QCR HOLDINGS INC
Form 10-K
March 12, 2018

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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, 2017.

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) 736-3580

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common stock, $1.00 Par Value The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Exchange Act:

Preferred Share Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days. Yes [X] No [ ]

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

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]	Emerging growth 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, 2017, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $586,207,934.

As of February 28, 2018 the Registrant had outstanding 13,931,628 shares of common stock, $1.00 par value per share.

Documents incorporated by reference:

Part III of Form 10-K Certain portions of the proxy statement for annual meeting of stockholders to be held in May 2018.

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Throughout the Notes to the Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations, and remaining sections of this Form 10-K (including appendices), we use certain acronyms and abbreviations, as defined in Note 1 to the Consolidated Financial Statements.

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Part I

Item 1. Business

General. QCR Holdings, Inc. is a multi-bank holding company headquartered in Moline, Illinois, that was formed in February 1993 under the laws of the state of Delaware. In 2016, the Company elected to operate as a financial holding company under the BHCA. The Company serves the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, Des Moines/Ankeny and Rockford communities through the following four wholly-owned banking subsidiaries, which provide full-service commercial and consumer banking and trust and asset management services:

- QCBT, which is based in Bettendorf, Iowa, and commenced operations in 1994;
- CRBT, which is based in Cedar Rapids, Iowa, and commenced operations in 2001;
- CSB, which is based in Ankeny, Iowa, and was acquired in 2016; and
- RB&T, which is based in Rockford, Illinois, and commenced operations in 2005.

On October 1, 2017, the Company acquired Guaranty Bank, headquartered in Cedar Rapids, Iowa. On December 2, 2017, the Company merged Guaranty Bank with and into CRBT with CRBT as the surviving bank. See Note 2 to the Consolidated Financial Statements for further discussion.

On August 31, 2016, the Company acquired CSB, located in Ankeny, Iowa (Des Moines MSA). See Note 2 to the Consolidated Financial Statements for further discussion.

The Company engages in direct financing lease contracts through m2, a wholly-owned subsidiary of QCBT based in Brookfield, Wisconsin.

Subsidiary Banks. Segments of the Company have been established by management as defined by the structure of the Company's internal organization, focusing on the financial information that the Company's operating decision-makers routinely use to make decisions about operating matters. The Company's primary segment, Commercial Banking, is geographically divided by markets into the secondary segments which are the four subsidiary banks wholly-owned by the Company: QCBT, CRBT, CSB and RB&T. See the consolidated financial statements incorporated herein generally, and Note 22 to the consolidated financial statements specifically, for additional business segment information.

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. 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 $1.54 billion and $1.40 billion as of December 31, 2017 and 2016, respectively.

CRBT is an Iowa-chartered commercial bank that is a member of the Federal Reserve System. The Company commenced operations in Cedar Rapids in June 2001, operating as a branch of QCBT. The Cedar Rapids branch operation then began functioning under the CRBT charter in September 2001. The acquired 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 eight facilities. The headquarters for CRBT is located in downtown Cedar Rapids with three other branches located in Cedar Rapids, one branch in Marion, two branches located in Waterloo and one branch located in Cedar Falls. CRBT had total segment assets of $1.3 billion and $913.1 million as of December 31, 2017 and 2016, respectively.

CSB is an Iowa-chartered commercial bank that is a member of the Federal Reserve System. CSB was acquired by the Company in 2016. CSB provides full-service commercial and consumer banking to Des Moines and adjacent communities through its headquarters located in Ankeny and its nine other branch facilities throughout the greater Des Moines area. CSB had total segment assets of $670.5 million and $600.1 million as of December 31, 2017 and 2016, respectively.

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RB&T is an Illinois-chartered commercial bank that is a member of the Federal Reserve System. The Company commenced operations in Rockford, Illinois in September 2004, operating as 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 $461.7 million and $391.2 million as of December 31, 2017 and 2016, respectively.

Other Operating Subsidiaries. m2, which is based in Brookfield, Wisconsin, is engaged in the business of leasing machinery and equipment to C&I businesses under direct financing lease contracts.

