QCR HOLDINGS INC
Form 10-K
March 12, 2015

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, 2014.

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) 743-7724

(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. [ ]

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 [X]   Non-accelerated filer [ ]   Smaller reporting company [ ]

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

Yes [ ]   No [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, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $119,992,664.

As of February 27, 2015, the Registrant had outstanding 7,987,964 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 2015.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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Part I

Item 1. Business

General. QCR Holdings, Inc. (the "Company") is a multi-bank holding company headquartered in Moline, Illinois, that was formed in February 1993 under the laws of the state of Delaware. The Company serves the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls 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.

On May 13, 2013, the Company acquired Community National Bancorporation ("Community National") and its banking subsidiary, Community National Bank ("CNB"). Community National and CNB commenced operations in 1997 and historically provided full-service commercial and consumer banking, and trust and asset management services, to Cedar Falls, Mason City, and Waterloo, Iowa and Austin, Minnesota. At acquisition, CNB had a total of eight branch facilities with four in the Waterloo/Cedar Falls area where CNB was headquartered, two in Mason City, and two in Austin. On October 4, 2013, the Company finalized the sale of the two branches in Mason City. On October 11, 2013, the Company finalized the sale of the two branches in Austin. On October 26, 2013, CNB merged with and into CRBT. CNB's merged branch offices operate as a division of CRBT under the name "Community Bank & Trust." In December 2013, one of the branch facilities in Cedar Falls was closed due to lack of sufficient customer activity. See Note 2 to the consolidated financial statements for further discussion of the acquisition and sales of certain branches.

The Company also engages in direct financing lease contracts through m2 Lease Funds, LLC ("m2"), a wholly-owned subsidiary of QCBT based in Brookfield, Wisconsin. QCBT previously owned 80% of m2. In August 2012, QCBT entered into an amendment to the operating agreement of m2 and purchased the remaining 20% noncontrolling interest. See Note 23 to the consolidated financial statements for further discussion of the acquisition.

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, correspondent, 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, on a consolidated basis with m2, had total segment assets of $1.32 billion and $1.25 billion as of December 31, 2014 and 2013, 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. As previously discussed, the merged branches of CNB operate as a division of CRBT under the name "Community Bank & Trust." CRBT provides full-service commercial and consumer banking and trust and asset management services to Cedar Rapids and Waterloo/Cedar Falls, Iowa and adjacent communities through its five facilities. The headquarters for CRBT is located in downtown Cedar Rapids with one other branch located in northern Cedar Rapids ,two branches located in Waterloo and one branch located in Cedar Falls. CRBT had total segment assets of $840.3 million and $804.2 million as of December 31, 2014 and 2013, 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 RB&T 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 headquarters located on Guilford Road at Alpine Road in Rockford and its branch facility located in downtown Rockford. RB&T had total segment assets of $353.4 million and $339.4 million as of December 31, 2014 and 2013, respectively.

See Note 22 to the consolidated financial statements for additional business segment information.

Other Operating Subsidiaries. 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. QCBT originally acquired 80% of the membership units of m2 but subsequently acquired the remaining 20% noncontrolling interest owned by John Engelbrecht in 2012.

Velie Plantation Holding Company ("VPHC"), previously owned 91% by the Company, was engaged in holding the real estate property known as the Velie Plantation in Moline, Illinois, which is the location for the Company's headquarters. During the fourth quarter of 2012, the Company acquired the remaining 9% noncontrolling interest and, effective as of December 31, 2012, VPHC was dissolved and liquidated.

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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, 2014 and 2013:

Name	Date Issued	Amount Issued	Interest Rate	Interest Rate as of 12/31/2014	Interest Rate as of 12/31/2013
QCR Holdings Statutory Trust II	February 2004	$12,372,000	2.85% over 3-month LIBOR	3.08%	3.10%
QCR Holdings Statutory Trust III	February 2004	8,248,000	2.85% over 3-month LIBOR	3.08%	3.10%
QCR Holdings Statutory Trust IV	May 2005	5,155,000	1.80% over 3-month LIBOR	2.03%	2.04%
QCR Holdings Statutory Trust V	February 2006	10,310,000	1.55% over 3-month LIBOR	1.78%	1.79%
Community National Statutory Trust II	September 2004	3,093,000	2.17% over 3-month LIBOR	2.42%	2.42%
Community National Statutory Trust III	March 2007	3,609,000	1.75% over 3-month LIBOR	1.99%	1.99%
		$42,787,000	Weighted Average Rate	2.50%	2.51%

Securities issued by all of the trusts listed above mature thirty years from the date of issuance, but are all currently callable at par at anytime.

Other Ownership Interests. The Company invests limited amounts of its capital in financial institutions and mutual funds. In addition to its wholly-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, which provided residential real estate mortgage lending services. During the first quarter of 2013, CRBT and the partner mutually terminated the joint venture. CRBT continues to provide residential real estate mortgage lending services through its consumer banking division. In December 2014, QCBT entered into a joint venture as a 20% owner of Ruhl Mortgage, to provide residential real estate mortgage lending services and products to QCBT clients.

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

(“BOLI”) 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 409 and 400 full-time equivalents (“FTEs”) at December 31, 2014 and 2013, 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 (“Iowa Superintendent”) and RB&T is regulated by the State of Illinois Department of Financial and Professional Regulation (“DFPR”). The FDIC, as administrator of the Deposit Insurance Fund, also has regulatory authority over the subsidiary banks. See Appendix A for more information on the federal and state statutes and regulations that are applicable to the Company and its subsidiaries.

Lending/Leasing. The Company and its subsidiaries provide a broad range of commercial and retail lending/leasing 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 $15.5 million and $11.9 million, respectively, as of December 31, 2014. In accordance with Illinois regulation, the legal lending limit to one borrower for RB&T, calculated as 25% of aggregate capital, totaled $9.0 million as of December 31, 2014.

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:	$ 10.0 million
Cedar Rapids Bank & Trust:	$ 7.5 million
Rockford Bank & Trust:	$ 3.7 million

On a consolidated basis, the in-house lending limit is $15.0 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.

In addition, m2's in-house lending limit is $1.0 million to a single leasing entity or group of related entities.

As part of the loan monitoring activity at the three subsidiary banks, credit administration personnel interact closely with senior bank management. For example, the internal loan committee of each subsidiary bank meets weekly. 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. Historically, 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.

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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, 2014 for the loan portfolio on a per loan type basis, reflected as a percentage of the subsidiary bank's average gross loans:

Type of Loan *	QCBT Maximum Percentage per Loan Policy	QCBT As of December 31, 2014	CRBT Maximum Percentage per Loan Policy	CRBT As of December 31, 2014	RBT Maximum Percentage per Loan Policy	RBT As of December 31, 2014
One-to-four family residential	30%	14%	25%	11%	30%	21%
Multi-family	15%	3%	15%	7%	15%	4%
Farmland	5%	1%	5%	1%	5%	0%
Non-farm, nonresidential	50%	25%	50%	35%	50%	46%
Construction and land development	20%	3%	15%	9%	20%	3%
Commercial and industrial	60%	20%	60%	25%	60%	22%
Loans to individuals	10%	1%	10%	1%	10%	1%
Lease financing	30%	22%	5%	0%	20%	0%
Bank stock loans	**	6%	10%	2%	10%	0%
All other loans	15%	5%	10%	9%	10%	3%
		100%		100%		100%

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

** QCBT's maximum percentage for bank stock loans is 150% of aggregate capital (bank stock loan commitments are limited to 200% of aggregate capital). At December 31, 2014, QCBT's bank stock loans totaled 62% of aggregate capital.

The following table presents total loans/leases by major loan/lease type and subsidiary as of December 31, 2014 and 2013. 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

	$	%	$	%	$	%	$	%	$	$	%
	(dollars in thousands)										
As of December 31, 2014:											
Commercial and industrial loans	$238,495	39 %	$4,739	3 %	$212,208	37 %	$68,485	25 %	$-	$523,927	32 %
Commercial real estate loans	256,195	42 %	-	0 %	297,377	51 %	150,031	55 %	(1,463)	702,140	43 %
Direct financing leases	-	0 %	166,032	93 %	-	0 %	-	0 %	-	166,032	10 %
Residential real estate loans	75,095	13 %	-	0 %	43,863	8 %	39,675	15 %	-	158,633	10 %
Installment and other consumer loans	35,213	6 %	-	0 %	24,252	4 %	13,142	5 %	-	72,607	5 %
Deferred loan/lease origination costs, net of fees	80	0 %	6,673	4 %	(337)	0 %	248	0 %	-	6,664	0 %
	$605,078	100 %	$177,444	100 %	$577,363	100 %	$271,581	100 %	$(1,463)	$1,630,003	100 %
As of December 31, 2013:											
Commercial and industrial loans	$209,150	38 %	$-	0 %	$161,032	31 %	$61,506	24 %	$-	$431,688	30 %
Commercial real estate loans	239,965	44 %	-	0 %	290,625	55 %	142,819	57 %	(1,656)	671,753	46 %
Direct financing leases	-	0 %	128,902	96 %	-	0 %	-	0 %	-	128,902	9 %
Residential real estate loans	65,678	12 %	-	0 %	45,457	9 %	36,221	14 %	-	147,356	10 %
Installment and other consumer loans	36,791	7 %	-	0 %	28,427	5 %	10,816	4 %	-	76,034	5 %
	45	0 %	4,814	4 %	(537)	0 %	225	0 %	-	4,547	0 %

Deferred loan/lease origination costs, net of fees											
	$551,629	100%	$133,716	100%	$525,004	100%	$251,587	100%	$(1,656)	$1,460,280	100%

Proper pricing of loans is necessary to provide adequate return to the Company's stockholders. Loan pricing, as established by the subsidiary banks' internal loan committees, includes consideration for the cost of funds, loan maturity and risk, origination and maintenance costs, appropriate stockholder 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 Note 1 to the consolidated financial statements 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 Company's 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 accounts
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 Company's 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 three to five years. For lines of credit, the maximum term is typically 365 days.

