|---|---|---|
| Weighted average common and common equivalent shares outstanding | 4,789,026 | 4,618,242 | 4,540,792 ** |

*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.

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 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 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.

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

| | Inc./(Dec.) from Prior Year | Components of Change (1) Rate | Volume |
|---|---|---|---|
| | 2011 vs. 2010 (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) | | |