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, 2017 and 2016:

Name	Date Issued	Amount Issued as of 12/31/17	Amount Issued as of 12/31/16	Interest Rate	Interest Rate as of 12/31/2017	Interest Rate as of 12/31/2016
QCR Holdings Statutory Trust II	February 2004	$10,310,000	$10,310,000	2.85% over 3-month LIBOR	4.54%	3.85%
QCR Holdings Statutory Trust III	February 2004	8,248,000	8,248,000	2.85% over 3-month LIBOR	4.54%	3.85%
QCR Holdings Statutory Trust V	February 2006	10,310,000	10,310,000	1.55% over 3-month LIBOR	2.91%	2.43%
Community National Statutory Trust II	September 2004	3,093,000	3,093,000	2.17% over 3-month LIBOR	3.80%	3.17%
Community National Statutory Trust III	March 2007	3,609,000	3,609,000	1.75% over 3-month LIBOR	3.32%	2.71%
Guaranty Bankshares Statutory Trust I	May 2005	4,640,000	-	1.75% over 3-month LIBOR	3.34%	N/A
		$40,210,000	$35,570,000	Weighted Average Rate	3.82%	3.26%

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 any time. Interest rate reset dates vary by trust.

Guaranty Bankshares Statutory Trust I was acquired in 2017 as part of the acquisition of Guaranty Bank and is further discussed in Note 12 to the Consolidated Financial Statements.

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 BOLI and other noninterest 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 641 and 572 FTEs at December 31, 2017 and 2016, respectively. The majority of the increase in FTEs during 2017 was the result of the acquisition of Guaranty Bank.

The Federal Reserve is the primary federal regulator of the Company, QCBT, CRBT, RB&T and CSB. QCBT, CRBT and CSB are also regulated by the Iowa Superintendent and RB&T is regulated by the IDFPR. The FDIC, as administrator of the DIF, 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.

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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, CRBT and CSB, calculated as 15% of aggregate capital, was $22.8 million, $17.4 million, and $12.0 million, respectively, as of December 31, 2017. In accordance with Illinois regulation, the legal lending limit to one borrower for RB&T, calculated as 25% of aggregate capital, totaled $11.4 million as of December 31, 2017.

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. As of January 1, 2017, the Company implemented a tiered approach, based on the risk rating. Under the most recent 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:

	High Quality (Risk Ratings 1-3)	Medium Quality (Risk Rating 4)	Low Quality (Risk Ratings 5-8)
	(dollars in thousands)		
QCBT	$13,500	$11,250	$7,750
CRBT	$9,500	$8,000	$5,500
CSB	$9,500	$8,000	$5,500
RB&T	$4,000	$3,250	$2,250
QCRH Consolidated	$22,000	$16,500	$11,000

The QCRH Consolidated amount represents 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, subject to certain exceptions.

As part of the loan monitoring activity at the four 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 subsidiary banks as of December 31, 2017 for the loan portfolio organized by loan type, 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, 2017	CRBT Maximum Percentage per Loan Policy	CRBT As of December 31, 2017	CSB Maximum Percentage per Loan Policy	CSB As of December 31, 2017	RB&T Maximum Percentage per Loan Policy	RB&T As of December 31, 2017
One-to-four family residential	30%	13 %	25%	13 %	35%	16 %	30%	18 %
Multi-family	15%	3 %	15%	6 %	15%	2 %	15%	4 %
Farmland	5 %	1 %	5 %	-	15%	1 %	5 %	-
Non-farm, nonresidential	50%	26 %	50%	32 %	40%	30 %	50%	36 %
Construction and land development	20%	3 %	15%	6 %	35%	20 %	20%	4 %
C&I	60%	26 %	60%	34 %	40%	21 %	60%	31 %
Loans to individuals	10%	1 %	10%	1 %	10%	-	10%	1 %
Lease financing	30%	13 %	5 %	-	5 %	-	20%	-
Bank stock loans	**	**	10%	-	-	-	10%	-
All other loans	15%	14 %	10%	8 %	10%	10 %	10%	6 %
		100 %		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 risk-based capital (bank stock loan commitments are limited to 200% of risk-based capital). At December 31, 2017, QCBT's bank stock loans totaled 34% of risk-based capital.