In addition, the subsidiary banks often take personal guarantees or cosignors 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 Company's 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 as, or in some situations, more conservative than, those established by regulatory authorities. Following is a listing of these limits as well as some of the other guidelines included in the Company's 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 1.25x for non-owner occupied loans and 1.15x for owner-occupied loans. For loans greater than $500 thousand, the subsidiary banks sensitize this ratio for deteriorated

economic conditions, major changes in interest rates, and/or significant increases in vacancy rates.

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

The Company’s 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, 2014 and 2013, approximately 37% and 39%, 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, 2014, 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, 2014 and 2013:

	2014 Amount	%	2013 Amount	%
	(dollars in thousands)			
Lessors of Nonresidential Buildings	$256,436	37 %	$237,049	35 %
Lessors of Residential Buildings	74,668	11 %	69,087	10 %
Land Subdivision	19,504	3 %	29,117	4 %
Lessors of Other Real Estate Property	17,553	2 %	15,509	2 %
Nursing Care Facilities	17,078	2 %	19,212	3 %
Hotels	16,252	2 %	20,975	3 %
New Car Dealers	16,090	2 %	16,597	3 %
Other *	284,559	41 %	264,207	40 %
Total Commercial Real Estate Loans	$702,140	100%	$671,753	100%

* "Other" consists of all other industries. None of these had concentrations greater than $15.0 million, or 2% 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; and
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; and
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 and 2012, 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 Company's lending policy establishes minimum appraisal and other credit guidelines.

The following table presents the originations and sales of residential real estate loans for the Company. Included in originations is activity related to the refinancing of previously held in-house mortgages.

	For the year ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Originations of residential real estate loans	$72,146	$105,716	$151,676
Sales of residential real estate loans	$33,100	$56,103	$104,740
Percentage of sales to originations	46 %	53 %	69 %

Installment and Other Consumer Lending

The consumer lending department of each subsidiary bank provides many types of consumer loans, including home improvement, home equity, motor vehicle, signature loans and small personal credit lines. The Company's 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 five years.

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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 Company's 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, Waterloo/Cedar Falls, 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 the Form 10-K, results are presented for the fiscal years ended December 31, 2014, 2013, and 2012.

Internet Site, Securities Filings and Governance Documents. The Company maintains an Internet site at www.qcrh.com. The Company makes available free of charge through this site 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 Securities Exchange Act of 1934 as soon as reasonably practicable 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.

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:

A prolonged continuation of economic uncertainty or worsening of current economic conditions could have a material adverse effect on our financial condition and results of operations.

While some economic indicators show signs of gradual improvement, elevated levels of uncertainty related to U.S. and European fiscal issues, political climates and global economic conditions continue. There can be no assurance that this improvement will continue or be spread evenly throughout the markets that the Company serves. Continued uncertainty, sustained high unemployment, volatility or disruptions of global financial markets, or prolonged deterioration in the global, national or local business or economic conditions could result in, among other things, a deterioration of credit quality, further impairment of real estate values or a reduced demand for credit or other products and services we offer to clients.

Additionally, competitive dynamics in our industry could change as a result of continued consolidation of financial services companies in connection with current market conditions.

If market conditions do not continue to improve or worsen to recessionary conditions, and/or if negative developments in the domestic and international credit markets continue, 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.

Potential future acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and adversely affect our financial results.

On May 13, 2013, we acquired Community National and CNB. As part of our business strategy, we may consider acquisitions of other banks or financial institutions or branches, assets or deposits of such organizations. There is no assurance, however, that we will determine to pursue any of these opportunities or that if we determine to pursue them that we will be successful. Acquisitions involve numerous risks, any of which could harm our business, including:

difficulties in integrating the operations, technologies, products, existing contracts, accounting processes and personnel of the target company and realizing the anticipated synergies of the combined businesses;

difficulties in supporting and transitioning customers of the target company;

diversion of financial and management resources from existing operations;

the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;

risks of entering new markets or areas in which we have limited or no experience or are outside our core competencies;

potential loss of key employees, customers and strategic alliances from either our current business or the business of the target company;

assumption of unanticipated problems or latent liabilities; and

inability to generate sufficient revenue to offset acquisition costs.

Future acquisitions may involve the issuance of our equity securities as payment or in connection with financing the business or assets acquired, and as a result, could dilute the ownership interests of existing stockholders. In addition, consummating these transactions could result in the incurrence of additional debt and related interest expense, as well as unforeseen liabilities, all of which could have a material adverse effect on our business, results of operations and financial condition. The failure to successfully evaluate and execute acquisitions or otherwise adequately address the risks associated with acquisitions could have a material adverse effect on our business, results of operations and financial condition.

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. Our borrowers may experience financial difficulties, and the level of nonperforming loans, charge-offs and delinquencies could rise, which could negatively impact our business through increased provision for loan/lease losses ("provision"), 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 $523.9 million, or approximately 32% of our total loan/lease portfolio, as of December 31, 2014. 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 or cosigner 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 U.S. economy experiences a prolonged recovery period, it could harm or continue to harm the businesses of our commercial and industrial customers and reduce the value of the collateral securing these loans.

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

Commercial real estate lending comprises a significant portion of our lending business. Specifically, commercial real estate loans were $702.1 million, or approximately 43% of our total loan/lease portfolio, as of December 31, 2014. Of this amount, $260.1million, or approximately 37%, was 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 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 U.S. in prior years also affected the commercial real estate market. In our market areas, we generally experienced a downturn in credit performance by our commercial real estate loan customers in prior years relative to historical norms, and despite recent improvements in certain aspects of the economy, a level of uncertainty continues to exist 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 and adversely affect our operating results, financial condition and/or capital.

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

We establish our allowance for loan/lease losses (“allowance”) 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, 2014, our allowance as a percentage of total gross loans/leases was 1.42%, and as a percentage of total nonperforming loans/leases was 114.78%. In addition, we had net charge-offs as a percentage of gross average loans/leases of 0.34% for the year ended December 31, 2014. 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 and installment loans, the movement of a small number of loans to nonperforming status can have a significant impact on these ratios. Although management believes that the allowance as of December 31, 2014 was adequate to absorb losses on any existing loans/leases that may become uncollectible, in light of the current economic environment, which remains challenging, we cannot predict loan/lease losses with certainty, and we cannot assure you that our allowance will prove sufficient to cover actual loan/lease losses in the future, particularly if economic conditions are more difficult than what management currently expects. Additional provisions and loan/lease losses in excess of our allowance may adversely affect our business, financial condition and results of operations.

The Company's information systems may experience an interruption or breach in security and cyber-attacks, all of which could have a material adverse effect on the Company's business.

The Company relies heavily on internal and outsourced technologies, communications, and information systems to conduct its business. Additionally, in the normal course of business, the Company collects, processes and retains sensitive and confidential information regarding our customers. As the Company's reliance on technology has increased, so have the potential risks of a technology-related operation interruption (such as disruptions in the Company's customer relationship management, general ledger, deposit, loan, or other systems) or the occurrence of a cyber-attacks (such as unauthorized access to the Company's systems). These risks have increased for all financial institutions as new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against financial institutions, particularly denial of service attacks that are designed to disrupt key business services, such as customer-facing web sites. The Company is not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. However, applying guidance from the Federal Financial Institutions Examination Council, the Company has analyzed and will continue to analyze security related to device specific considerations, user access topics, transaction-processing and network integrity.

The Company also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding the Company's customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that the Company does not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact the Company through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks relating to them. Further cyber-attacks or other breaches in the future, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on the Company's business. To the extent we are involved in any future cyber-attacks or other breaches, the Company's reputation could be affected, would could also have a material adverse effect on the Company's business, financial condition or results of operations.

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, as well as that of our customers engaging in internet banking activities, 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. Any interruption in, or breach of security of, our computer systems and network infrastructure, or that of our internet banking customers, could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which 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 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.

We may be materially and adversely affected by the highly regulated environment in which we operate.

The Company and its bank subsidiaries are subject to extensive federal and state regulation, supervision and examination. Banking regulations are primarily intended to protect depositors' funds, FDIC funds, customers and the banking system as a whole, rather than stockholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things.

As a bank holding company, we are subject to regulation and supervision primarily by the Federal Reserve. QCBT and CRBT, as Iowa-chartered state member banks, are subject to regulation and supervision primarily by both the Iowa Superintendent and the Federal Reserve. RB&T, as an Illinois-chartered state member bank, is subject to regulation and supervision primarily by both the DFPR and the Federal Reserve. We and our banks undergo periodic examinations by these regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies.

The primary federal and state banking laws and regulations that affect us are described in Appendix A to this report. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. For example, 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, includes provisions affecting large and small financial institutions alike, including several provisions that affect how community banks, thrifts and small bank and thrift holding companies are regulated. In addition, in recent years the Federal Reserve has adopted numerous new regulations addressing banks' overdraft and mortgage lending practices. Further, the Consumer Financial Protection Bureau was recently established, with broad powers to supervise and enforce consumer protection laws, and additional consumer protection legislation and regulatory activity is anticipated in the near future.

In September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III, which constitutes a strengthened set of capital requirements for banking organizations in the U.S. and around the world. In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms and issued rules effecting certain changes required by the Dodd-Frank Act (the "Basel III Rules"). The Basel III Rules are applicable to all U.S. banks that are subject to minimum capital requirements, as well as to bank and savings and loan holding companies other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1 billion). The Basel III Rules not only increased most of the required minimum regulatory capital ratios, but they introduced a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rules also expanded the definition of capital as in effect currently by establishing criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now qualify as Tier 1 Capital will not qualify, or their qualifications will change. The Basel III Rules also permit smaller banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income, which currently does not affect regulatory capital. The Company intends to make this election in the first quarter of 2015. The Basel III Rules have maintained the general structure of the current prompt corrective action framework, while incorporating the increased requirements. The prompt corrective action guidelines were also revised to add the Common Equity Tier 1 Capital ratio. In order to be a “well-capitalized” depository institution under the new regime, a bank and holding company must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more; a Tier 1 Capital ratio of 8% or more; a Total Capital ratio of 10% or more; and a leverage ratio of 5% or more. Generally, financial institutions became subject to the new Basel III Rules on January 1, 2015.

U.S. financial institutions are also subject to numerous monitoring, recordkeeping, and reporting requirements designed to detect and prevent illegal activities such as money laundering and terrorist financing. These requirements are imposed primarily through the Bank Secrecy Act, (“BSA”) which was most recently amended by the USA Patriot Act. We have instituted policies and procedures to protect us and our employees, to the extent reasonably possible, from being used to facilitate money laundering, terrorist financing and other financial crimes. There can be no guarantee, however, that these policies and procedures are effective.

Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties, and/or damage to our reputation, which could have a material adverse effect on us. Although we have policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur.

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.

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, the mix of adjustable and fixed rate loans/leases in our portfolio, the length of time deposits and borrowings, and the rate sensitivity of our deposit customers 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.

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, which have recently increased due to the effectiveness of the Basel III Rules.. We intend to grow our business organically and to explore opportunities to grow our business by taking advantage of attractive acquisition opportunities, and such growth plans may require us to raise additional capital to ensure that we have adequate levels of capital to support such growth on top of our current operations. Our ability to raise additional capital, when and if needed or desired, 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 conditions, 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.

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

As of December 31, 2014, we had $40.4 million of junior subordinated debentures held by six business trusts that we control. Interest payments on the debentures, which totaled $1.2 million for 2014, 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. Deferral of interest payments on the debentures could cause a subsequent decline in the market price of our common stock because we would not be able to pay dividends on our common stock.

As a bank holding company, our sources of funds are limited.

We are a bank holding company, and our operations are primarily conducted by our subsidiary banks, which are subject to significant federal and state regulation. When available, cash to pay dividends to our stockholders is derived primarily from dividends received from our subsidiary banks. Our ability to receive dividends or loans from our subsidiary banks is restricted. Dividend payments by our subsidiaries to us in the future will require generation of future earnings by them and could require regulatory approval if any proposed dividends are in excess of prescribed guidelines. Further, as a structural matter, our right to participate in the assets of our subsidiary banks in the event of a liquidation or reorganization of any of the banks would be subject to the claims of the creditors of such bank, including depositors, which would take priority except to the extent we may be a creditor with a recognized claim. As of December 31, 2014, our subsidiary banks had deposits and other liabilities in the aggregate of approximately $2.30 billion.

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 in recent years, and as of December 31, 2014, we had gross unrealized losses of $7.1 million, or 1.1% of amortized cost, in our investment portfolio (mostly offset by gross unrealized gains of $5.8 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 ("OTTI"), which could have a material adverse effect on our results of operations in the periods in which the write-offs occur. Based on management's evaluation, it was determined that the gross unrealized losses at December 31, 2014 were temporary and primarily a function of the changes in certain market interest rates.

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 securities and/or 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 of Chicago (the "Federal Reserve Bank") or other correspondent banks, Federal Home Loan Bank ("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 disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

During the recent recession and subsequent recovery, the financial services industry and the credit markets generally were materially and adversely affected by significant declines in asset values and by a lack of liquidity. The liquidity issues were particularly acute for regional and community banks, as many of the larger financial institutions 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 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 stockholders, 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 business is concentrated in and dependent upon the continued growth and welfare of the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, and Rockford markets.

We operate primarily in the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, 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 Falls, Cedar Rapids, Davenport, and Waterloo, 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 nonperforming 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/lease rates and deposit rates or loan/lease 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 and leasing 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.

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.

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 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.

Our reputation could be damaged by negative publicity.

Reputational risk, or the risk to our business, financial condition or results of operations from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, ethical behavior of our employees, and from actions taken by regulators, ratings agencies and others as a result of that conduct. Damage to our reputation could impact our ability to attract new or maintain existing loan and deposit customers, employees and business relationships.

The repeal of federal prohibitions on payment of interest on business demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on business demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, some financial institutions have commenced offering interest on these demand deposits to compete for customers. If competitive pressures require us to pay interest on these demand deposits to attract and retain business customers, our interest expense would increase and our net interest margin would decrease. This could have a material adverse effect on our business, financial condition and results of operations. Further, the effect of the repeal of the prohibition could be more significant in a higher interest rate environment as business customers would have a greater incentive to seek interest on demand deposits.

The preparation of our consolidated financial statements requires us to make estimates and judgments, which are subject to an inherent degree of uncertainty and which may differ from actual results.

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles and general reporting practices within the financial services industry, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Some accounting policies, such as those pertaining to our allowance, require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results may differ from these estimates and judgments under different assumptions or conditions, which may have a material adverse effect on our financial condition or results of operations in subsequent periods.

From time to time, the Financial Accounting Standards Board and the Securities and Exchange Commission change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations.

Changes in these standards are continuously occurring, and given the current economic environment, more drastic changes may occur. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

Secondary mortgage and government guaranteed loan market conditions could have a material impact on our financial condition and results of operations.

Currently, we sell a portion of the residential real estate and government guaranteed loans we originate. The profitability of these operations depends in large part upon our ability to make loans and to sell them in the secondary market at a gain. Thus, we are dependent upon the existence of an active secondary market and our ability to profitably sell loans into that market.

In addition to being affected by interest rates, the secondary markets are also subject to investor demand for residential mortgages and government guaranteed loans and investor yield requirements for those loans. These conditions may fluctuate or even worsen in the future. As a result, a prolonged period of secondary market illiquidity may reduce our loan production volumes and could have a material adverse effect on our financial condition and results of operations.

Customers may decide not to use banks to complete their financial transactions, which could result in a loss of income to us.

Technology and other changes are allowing customers to complete financial transactions using nonbanks that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income as well as the loss of customer deposits.

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**	48,000	Owned
5400 Council Street in Cedar Rapids, IA	5,900	Owned
422 Commercial Street in Waterloo, IA *	25,000	Owned
11 Tower Park Drive in Waterloo, IA *	6,000	Owned
312 1st Street in Cedar Falls, IA *	3,000	Owned
Rockford Bank & Trust		
4571 Guilford Road in Rockford, IL	20,000	Owned
308 West State Street in Rockford, IL	1,100	Leased

* Branches of Community Bank & Trust.

**In January 2015, CRBT purchased the 3rd floor of the 1st Avenue NE branch facility, adding approximately 12,000 square feet of additional business space.

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 February 27, 2015, there were 7,987,964 shares of common stock outstanding held by approximately 2,400 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.