The following table presents total loans/leases by major loan/lease type and subsidiary as of December 31, 2017 and 2016. Residential real estate loans held for sale are included in residential real estate loans below.

	QCBT		m2 Lease Funds		CRBT		CSB		RB&T		Consolidated Total	
	$	%	$	%	$	%	$	%	$	%	$	%
(dollars in thousands)												

As of December 31, 2017:												
C&I loans	$384,401	42 %	$66,758	31 %	$402,146	41 %	$148,198	30 %	$133,013	36 %	$1,134,516	38
CRE loans	384,684	42 %	-	-	455,443	47 %	291,254	60 %	172,111	47 %	1,303,492	44
Direct financing leases	-	-	141,290	66 %	-	-	158	-	-	-	141,448	5
Residential real estate loans	114,818	12 %	-	-	62,755	6 %	38,831	8 %	42,242	12 %	258,646	9
Installment and other consumer loans	36,360	4 %	-	-	54,448	6 %	10,814	2 %	16,989	5 %	118,611	4
Deferred loan/lease origination costs, net of fees	1,254	-	7,188	3 %	(821)	-	(180)	-	331	-	7,772	-
	$921,517	100%	$215,236	100%	$973,971	100%	$489,075	100%	$364,686	100%	$2,964,485	10
As of December 31, 2016:												
C&I loans	$314,310	39 %	$38,668	18 %	$276,130	42 %	$101,530	24 %	$96,999	31 %	$827,637	34
CRE loans	355,850	45 %	-	-	305,655	47 %	272,174	63 %	159,780	51 %	1,093,459	46
Direct financing leases	-	-	165,026	78 %	-	-	393	-	-	-	165,419	7
Residential real estate loans	99,626	12 %	-	-	43,706	7 %	43,383	10 %	42,518	14 %	229,233	10
Installment and other consumer loans	28,694	4 %	-	-	27,117	4 %	12,132	3 %	13,723	4 %	81,666	3
Deferred loan/lease origination costs, net of fees	918	-	7,351	4 %	(395)	-	(102)	-	301	-	8,073	-
	$799,398	100%	$211,045	100%	$652,213	100%	$429,510	100%	$313,321	100%	$2,405,487	10

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.

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C&I Lending

As noted above, the subsidiary banks are active C&I 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 SBA and 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 C&I 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 C&I 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.

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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
Penny Stocks	0%
General Business	
Accounts Receivable	80% of eligible accounts
Inventory	50% of value
Crop and Grain Inventories	80% of current market value
Livestock	80% of purchase price, or current market value; or higher if cross-collateralized with other assets
Fixed Assets (Existing)	50% of net book value, or 75% of orderly liquidation appraised value
Fixed Assets (New)	80% of cost, or higher if cross-collateralized with other assets
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 C&I loans. For term loans, the maximum term is generally seven 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 cosigners to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Following is a summary of the five largest industry concentrations within the C&I portfolio as of December 31, 2017 and 2016:

	2017 Amount	2016 Amount
	(dollars in thousands)	

Administration of urban planning & rural development	$83,344	$37,097
Hotels & motels	73,200	35,992
Bank holding companies	66,950	66,070
Skilled nursing care facilities	60,989	43,864
General medical & surgical hospitals	35,217	33,175

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CRE Lending

The subsidiary banks also make CRE loans. CRE loans are subject to underwriting standards and processes similar to C&I 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 CRE (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 CRE loans:

CRE Loan Types	**Maximum Advance Rate ****	**Maximum Term**
CRE 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 85% of project cost, or 75% of "as-completed" appraised value	24 months
Commercial Construction Loans	Lesser of 85% of project cost, or 80% of "as-completed" appraised value	365 days
Residential Construction Loans to Builders	Lesser of 90% of project cost, or 80% of "as-completed" appraised value	12 months

* 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 CRE loans versus non-owner occupied CRE loans. Owner-occupied CRE loans are generally considered to have less risk. As of December 31, 2017 and 2016, approximately 26% and 30%, respectively, of the CRE loan portfolio was owner-occupied.