2014 Sales Price		2013 Sales Price		2012 Sales Price	
High	Low	High	Low	High	Low

First quarter	$17.48	$16.99	$16.96	$13.05	$12.45	$8.50
Second quarter	$17.96	$17.00	$16.50	$13.18	$14.50	$10.70
Third quarter	$18.10	$16.96	$16.51	$14.96	$14.98	$12.62
Fourth quarter	$18.20	$17.50	$18.20	$15.65	$15.50	$11.40

Dividends on Common Stock. On May 14, 2014, the Company declared a cash dividend of $0.04 per share, or $315 thousand, which was paid on July 8, 2014, to stockholders of record as of June 20, 2014. On November 6, 2014, the Company declared a cash dividend of $0.04 per share, or $316 thousand, which was paid on January 7, 2015, to stockholders of record as of December 19, 2014. On May 1, 2013, the Company declared a cash dividend of $0.04 per share, or $229 thousand, which was paid on July 8, 2013, to stockholders of record as of June 21, 2013. On November 7, 2013, the Company declared a cash dividend of $0.04 per share, or $230 thousand, which was paid on January 7, 2014, to stockholders of record as of December 20, 2013. 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 for continued growth, but believes that operating results have reached a level that can sustain dividends to stockholders.

The Company is heavily dependent on dividend payments from its subsidiary banks to provide cash flow for the operations of the holding company and dividend payments on the Company's 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 six private placements (including two that were assumed in the acquisition of Community National). Under the terms of the debentures, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. See Note 11 to the consolidated financial statements for additional detail on the junior subordinated debentures. None of these circumstances existed through the date of filing of this Form 10-K filed with the 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, 2014, 2013, and 2012.

Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2009 and ending December 31, 2014, 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 on December 31, 2009 in the common stock of the Company and in each index, and that all dividends were reinvested.

	Period Ending					
Index	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**
QCR Holdings, Inc.	100.00	86.26	110.96	162.25	210.00	221.22
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL Bank NASDAQ	100.00	117.98	104.68	124.77	179.33	185.73

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,				
	2014	2013	2012	2011	2010
STATEMENT OF INCOME DATA	*(dollars in thousands, except per share data)*				
Interest income	$85,965	$81,872	$77,376	$77,723	$80,097
Interest expense	16,894	17,767	19,727	23,578	30,233
Net interest income	69,071	64,105	57,649	54,145	49,864
Provision for loan/lease losses	6,807	5,930	4,371	6,616	7,464
Non-interest income	20,998	25,814	16,621	17,462	15,406
Non-interest expense	65,270	64,433	52,259	50,993	48,549
Income tax expense	3,039	4,618	4,534	3,868	2,449
Net income	14,953	14,938	13,106	10,130	6,808
Less: net income attributable to noncontrolling interests	-	-	488	438	221
Net income attributable to QCR Holdings, Inc.	14,953	14,938	12,618	9,692	6,587
Less: preferred stock dividends and discount accretion	1,082	3,168	3,496	5,284	4,128
Net income attributable to QCR Holdings, Inc. common stockholders	13,871	11,770	9,122	4,408	2,459
PER COMMON SHARE DATA					
Net income - Basic (1)	$1.75	$2.13	$1.88	$0.93	$0.54
Net income - Diluted (1)	1.72	2.08	1.85	0.92	0.53
Cash dividends declared	0.08	0.08	0.08	0.08	0.08
Dividend payout ratio	4.57 %	3.76 %	4.26 %	8.60 %	14.81 %
BALANCE SHEET DATA					
Total assets	$2,524,958	$2,394,953	$2,093,730	$1,966,610	$1,836,635
Securities	651,539	697,210	602,239	565,229	424,847
Total loans/leases	1,630,003	1,460,280	1,287,388	1,200,745	1,172,539
Allowance for estimated losses on loans/leases	23,074	21,448	19,925	18,789	20,365
Deposits	1,679,668	1,646,991	1,374,114	1,205,458	1,114,816
Borrowings	662,558	563,381	547,758	590,603	566,060
Stockholders' equity:					
Preferred	-	29,799	53,163	63,386	62,214

Common	144,079	117,778	87,271	81,047	70,357
KEY RATIOS					
Return on average assets (2)	0.61 %	0.64 %	0.62 %	0.51 %	0.36 %
Return on average common stockholders' equity (1)	10.49	11.48	10.84	5.82	3.58
Return on average total stockholder's equity (2)	10.48	10.24	8.90	7.09	5.03
Net interest margin, tax equivalent yield (3)	3.15	3.03	3.14	3.08	2.92
Efficiency ratio (4)	72.47	71.66	70.36	71.21	74.38
Loans to deposits	97.04	88.66	93.69	99.61	105.18
Nonperforming assets to total assets	1.31	1.28	1.41	2.06	2.73
Allowance for estimated losses on loans/leases to total loans/leases	1.42	1.47	1.55	1.56	1.74
Allowance for estimated losses on loans/leases to nonperforming loans/leases	114.78	104.70	78.47	58.70	49.49
Net charge-offs to average loans/leases	0.34	0.31	0.27	0.70	0.79
Average total stockholders' equity to average total assets	5.82	6.26	7.00	7.17	7.13

(1) Numerator is net income attributable to QCR Holdings, Inc. common stockholders

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

(3) Interest earned and yields on nontaxable investments and nontaxable loans are determined on a tax equivalent basis using a 35% tax rate

(4) 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, 2014, 2013, and 2012, and our financial condition at December 31, 2014 and 2013. 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 twenty years, the Company has grown to include two additional banking subsidiaries (including the 2013 acquisition of CNB which was merged into one of the Company's legacy banking subsidiaries) and a number of nonbanking subsidiaries. As of December 31, 2014, the Company had $2.52 billion in consolidated assets, including $1.63 billion in total loans/leases and $1.68 billion in deposits.

The Company recognized net income and net income attributable to QCR Holdings, Inc. of $15.0 million for the year ended December 31, 2014. After preferred stock dividends of $1.1 million, the Company reported net income available to common stockholders of $13.9 million, or diluted earnings per common share ("EPS") of $1.72. For the same period in 2013, the Company recognized net income and net income attributable to QCR Holdings, Inc. of $14.9 million. After preferred stock dividends of $3.2 million, the Company reported net income available to common stockholders of $11.8 million, or EPS of $2.08. By comparison, for 2012, the Company recognized net income of $13.1 million, and net income attributable to QCR Holdings, Inc. of $12.6 million, which excluded the net income attributable to noncontrolling interests of $488 thousand. After preferred stock dividends of $3.5 million, the Company reported net income available to common stockholders of $9.1 million, or EPS of $1.85.

Following is a table that represents the various net income measurements for the years ended December 31, 2014, 2013, and 2012.

	Year Ended December 31,					
	2014		2013		2012	
Net income	$	14,952,537	$	14,938,245	$	13,106,240
Less: Net income attributable to noncontrolling interests		-		-		488,473
Net income attributable to QCR Holdings, Inc.	$	14,952,537	$	14,938,245	$	12,617,767

Less: Preferred stock dividends and discount accretion		1,081,877		3,168,302		3,496,085
Net income attributable to QCR Holdings, Inc. common stockholders	$	13,870,660	$	11,769,943	$	9,121,682
Diluted earnings per common share	$	1.72	$	2.08	$	1.85
Weighted average common and common equivalent shares outstanding*		8,048,661		5,646,926		4,919,559

*On December 23, 2013, the Company converted $25.0 million of its outstanding shares of Series E Preferred Stock to common stock, which resulted in the issuance of 2,057,502 shares of common stock, or an increase of approximately 35% in the number of common shares outstanding. The conversion strengthened tangible common equity and reduced the Company’s annual preferred stock dividend commitment by $1.75 million. In May 2013, the Company issued 834,715 shares of common stock as a result of the Community National acquisition.

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

	Year Ended December 31,		
	2014	2013	2012
Net interest income	$69,071,128	$64,105,437	$57,649,260
Provision for loan/lease losses	(6,807,000)	(5,930,420)	(4,370,767)
Noninterest income	20,997,300	25,813,828	16,621,295
Noninterest expense	(65,269,921)	(64,432,658)	(52,258,947)
Federal and state income tax	(3,038,970)	(4,617,942)	(4,534,601)
Net income	$14,952,537	$14,938,245	$13,106,240

In comparison to 2013, the following are some noteworthy changes in the Company's financial results for 2014:

Net interest income grew $5.0 million, or 8%, mostly due to strong organic loan/lease growth throughout 2014.
Provision for loan/lease losses increased $877 thousand, or 15%, due to high levels of provisions in the fourth quarter of 2014.
Excluding the acquisition-related gains in 2013 (bargain purchase gain of $1.8 million upon acquisition and gains on CNB branch sales of $2.3 million) and other several one-time items in 2013 ($495 thousand gain on the sale of credit card portfolio, $355 thousand gain on the sale of credit card issuing operations, and $576 thousand gain on the sale of nonperforming loans), noninterest income increased $785 thousand, or 4%, led by wealth management fees, deposit service fees, and correspondent banking fees.
Excluding acquisition and data conversion costs totaling $2.4 million in 2013, noninterest expense increased $3.2 million, or 5%, with most of this increase attributable to the addition of CNB's cost structure for the first full year.

NET INTEREST INCOME AND MARGIN

Net interest income, on a tax equivalent basis, grew $6.3 million, or 10%, in 2014 compared to 2013. The increase in net interest income was partly driven by the addition of CNB for the first full year. Additionally, the Company's legacy charters experienced strong organic loan growth and improvements in investment securities yield during 2014. A comparison of yields, spreads and margins from 2014 to 2013 shows the following (on a tax equivalent basis):

The average yield on interest-earning assets increased 4 basis points from 3.84% to 3.88%.
The average cost of interest-bearing liabilities decreased 10 basis points from 1.09% to .99%.
The net interest spread improved 14 basis points from 2.75% to 2.89%.
The net interest margin improved 12 basis points from 3.03% to 3.15%.

Net interest income, on a tax equivalent basis, grew $7.2 million, or 12%, in 2013 compared to 2012. The increase in net interest income was primarily driven by the addition of CNB for more than half of the year. Secondarily, the Company's legacy charters experienced modest organic growth in earning assets during 2013. A comparison of yields, spreads and margins from 2013 to 2012 shows the following (on a tax equivalent basis):

The average yield on interest-earning assets decreased 34 basis points from 4.18% to 3.84%.
The average cost of interest-bearing liabilities decreased 28 basis points from 1.37% to 1.09%.
The net interest spread declined 6 basis points from 2.81% to 2.75%.
The net interest margin declined 11 basis points from 3.14% to 3.03%.

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 leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing and other balance sheet management strategies.

During 2014, the Company placed an emphasis on shifting its balance sheet mix. With a stated goal of increasing loans/leases as a percentage of assets to at least 70%, the Company plans to fund this loan/lease growth with a mixture of core deposits and cash from the investment securities portfolio. Strategies are continuously being evaluated in which securities are sold and the cash is redeployed into the loan portfolio, with little to no extension of duration and a significant increase in yield. Additionally, the Company is recognizing gains on these sales due to the current rate environment. As rates rise, the Company will also have less market volatility in the investment securities portfolio, as this becomes a smaller portion of the balance sheet.

Over the past three years, the Company's management has emphasized improving its funding mix by reducing its reliance on wholesale funding, which tends to be at a higher cost than deposits. The following strategies were executed by the Company to reduce reliance on wholesale funding or reducing the cost of portions of the Company's wholesale funding.

During the second quarter of 2012, the Company's subsidiary banks modified $25.0 million of fixed rate wholesale structured repurchase agreements ("structured repos") with a weighted average interest rate of 3.77% and a weighted average maturity of December 2015 into new fixed rate structured repos with a weighted average interest rate of 3.21% and a weighted average maturity of April 2019.

During the first quarter of 2013, QCBT modified $50.0 million of structured repos with a weighted average interest rate of 3.21% and a weighted average maturity of February 2016 into new fixed rate structured repos with a weighted average interest rate of 2.65% and a weighted average maturity of May 2020. During the second quarter of 2013, CRBT modified $20.0 million of fixed rate FHLB advances with a weighted average rate of 4.82% and a weighted average maturity of October 2016 into new fixed rate FHLB advances with a weighted average interest rate of 4.12% and a weighted average maturity of June 2019.

These modifications serve to 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 continues to monitor and evaluate both prepayment and debt restructuring opportunities within the wholesale funding portion of the balance sheet, as executing on such a strategy could potentially increase net interest margin at a much quicker pace than holding the debt until maturity.

The Company’s average balances, interest income/expense, and rates earned/paid on major balance sheet categories are presented in the following table:

	Years Ended December 31,								
	2014			2013			2012		
	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 earning assets:									
Federal funds sold	$17,263	$21	0.12%	$14,577	$19	0.13%	$3,003	$6	0.20%
Interest-bearing deposits at financial institutions	56,620	299	0.53	43,909	275	0.63	54,834	378	0.69
Investment securities (1)	688,827	18,679	2.71	700,344	16,140	2.30	603,568	14,268	2.36
Restricted investment securities	16,349	529	3.24	16,083	559	3.48	15,172	507	3.34
Gross loans/leases receivable (1) (2) (3)	1,540,382	70,414	4.57	1,425,364	67,484	4.73	1,219,623	64,100	5.26
Total interest earning assets	$2,319,441	89,942	3.88	$2,200,277	84,477	3.84	$1,896,200	79,259	4.18
Noninterest-earning assets:									
Cash and due from banks	$44,905			$44,336			$40,770		
Premises and equipment, net	36,372			35,820			31,502		
Less allowance for estimated losses on loans/leases	(22,726)			(21,500)			(19,162)		
Other	75,686			71,671			76,383		
Total assets	$2,453,678			$2,330,604			$2,025,693		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									

Interest-bearing demand deposits	$741,061	1,832	0.25%	$672,038	1,879	0.28%	$545,739	2,679	0.49%
Time deposits	392,167	2,677	0.68	404,495	2,836	0.70	352,582	3,540	1.00
Short-term borrowings	162,732	234	0.14	164,710	293	0.18	170,065	248	0.15
Federal Home Loan Bank advances	218,704	6,026	2.76	207,684	6,863	3.30	201,704	7,280	3.61
Junior subordinated debentures	40,356	1,234	3.06	39,495	1,143	2.89	36,085	1,039	2.88
Other borrowings	147,091	4,891	3.33	140,888	4,753	3.37	137,226	4,941	3.60
Total interest-bearing liabilities	$1,702,111	16,894	0.99	$1,629,310	17,767	1.09	$1,443,401	19,727	1.37
Noninterest-bearing demand deposits	$575,549			$518,406			$412,039		
Other noninterest-bearing liabilities	33,284			36,982			28,460		
Total liabilities	$2,310,944			$2,184,698			$1,883,900		
Stockholders' equity	142,734			145,906			141,793		
Total liabilities and stockholders' equity	$2,453,678			$2,330,604			$2,025,693		
Net interest income		$73,048			$66,710			$59,532	
Net interest spread			2.89%			2.75%			2.81%
Net interest margin			3.15%			3.03%			3.14%
Ratio of average interest earning assets to average interest-bearing liabilities	136.27 %			135.04 %			131.37 %		

(1) Interest earned and yields on nontaxable investment securities and loans are determined on a tax equivalent basis using a 35% 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.

The Company’s components of change in net interest income are presented in the following table:

	For the years ended December 31, 2014, 2013 and 2012					
	Inc./(Dec.) from Prior Year	Components of Change (1)		Inc./(Dec.) from Prior Year	Components of Change (1)	
		Rate	Volume		Rate	Volume
	2014 vs. 2013			2013 vs. 2012		
	(dollars in thousands)			(dollars in thousands)		
INTEREST INCOME						
Federal funds sold	$2	$(1)	$3	$13	$(3)	$16
Interest-bearing deposits at other financial institutions	24	(48)	72	(103)	(33)	(70)
Investment securities (2)	2,539	2,808	(269)	1,872	(366)	2,238
Restricted investment securities	(30)	(39)	9	52	21	31
Gross loans/leases receivable (2) (3)	2,930	(2,384)	5,314	3,384	(6,754)	10,138
Total change in interest income	$5,465	$336	$5,129	$5,218	$(7,135)	$12,353
INTEREST EXPENSE						
Interest-bearing demand deposits	$(47)	$(230)	$183	$(800)	$(1,327)	$527
Time deposits	(159)	(74)	(85)	(704)	(1,174)	470
Short-term borrowings	(59)	(55)	(4)	45	53	(8)
Federal Home Loan Bank advances	(837)	(1,186)	349	(417)	(628)	211
Junior subordinated debentures	91	66	25	104	5	99
Other borrowings	138	(69)	207	(188)	(318)	130
Total change in interest expense	$(873)	$(1,548)	$675	$(1,960)	$(3,389)	$1,429
Total change in net interest income	$6,338	$1,884	$4,454	$7,178	$(3,746)	$10,924

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

(2) Interest earned and yields on nontaxable investment securities and loans are determined on a tax equivalent basis using a 35% tax rate in each year presented.