In accordance with regulatory guidelines, the Company exercises heightened risk management practices when non-owner occupied CRE lending exceeds 300% of total risk-based capital or construction, land development and other land loans exceed 100% of total risk-based capital. Although CSB's loan portfolio has historically been real estate dominated and its real estate portfolio levels exceed these policy limits, it has established a Credit Risk Committee to routinely monitor its real estate loan portfolio.

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Following is a listing of the significant industries within the Company's CRE loan portfolio as of December 31, 2017 and 2016:

	2017 Amount	%	2016 Amount	%
	(dollars in thousands)			
Lessors of Nonresidential Buildings	$388,648	30 %	$322,337	30 %
Lessors of Residential Buildings	199,047	15 %	141,321	13 %
Hotels	70,447	5 %	35,006	3 %
New Housing For-Sale Builders	61,480	5 %	56,711	5 %
Nonresidential Property Managers	51,621	4 %	70,914	7 %
Nursing Care Facilities	47,008	4 %	34,768	3 %
Land Subdivision	44,192	3 %	45,132	4 %
Other *	441,049	34 %	387,270	35 %
Total Commercial Real Estate Loans	$1,303,492	100%	$1,093,459	100%

* "Other" consists of all other industries. None of these had concentrations greater than $26.1 million, or 2%, of total CRE loans as of December 31, 2017.

Following is a breakdown of non owner-occupied CRE by property type as of December 31, 2017 and 2016:

	2017 Amount	%	2016 Amount	%
	(dollars in thousands)			
Retail	$169,655	22 %	$128,394	22 %
Multi-family	143,685	18 %	112,960	19 %
Office	133,174	17 %	97,878	16 %
Hotel/motel	76,186	10 %	33,828	6 %
Industrial/warehouse	37,401	5 %	46,149	8 %
Other	224,246	29 %	176,713	30 %
Total income-producing CRE	$784,347	100%	$595,922	100%

A portion of the Company's construction portfolio is considered non-residential construction. Following is a summary of industry concentrations within that category as of December 31, 2017 and 2016:

	2017 Amount	%	2016 Amount	%
	(dollars in thousands)			

Multi-family	$16,416	19 %	$17,991	19 %
Retail	12,033	14 %	14,647	16 %
Office	11,580	13 %	9,342	10 %
Hotel/motel	8,407	10 %	1,983	2 %
Industrial/warehouse	3,604	4 %	5,810	6 %
Other	36,195	41 %	43,707	47 %
Total non-residential construction loans	$88,235	100%	$93,480	100%

Additionally, the Company had approximately $81.3 million and $103.0 million of residential construction loans outstanding as of December 31, 2017 and 2016, respectively. Of this amount, approximately 79% was considered speculative, while 21% was pre-sold at December 31, 2017 and approximately 75% was considered speculative, while 25% was pre-sold at December 31, 2016.

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Direct Financing Leasing

m2 leases machinery and equipment to C&I 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;
- Trucks and trailers;
- 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 seven 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. Servicing rights are generally not 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,		
	2017	2016	2015
	(dollars in thousands)		
Originations of residential real estate loans	$38,079	$52,721	$41,279
Sales of residential real estate loans	$33,165	$35,499	$23,726
Percentage of sales to originations	87 %	67 %	57 %

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 650. 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 10 years.

In some instances for all loans/leases, it may be appropriate to originate or purchase loans/leases that are exceptions to the guidelines and limits established within the 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, Des Moines, and Rockford markets. Competitors include not only other commercial banks, credit unions, thrift institutions, and mutual funds, but also insurance companies, FinTech 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 financial 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 as of and for the fiscal years ended December 31, 2017, 2016, and 2015, as applicable.

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 SEC. These filings are available at http://www.snl.com/IRW/Docs/1024092. Also available are many of its corporate governance documents, including the Code of Conduct (http://www.snl.com/IRW/govdocs/1024092).

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:

Conditions in the financial market and economic conditions, including conditions in the markets in which we operate, generally may adversely affect our business.

Our general financial performance is highly dependent upon the business environment in the markets where we operate and in particular, the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services it offers. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, or a combination of these or other factors.

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While economic conditions have improved since the recession, there can be no assurance that this improvement will continue. Uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing, and savings habits. Downturns in the markets where our banking operations occur could result in a decrease in demand for our products and services, an increase in loan delinquencies and defaults, high or increased levels of problem assets and foreclosures and reduced wealth management fees resulting from lower asset values. Such conditions could adversely affect the credit quality of our loans, 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.

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;

risks of acquiring loans with deteriorated credit quality;

- 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.

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The majority of our subsidiary banks' loan portfolios are invested in C&I and CRE 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 C&I and CRE 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, reduced interest income on loans/leases, and increased expenses incurred to carry and resolve problem loans/leases.

C&I loans make up a large portion of our loan/lease portfolio.

C&I loans were $1.1 billion, or approximately 38% of our total loan/lease portfolio, as of December 31, 2017. Our C&I 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. 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 lose value over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. In addition, a prolonged recovery period could harm or continue to harm the businesses of our C&I customers and reduce the value of the collateral securing these loans.

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

CRE lending comprises a significant portion of our lending business. Specifically, CRE loans were $1.3 billion, or approximately 44% of our total loan/lease portfolio, as of December 31, 2017. Of this amount, $332.7 million, or approximately 26%, was owner-occupied. The market value of real estate securing our CRE 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 CRE 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 CRE and other real estate loans in the future. In such case, we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results, financial condition and/or capital.

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

We establish our allowance for loan and lease losses in consultation with management of our subsidiaries and maintain it at a level considered adequate by management to absorb loan/lease losses that are inherent in the portfolio. The amount of future loan/lease losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2017, our allowance as a percentage of total gross loans/leases was 1.16%, and as a percentage of total NPLs was 184.28%. In accordance with GAAP for acquisition accounting, the loans acquired through the acquisition of Guaranty Bank and CSB were recorded at fair value; therefore, there was no allowance associated with Guaranty Bank's and CSB's loans at acquisition. Management continues to evaluate the allowance needed on the acquired loans factoring in the net remaining discount ($8.1 million at December 31, 2017). When factoring this remaining discount into the Company's allowance to total loans and leases calculation, the Company's allowance as a percentage of total loans and leases increases from 1.16% to 1.43%.

In addition, we had net charge-offs as a percentage of gross average loans/leases of 0.19% for the year ended December 31, 2017. Because of the concentration of C&I and CRE 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, 2017 was adequate to absorb losses on any existing loans/leases that may become uncollectible, 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 have also increased. 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, retailers and government agencies, particularly denial of service attacks that are designed to disrupt key business or government 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. It is also possible that a cyber incident, such as a security breach, may remain undetected for a period of time, further exposing the Company to technology-related risks. 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. Despite third-party security risks that are beyond our control, the Company offers its customers protection against fraud and attendant losses for unauthorized use of debit cards in order to stay competitive in the marketplace. Offering such protection (including the cost of replacing compromised cards) to our customers exposes the Company to potential losses which, in the event of a data breach at one or more retailers of considerable magnitude, may adversely affect its business, financial condition, and results of operations. 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 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, which could also have a material adverse effect on the Company's business, financial condition or results of operations.

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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. The Company may also need to spend additional resources to enhance protective and detective measures or to conduct investigations to remediate any vulnerabilities that arise.

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. Despite having business continuity plans and other safeguards, the Company could still be affected. 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, CRBT and CSB, 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 IDFPR 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.

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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, the Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry. In addition, in recent years the Federal Reserve has adopted numerous new regulations addressing banks' overdraft and mortgage lending practices. Further, the Basel III regulatory capital reforms increased both the amount and quality of capital that financial institutions must hold.

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 which was most recently amended by the 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.

The financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

At this time, it is difficult to predict the legislative and regulatory changes that will result from the combination of a new President of the United States and the first year since 2010 in which both Houses of Congress and the White House have majority memberships from the same political party. Recently, however, both the new President and senior members of the House of Representatives have advocated for significant reduction of financial services regulation, to include amendments to the Dodd-Frank Act and structural changes to the CFPB. The new Administration and Congress also may cause broader economic changes due to changes in governing ideology and governing style. New appointments to the Federal Reserve could affect monetary policy and interest rates, and changes in fiscal policy could affect broader patterns of trade and economic growth. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

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.