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan/lease losses (also referred to as "allowance for estimated losses on loans/leases" or "allowance"). The Company's allowance methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, governmental guarantees, payment status, changes in nonperforming loans/leases, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest, and in particular, the economic health of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan/lease portfolio, it enhances its methodology accordingly. Management may report a materially different amount for the provision in the statement of operations to change the allowance if its assessment of the above factors were different. The discussion regarding the Company's allowance should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere in this Form 10-K, as well as the portion of this Management's Discussion and Analysis section entitled "Financial Condition – Allowance for Estimated Losses on Loans/Leases." Although management believes the level of the allowance as of December 31, 2014 was adequate to absorb losses inherent in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013, and 2012

OVERVIEW. Net income attribute to QCR Holdings, Inc. for 2014 was $15.0 million, or EPS of $1.72 after preferred stock dividends of $1.1 million. Comparing 2014 to 2013, annual earnings were flat and EPS decreased 17%, due to the increase in common shares outstanding that resulted from the conversion of the Company's Series E Non-Cumulative Convertible Perpetual Preferred Stock ("Series E Preferred Stock") in December 2013 and the acquisition of Community National in May 2013. Net interest income grew $5.0 million, or 8%, in 2014 due to organic loan growth in the Company's legacy markets, as well as improvements in the average yield of investment securities. Provision increased $877 thousand, or 15%, as the Company grew loans/leases 12% in 2014, and proactively addressed asset quality issues in the fourth quarter. Noninterest income decreased $4.8 million, or 19%, as 2013 included several nonrecurring items related to the acquisition of CNB, disposition of the credit card portfolio and credit card issuing operations, as well as a large gain on the sale of a nonperforming loan, all totaling approximately $5.6 million. Excluding these one-time items, noninterest income increased $785 thousand, or 4%, led by increased wealth management fees, deposit service fees and correspondent banking fees. Noninterest expenses grew $3.2 million, or 5%, in 2014, excluding acquisition and data conversion costs incurred in 2013 totaling $2.4 million. The addition of CNB's cost structure (net of the cost savings realized post-acquisition) for the first full year contributed to the increased costs.

Net income attributable to QCR Holdings, Inc. for 2013 was $14.9 million, or EPS of $2.08 after preferred stock dividends of $3.2 million. Comparing 2013 to 2012, annual earnings grew 18% and EPS increased 12%. Net interest income grew $6.5 million, or 11%, in 2013 with the acquisition of CNB and organic growth in the Company's legacy markets. Provision increased $1.6 million, or 36%, as the Company added specific allowances to several existing nonperforming loans as workouts of those loans continued to progress. Noninterest income jumped $9.2 million, or 55%, propelled by acquisition-related gains of $4.1 million (bargain purchase gain of $1.8 million and the gains on branch sales of $2.3 million), growth in wealth management fee income of $1.5 million, increased gains on sales of government guaranteed portions of loans of $1.1 million, as well as increases across many of the core recurring noninterest income sources as a result of the acquisition of CNB. Noninterest expenses grew $12.2 million, or 23%, in 2013. Acquisition and data conversion costs totaled $2.4 million for the year. The addition of CNB's cost structure contributed to increased costs for more than half of the year.

INTEREST INCOME. For 2014, interest income grew $4.1 million, or 5%. In total, the Company's average interest-earning assets increased $119.2 million, or 5%, year-over-year. This growth more than offset the continued impact of declining yields on loans. Average loans/leases grew 8%, while average securities declined 2%. This shift was part of the Company's strategy to shift the mix of earning assets from lower yielding securities to higher yielding loans and leases. Additionally, the Company continued to diversify its securities portfolio, included increasing its portfolio of tax exempt municipal securities. The large majority of these are privately placed debt issuances located in the Midwest and require a thorough underwriting process before investment. Execution of this strategy has led to increased interest income on a tax equivalent basis over the past several years. Management understands that this strategy has extended the duration of its securities portfolio and continually evaluates the combined benefit of increased interest income and reduced effective income tax rate and the impact on interest rate risk.

For 2013, interest income grew $4.5 million, or 6%, with the addition of the CNB's earning assets (approximately $255.9 million at acquisition which was later reduced by the branch sales in October 2013). In total, the Company's average interest-earning assets increased $304.1 million, or 16%, year-over-year. This growth more than offset the continued impact of declining yields on loans and securities. Average loans/leases grew 17% and average securities jumped 16%. Of the latter, the Company continued to grow and diversify its securities portfolio, included increasing its portfolio of tax exempt municipal securities.

The Company intends to continue to grow quality loans and leases as well as diversify the securities portfolio to maximize yield while minimizing credit and interest rate risk.

INTEREST EXPENSE. Comparing 2014 to 2013, interest expense declined $872 thousand, or 5%, year-over-year. Average interest-bearing liabilities grew 4% in 2014 with most of this in deposits. The Company was successful in continuing to manage down its cost of funds as follows:

- Continued reduction of interest rates paid across all deposits without runoff (the average cost of interest-bearing deposits fell from 0.44% for 2013 to 0.40% for 2014);
- Focus on continued growth in noninterest bearing deposit accounts (average noninterest bearing balances grew 11% in 2014, primarily due to successful growth in the correspondent banking area); and
- Continued shift of funding from high-cost borrowings to deposits and/or low-cost borrowings.

Comparing 2013 to 2012, interest expense declined $2.0 million, or 10%, year-over-year. Average interest-bearing liabilities grew 13% in 2013 with most of this in deposits as borrowings were flat. The acquisition of CNB was the primary contributor to the deposit growth. More than offsetting the growth, the Company was successful in continuing to manage down its cost of funds as follows:

- Continued reduction of interest rates paid across all deposits without runoff (the average cost of interest-bearing deposits fell from 0.61% for 2012 to 0.44% for 2013);
- The impact of the aforementioned balance sheet restructuring strategies executed in 2012 and 2013; and
- Continued shift of funding from borrowings (higher cost of funds) to deposits.

The Company's management intends to continue to shift the mix of funding from wholesale funds to core deposits, including noninterest-bearing deposits. Continuing this trend will strengthen the Company's franchise value, reduce funding costs, and increase fee income opportunities through deposit service charges.

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

The Company's provision totaled $6.8 million for 2014 which was an increase of $877 thousand, or 15%, from 2013 due to strong loan/lease growth coupled with charge-offs that addressed asset quality issues in the fourth quarter of 2014.

Comparing 2013 to 2012, the Company's provision increased $1.5 million, or 36%, from $4.4 million for 2012 to $5.9 million for 2013. Despite the drop in nonperforming loans (decline of $4.9 million, or 19%) in 2013, the Company had an increased need for specific reserves for certain existing nonperforming loans as the workouts of these loans progressed.

The Company had an allowance of 1.42% of total gross loans/leases at December 31, 2014, compared to 1.47% of total gross loans/leases at December 31, 2013, and compared to 1.55% of total gross loans/leases at December 31, 2012. In accordance with generally accepted accounting principles for acquisition accounting, the acquired CNB loans were recorded at fair value; therefore, there was no allowance associated with CNB's loans at acquisition. Further, the Company's allowance to total nonperforming loans/leases was 115% at December 31, 2014, which was up from 105% at December 31, 2013, and up from 78% at December 31, 2012.

NONINTEREST INCOME. The following tables set forth the various categories of noninterest income for the years ended December 31, 2014, 2013, and 2012.

	Years Ended December 31, 2014	December 31, 2013	$ Change	% Change
Trust department fees	$5,715,151	$4,941,681	$773,470	15.7 %
Investment advisory and management fees, gross	2,798,170	2,580,140	218,030	8.5
Deposit service fees	4,483,585	4,267,162	216,423	5.1
Gains on sales of residential real estate loans	460,721	836,065	(375,344)	(44.9)
Gains on sales of government guaranteed portions of loans	2,040,638	2,148,979	(108,341)	(5.0)
Earnings on bank-owned life insurance	1,721,507	1,786,023	(64,516)	(3.6)
Debit card fees	982,005	991,300	(9,295)	(0.9)
Correspondent banking fees	1,064,030	772,120	291,910	37.8
Participation service fees on commercial loan participations	854,621	768,547	86,074	11.2
Bargain purchase gain on Community National Acquisition	-	1,841,385	(1,841,385)	(100.0)
Gains on sales of certain Community National Bank branches	-	2,334,216	(2,334,216)	(100.0)
Securities gains, net	92,363	432,492	(340,129)	(78.6)
Losses on other real estate owned, net	(447,272)	(545,340)	98,068	(18.0)
Other	1,231,781	2,659,058	(1,427,277)	(53.7)
Total noninterest income	$20,997,300	$25,813,828	$(4,816,528)	(18.7)%

	Years Ended December 31, 2013	December 31, 2012	$ Change	% Change
Trust department fees	$4,941,681	$3,632,278	$1,309,403	36.0 %
Investment advisory and management fees, gross	2,580,140	2,361,159	218,981	9.3
Deposit service fees	4,267,162	3,485,929	781,233	22.4
Gains on sales of residential real estate loans	836,065	1,388,142	(552,077)	(39.8)
Gains on sales of government guaranteed portions of loans	2,148,979	1,069,565	1,079,414	100.9
Earnings on bank-owned life insurance	1,786,023	1,609,208	176,815	11.0
Debit card fees	991,300	951,200	40,100	4.2
Correspondent banking fees	772,120	424,458	347,662	81.9
Participation service fees on commercial loan participations	768,547	665,992	102,555	15.4
Bargain purchase gain on Community National Acquisition	1,841,385	-	1,841,385	100.0
Gains on sales of certain Community National Bank branches	2,334,216	-	2,334,216	100.0
Securities gains, net	432,492	104,600	327,892	313.5
Losses on other real estate owned, net	(545,340)	(1,332,972)	787,632	(59.1)
Other	2,659,058	2,261,736	397,322	17.6
Total noninterest income	$25,813,828	$16,621,295	$9,192,533	55.3 %

Trust department fees continue to be a significant contributor to noninterest income, increasing 16% in 2014 and 36% in 2013. Income is generated primarily from fees charged based on assets under administration for corporate and personal trusts and for custodial services. The majority of the trust department fees are determined based on the value of the investments within the fully managed trusts. Part of this increase stems from the addition of CNB's trust department for the first full year. As the markets have strengthened with the national economy's recovery from recession, the Company's fee income has experienced similar growth. In recent years, the Company has been successful in expanding its customer base which has helped to drive the recent increases in fee income.