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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 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 regulatory capital reforms. 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, 2017, we had $40.2 million of junior subordinated debentures held by six business trusts that we control. Interest payments on the debentures, which totaled $1.5 million for 2017, 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, 2017, our subsidiary banks had deposits and other liabilities in the aggregate of approximately $3.6 billion.

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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, 2017, we had gross unrealized losses of $5.4 million, or 0.8% of amortized cost, in our investment portfolio (partially offset by gross unrealized gains of $4.5 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 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, 2017 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, repayments, and calls, and loan/lease repayments. Additional liquidity is provided by federal funds purchased from the FRB or other correspondent banks, FHLB advances, wholesale and customer repurchase agreements, brokered deposits, and the ability to borrow at the FRB'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 periods of economic turmoil, the financial services industry and the credit markets generally may be materially and adversely affected by significant declines in asset values and depressed levels of liquidity. 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.

The success of our SBA lending program is dependent upon the continued availability of SBA loan programs, our status as a preferred lender under the SBA loan programs and our ability to comply with applicable SBA lending requirements.

As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose other restrictions, including revocation of the lender’s Preferred Lender status. If we lose our status as a Preferred Lender, we may lose our ability to compete effectively with other SBA Preferred Lenders, and as a result we would experience a material adverse effect to our financial results. Any changes to the SBA program, including changes to the level of guaranty provided by the federal government on SBA loans or changes to the level of funds appropriated by the federal government to the various SBA programs, may also have an adverse effect on our business, results of operations and financial condition.

Historically we have sold the guaranteed portion of our SBA 7(a) loans in the secondary market. These sales have resulted in our earning premium income and/or have created a stream of future servicing income. There can be no assurance that we will be able to continue originating these loans, that a secondary market will exist or that we will continue to realize premiums upon the sale of the guaranteed portion of these loans. When we sell the guaranteed portion of our SBA 7(a) loans, we incur credit risk on the retained, non-guaranteed portion of the loans.

In the event of a loss resulting from default and the SBA determines there is a deficiency in the manner in which the loan was originated, funded or serviced by the us, the SBA may require us to repurchase the loan, deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of the principal loss related to the deficiency from us, any of which could adversely affect our business, results of operations and financial condition.

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Our business is concentrated in and dependent upon the continued growth and welfare of the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, Des Moines/Ankeny, and Rockford markets.

We operate primarily in the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, Des Moines/Ankeny 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, Waterloo, and Ankeny, Iowa and Moline, Rock Island, 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, online lenders 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 stock market can be volatile, and fluctuations in our operating results and other factors, could cause our stock price to decline.

The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies. Most recently, like the stock of other financial institutions generally, the price of the Company's common stock as reported on the Nasdaq Global Market has increased substantially since the U.S. presidential election. Market fluctuations could also adversely affect our stock price. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, or international currency fluctuations, may negatively affect the market price of our common stock. Moreover, our operating results may fluctuate and vary from period to period due to the risk factors set forth herein. As a result, period-to-period comparisons should not be relied upon as an indication of future performance. Our stock price could fluctuate significantly in response to our quarterly or annual results and the impact of these risk factors on our operating results or financial position.

If securities or industry analysts do not publish or cease publishing research reports about us, if they adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, the price of our stock could decline.

The trading market for our common stock can be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If there is limited or no securities or industry analyst coverage of us, the market price for our stock could be negatively impacted. Moreover, if any of the analysts who elect to cover us downgrade our common stock, provide more favorable relative recommendations about our competitors or if our operating results or prospects do not meet their expectations, the market price of our common stock may decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

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 and government-sponsored financial institutions, 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. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

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 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. GAAP 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 FASB and the SEC 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.

For example, the FASB has adopted a new accounting standard that will be effective for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances. This will change the current method of providing allowances that are probable, which may require us to increase our allowance, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance. Any increase in our allowance or expenses incurred to determine the appropriate level of the allowance may have a material adverse effect on our financial condition and results of operations.

Secondary mortgage, government guaranteed loan and interest rate swap 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.