In recent years, management has placed a stronger emphasis on growing its investment advisory and management services. Part of this initiative has been to restructure the Company's Wealth Management Division to allow for more efficient delivery of products and services through selective additions of talent as well as leverage of and collaboration among existing resources (including the aforementioned trust department). CNB did not provide investment advisory and management services; however, the Company is leveraging its existing infrastructure to efficiently offer these services in the communities served by CNB. Similar to trust department fees, these fees are largely determined based on the value of the investments managed. And, similar to the trust department, the Company has had some success in expanding its customer base which has helped to drive the recent increases in fee income. Investment advisory fees increased 9% in both 2014 and 2013.

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

Deposit service fees expanded 5% in 2014 and 22% in 2013 largely due to the addition of CNB's deposits. The Company has placed an emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits as the latter tends to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to further focus on growing deposit service fees.

Gains on sales of residential real estate loans decreased 45% in 2014 and 40% in 2013. With the sustained historically low interest rate environment, refinancing activity has slowed as many of the Company's existing and prospective customers have already executed a refinancing.

Gains on the sale of government guaranteed portions of loans decreased 5% in 2014, while increasing 101% in 2013. As one of its core strategies, the Company continues to leverage its small business lending expertise by taking advantage of programs offered by the SBA and the USDA. The Company's portfolio of government guaranteed loans has grown as a direct result of the Company's strong expertise in SBA and USDA lending. In some cases, it is more beneficial for the Company to sell the government guaranteed portion on the secondary market for a premium rather than retain the loans in the Company's portfolio. Sales activity for government guaranteed portions of loans tends to fluctuate depending on the demand for small business loans that fit the criteria for the government guarantee. Further, some of the transactions can be large and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can be large. Lastly, a strategy for improved pricing is packaging loans together for sale. From time to time, the Company may execute on this strategy, which may delay the gains on sales of some loans to achieve better pricing. The Company is adding additional talent and executing on strategies in an effort to make this a more consistent and larger source of revenue.

Earnings on Bank-Owned Life Insurance ("BOLI") were relatively flat in 2014 (decreasing 4%). BOLI earnings increased 11% in 2013. There were no purchases of BOLI in 2014. With the acquisition of CNB in 2013, the Company acquired $4.6 million of BOLI. Additionally, the Company purchased $2.0 million in 2012. Yields on BOLI (based on a simple average and excluding the impact of the federal income tax exemption) were 3.26% for 2014, 3.65% for 2013, and 3.67% for 2012. Notably, a small portion of the Company's BOLI is variable rate whereby the returns are determined by the performance of the equity market. Management intends to continue to review its BOLI investments to be consistent with policy and regulatory limits in conjunction with the rest of its earning assets in an effort to maximize returns while minimizing risk.

Debit card fees were relatively flat in 2014, while increasing 4% in 2013. The majority of the Company's customer checking accounts have debit cards that have high usage rates. This item represents the interchange revenue that the Company earns on debit card issuances and transactions. As the Company continues to grow the number of these deposits, this line item will continue to expand.

Correspondent banking fees grew 38% in 2014 and 82% in 2013. Correspondent banking continues to be a core strategy for the Company, as this line of business provides a high level of noninterest bearing deposits that can be used to fund additional loan growth as well as a steady source of fee income. In 2014, the Company expanded its territory to Wisconsin in order to continue to build this business unit. The Company now serves approximately 164 Banks in Iowa, Illinois and Wisconsin.

Participation service fees on commercial loan participations increased 11% in 2014 and 15% in 2013. These fees represent the amount paid to the Company by participants to cover the servicing expenses incurred by the Company. The fee is generally 25 basis points of the participated loan amount. Additionally, the Company receives a mandated 1% servicing fee on the sold portion of government guaranteed loans.

In accordance with acquisition accounting rules, the Company recognized a bargain purchase gain of $1.8 million in 2013 in recording the acquisition of Community National. The Company adjusted the acquired assets and assumed liabilities to fair value as determined by an independent valuation specialist. The gain resulted primarily from the recording of a core deposit intangible based on the value of the acquired deposit portfolio, and the recognition of a discount on the trust preferred securities that were previously issued by Community National and were assumed by the Company in the transaction. Net of other more modest valuation adjustments, and the resulting deferred income tax liabilities, the $1.8 million bargain purchase gain was included in noninterest income. See Note 2 to the consolidated financial statements for additional information regarding the Company’s acquisition of Community National.

In October 2013, the Company sold certain assets and liabilities of certain branches of CNB for a pre-tax gain on sale of $2.3 million. Specifically, the Company sold certain assets and liabilities of the two Mason City, Iowa branches, including deposits of $55 million and loans of $23 million, for a pre-tax gain on sale of $874 thousand. Additionally, the Company sold certain assets and liabilities of the two Austin, Minnesota branches, including deposits of $36 million and loans of $32 million, for a pre-tax gain on sale of $1.4 million. See Note 2 to the consolidated financial statements for additional information regarding these branch sales.

As the Company works to improve its balance sheet mix, investment securities continue to be sold (as market opportunity allows) to fund loan/lease growth and municipal securities, improving the yield the Company earns on these assets and net interest margin. In 2014, the Company sold $78.5 million of investment securities at a modest gain of $92 thousand. During the third quarter of 2013, the Company sold a mix of government-sponsored residential mortgage-backed securities, government-sponsored agency securities, and one smaller individual trust preferred security at a pre-tax gain on sale of $432 thousand. In turn, QCBT reinvested the sales proceeds back into a blend of government-sponsored agency securities and residential mortgage-backed securities at a higher yield with modest duration extension.

In 2014, the Company wrote down three existing OREO properties by a total of $475 thousand (offset by small gains on the sale of OREO). The losses were the result of further declines in appraised values. In 2013, the Company wrote down one existing individual OREO property by $463 thousand as a result of a decline in appraised value. The remaining $82 thousand consisted of small losses on the sales of several properties. In 2012, the Company incurred elevated levels of write-downs of existing OREO as the result of further declines in appraised values of certain properties. Of the total losses on OREO for 2012, the Company wrote down $1.2 million of existing OREO and recognized losses on sales of $173 thousand. Management continues to proactively manage its OREO portfolio in an effort to sell timely at minimal loss.

Included in “Other” noninterest income were the following items:

During the first quarter of 2013, QCBT sold its credit card loan portfolio for a pre-tax gain on sale of $495 thousand. In addition, QCBT sold its credit card issuing operations to the same purchaser for a pre-tax gain on sale of $355 thousand. The latter was the primary reason for the decline in the credit card fees, net of processing costs, during 2013.

In December 2013, QCBT sold certain related nonperforming loans at a gain of $576 thousand.

In 2012, the Company recognized $580 thousand pre-tax gain on the sale of a small equity interest in a company that provided data processing services to the Company's merchant credit card acquiring business that was previously sold in 2008.

NONINTEREST EXPENSES. The following tables set forth the various categories of noninterest expenses for the years ended December 31, 2014, 2013, and 2012.

	Years Ended December 31, 2014	December 31, 2013	$ Change	% Change
Salaries and employee benefits	$40,337,055	$37,510,318	$2,826,737	7.5 %
Occupancy and equipment expense	7,385,526	6,712,468	673,058	10.0
Professional and data processing fees	6,191,574	6,424,594	(233,020)	(3.6)
FDIC and other insurance	2,895,494	2,587,041	308,453	11.9
Loan/lease expense	1,310,644	1,521,523	(210,879)	(13.9)
Advertising and marketing	1,985,121	1,726,314	258,807	15.0
Postage and telephone	930,408	1,069,142	(138,734)	(13.0)
Stationery and supplies	579,330	562,301	17,029	3.0
Bank service charges	1,291,017	1,144,757	146,260	12.8
Acquisition and data conversion costs	-	2,353,162	(2,353,162)	(100.0)
Other	2,363,752	2,821,038	(457,286)	(16.2)
Total noninterest expense	$65,269,921	$64,432,658	$837,263	1.3 %

	Years Ended December 31, 2013	December 31, 2012	$ Change	% Change
Salaries and employee benefits	$37,510,318	$33,274,509	$4,235,809	12.7 %
Occupancy and equipment expense	6,712,468	5,635,257	1,077,211	19.1
Professional and data processing fees	6,424,594	4,317,939	2,106,655	48.8
FDIC and other insurance	2,587,041	2,330,611	256,430	11.0
Loan/lease expense	1,521,523	1,041,824	479,699	46.0
Advertising and marketing	1,726,314	1,445,476	280,838	19.4
Postage and telephone	1,069,142	959,708	109,434	11.4
Stationery and supplies	562,301	541,122	21,179	3.9
Bank service charges	1,144,757	853,895	290,862	34.1
Acquisition and data conversion costs	2,353,162	-	2,353,162	100.0
Other-than-temporary impairment losses on securities	-	62,400	(62,400)	(100.0)
Other	2,821,038	1,796,206	1,024,832	57.1
Total noninterest expense	$64,432,658	$52,258,947	$12,173,711	23.3 %

Management places strong emphasis on overall cost containment and is committed to improving the Company’s general efficiency.

Salaries and employee benefits, which is the largest component of noninterest expense, increased 8% and 13% in 2014 and 2013, respectively. The increases were largely due to the addition of CNB's cost structure for more than half of the year in 2013 and the full year in 2014. Excluding the impact of CNB, the Company's increases were largely the result of:

- Customary annual salary and benefits increases averaging approximately 2.5% for the Company's employee base in 2014 and 2013.
- Continued increases in health insurance-related employee benefits for the Company's employee base.
- Higher accrued incentive compensation.
- Targeted talent additions. Specifically, in 2014, the Company added twelve business development/sales officers (four in the Wealth Management Division, four in the Commercial area, three in the Correspondent Banking Division, and one at m2) in an effort to continue to grow market share.

Occupancy and equipment expense increased in 2014 and 2013 due to the addition of CNB’s branch network. At acquisition, CNB had eight branches, and the Company sold four in early October of 2013 and closed one in December of 2013. Over the past several years, the Company incurred increased equipment cost with the purchases of additional technology for enhanced customer service and improved fraud detection and prevention systems. In addition, the largest branch office of RB&T was renovated in 2012 to allow for existing and future expansion.

Professional and data processing fees decreased 4% in 2014 and increased 49% in 2013. The increase in 2013 was due to the addition of CNB’s cost structure and increased legal fees for a longstanding legal matter concerning a past nonperforming loan that experienced increased litigation activity. The Company, the plaintiff in the litigation, was awarded judgment in an amount to be paid by the defendant. The defendant, however, appealed the court’s decision in January 2014 and as of February 2015, the case continues to be ongoing. Management will continue to focus on minimizing one-time costs and driving those recurring costs down through contract renegotiation or managed reduction in activity where costs are determined on a usage basis.

FDIC and other insurance expense has generally fallen over the past several years since the FDIC modified its assessment calculation to more closely align with bank performance and risk. The increase in 2014 and 2013 was primarily the result of adding CNB for more than half of the year in 2013 and for the full year in 2014.

Loan/lease expense fluctuated significantly over the past two years with a 14% decrease during 2014, and a 46% increase in 2013. Some of the increase in 2013 was the result of adding CNB’s cost structure. In addition, the Company incurred elevated levels of expense at the legacy banks in 2013 for certain existing nonperforming loans as workouts progressed. Generally, loan/lease expense has a direct relationship with the level of nonperforming loans/leases; however, it may deviate depending upon the individual nonperforming loans/leases. Management expects these historically elevated levels of expense to continue to decline in line with the declining trend in nonperforming loans/leases.

The Company incurred additional expenses for advertising and marketing during 2014 and 2013 in an effort to gain market share across all four markets the Company serves. Part of the increase in both periods was due to the addition of CNB’s cost structure for more than half of the year in 2013 and the full year in 2014.

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

With the acquisition of Community National on May 13, 2013, the Company incurred costs related to the acquisition including professional fees (legal, investment banking, accounting), data conversion costs (including both the de-conversion of the sold branches and the conversion of the remaining branches), and compensation costs for retained and severed employees. In accordance with generally accepted accounting principles, the Company expensed these costs as incurred.

During 2012, the Company's evaluation of its securities portfolio for OTTI determined that two privately held equity securities experienced declines in fair value that were other-than-temporary. As a result, the Company wrote down the value of these securities and recognized losses in the amount of $62 thousand. There were no OTTI losses in 2013 or 2014.

Other noninterest expense decreased 16% in 2014 and increased 57% in 2013. Due to the acquisition of CNB in 2013, expenses were inflated due to one-time items and other miscellaneous costs related to conversion and the unwinding of dual cost structures. Expenses decreased in 2014 due to the full integration of CNB.

INCOME TAX EXPENSE. The provision for income taxes was $3.0 million for 2014, or an effective tax rate of 16.9%, compared to $4.6 million for 2013, or an effective tax rate of 23.6%, and compared to $4.5 million for 2012, or an effective tax rate of 25.7%. The declines in the effective tax rate were primarily the result of the following:

The continued increases in tax-exempt income for securities, loans, and BOLI. For securities, nontaxable interest income on municipal securities grew 46% in 2014 and 77% in 2013. These growth rates outpaced the growth rates of the Company's taxable income sources.
The Company recognized a one-time tax benefit in the first quarter of 2014 of $359 thousand as a result of the finalization of the tax issues related to the CNB acquisition following the filing of the acquired entity's final tax return.

FINANCIAL CONDITION

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

	As of December 31,					
	2014		2013		2012	
	(dollars in thousands)					
	Amount	%	Amount	%	Amount	%
Cash, federal funds sold, and interest-bearing deposits	$120,350	5 %	$114,431	5 %	$110,488	5 %
Securities	651,539	26 %	697,210	29 %	602,239	29 %
Net loans/leases	1,606,929	64 %	1,438,832	60 %	1,267,462	61 %
Other assets	146,140	5 %	144,480	6 %	113,541	5 %
Total assets	$2,524,958	100%	$2,394,953	100%	$2,093,730	100%
Total deposits	$1,679,668	67 %	$1,646,991	69 %	$1,374,114	66 %

Total borrowings	662,558	26 %	563,381	24 %	547,758	26 %
Other liabilities	38,653	1 %	37,004	1 %	31,424	1 %
Total stockholders' equity	144,079	6 %	147,577	6 %	140,434	7 %
Total liabilities and stockholders' equity	$2,524,958	100%	$2,394,953	100%	$2,093,730	100%

In 2014, total assets grew $130.0 million, or 5%. The Company organically grew its net loan/lease portfolio $168.1 million, which was partly funded by cash from the securities portfolio, as it decreased $45.7 million, or 7% (mostly due to the sale of securities). Deposits grew $32.7 million, or 2% during 2014. Borrowings increased $99.2 million, mostly due to an increase in overnight funding of $80.6 million. Quarter-end and year-end deposit balances can fluctuate a great deal due to large customer and correspondent bank activity. Since this cash outflow is typically temporary, the Company normally fills the funding gap with overnight or other short-term borrowings.

In 2013, total assets grew $301.2 million, or 14%, as a result of the acquisition of CNB and organic growth in the Company's legacy markets. Specifically, excluding the impact of the branch sales, the Company grew loans/leases $225.8 million, or 18%, during 2013. Additionally, the Company grew its securities portfolio $95.0 million, or 16%, during 2013 with most of this growth in tax-exempt municipal securities. The earning asset growth was funded primarily by deposits which grew $363.9 million, or 26%, excluding the impact of the branch sales.

In 2012, total assets grew $127.1 million, or 6%. The Company grew its net loan/lease portfolio $85.5 million, or 7%, and its securities portfolio $37.0 million, or 7%, during 2012. The asset growth was funded by strong and continued growth of the Company's deposit portfolio (as balances grew $168.7 million, or 14%) partially offset by a reduction in federal funds purchased.

INVESTMENT SECURITIES. The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on asset-liability position and maximizing return. In recent years, the Company has grown and diversified its securities portfolio, including increasing the portfolio of agency sponsored residential mortgage-backed securities as well as more than tripling the portfolio of municipal securities. Of the latter, the large majority are privately placed debt issuances by municipalities located in the Midwest (with some in or near the Company's existing markets) and require a thorough underwriting process before investment. As the portfolio has grown over the recent years, management has elevated its focus on maximizing return while minimizing credit and interest rate risk. Additionally, management will continue to diversify the portfolio with further growth strictly dictated by the pace of growth in deposits and loans. Ideally, management expects to fund future loan growth partially with cashflow from the securities portfolio (calls and maturities of government sponsored agencies, paydowns on residential mortgage-backed securities, and/or targeted sales of securities that meet certain criteria as defined by management).

Following is a breakdown of the Company's securities portfolio by type as of December 31, 2014, 2013, and 2012.

	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
U.S. govt. sponsored agency securities	$307,869	47 %	$356,473	51%	$338,609	56%
Municipal securities	229,230	35 %	180,361	26%	97,615	17%
Residential mortgage-backed and related securities	111,423	17 %	157,429	23%	163,601	27%
Trust preferred securities	-	0 %	-	0 %	139	0 %
Other securities	3,017	1 %	2,947	0 %	2,275	0 %
	$651,539	100%	$697,210			