The interest rate swap market is dependent upon market conditions. If interest rates move, interest rate swap transactions may no longer make sense for the Company and/or its customers. Interest rate swaps are generally appropriate for commercial customers with a certain level of expertise and comfort with derivatives, so our success is dependent upon the ability to make loans to these types of commercial customers. Additionally, our ability to execute interest rate swaps is also dependent upon counterparties that are willing to enter into the interest rate swap that is equal and offsetting to the interest rate swap we enter into with the commercial customer.

Consumers and businesses are increasingly using non-banks to complete their financial transactions, which could adversely affect our business and results of operations.

Technology and other changes are allowing consumers and businesses to complete financial transactions that historically have involved banks through alternative methods. For example, the wide acceptance of Internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

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New lines of business or new products and services may subject us to additional risks.

From time to time, we may seek to implement new lines of business or offer new products and services within existing lines of business in our current markets or new markets. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible, which could in turn have a material negative effect on our operating results.

Item 1B. Unresolved Staff Comments

There are no unresolved staff comments.

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Item 2. Properties

The following table is a listing of the Company's operating facilities:

Facility Address	**Facility Square Footage**	**Facility Owned or Leased**
QCR Holdings, Inc.		
3551 7th Street in Moline, IL (1)	30,000	Owned
QCBT		
2118 Middle Road in Bettendorf, IA	6,700	Owned
4500 N Brady Street in Davenport, IA	36,000	Owned
5405 Utica Ridge Road in Davenport, IA	7,400	Leased
1700 Division Street in Davenport, IA	12,000	Owned
CRBT		
500 1st Avenue NE, in Cedar Rapids, IA	48,000	Owned
5400 Council Street in Cedar Rapids, IA	5,900	Owned
422 Commercial Street in Waterloo, IA (2)	25,000	Owned
11 Tower Park Drive in Waterloo, IA (2)	6,000	Owned
312 W 1st Street in Cedar Falls, IA (2)	4,800	Owned
2711 Bever Ave SE, Cedar Rapids, IA (3)	2,200	Owned
191 Jacolyn Dr NW, Cedar Rapids, IA (3)	1,700	Owned
700 25th St, Marion, IA (3)	3,400	Owned
CSB		
817 N Ankeny Boulevard, in Ankeny, IA	13,000	Owned
200 8th Street SE, in Altoona, IA	6,000	Owned
902 SE Oralabor Road, in Ankeny, IA	3,900	Owned
1640 SW White Birch Circle, in Ankeny, IA	15,700	Owned
3540 E 33rd Street, in Des Moines, IA	3,900	Owned
1401 E Euclid, in Des Moines, IA	4,500	Owned
6175 Merle Hay Road, in Johnston, IA	9,200	Owned
1025 N Hickory Boulevard, in Pleasant Hill, IA	4,500	Owned
4811 SE 14th Street, in Des Moines, IA	3,500	Owned
460 SE University Avenue, in Waukee, IA	6,000	Owned
RB&T		
4571 Guilford Road in Rockford, IL	20,000	Owned

308 West State Street in Rockford, IL	1,100	Leased
m2		
175 North Patrick Boulevard in Brookfield, WI	6,500	Leased

(1) This facility is utilized as a branch of QCBT in addition to housing the holding company.

(2) Branches of Community Bank & Trust, a division of CRBT.

(3) Branches acquired in 2017 through the purchase of Guaranty Bank.

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.

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No individual real estate property 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.

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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 28, 2018, there were 13,931,628 shares of common stock outstanding held by 741 holders of record. Additionally, there are an estimated 3,548 beneficial holders whose stock was held in the street name by brokerage houses and other nominees as of that date. The following table sets forth the high and low sales prices of the common stock, as reported by Nasdaq for the periods indicated.

	2017 Sales Price		2016 Sales Price	
	High	Low	High	Low
First quarter	$45.00	$40.65	$24.15	$18.05
Second quarter	49.80	40.45	28.74	22.96
Third quarter	50.00	39.85	32.19	26.41
Fourth quarter	49.70	41.50	44.80	30.31

Dividends on Common Stock. Dividends paid on common stock during the years ending December 31, 2017 and 2016 are as follows:

Declaration Date	Amount Declared Per Share	Record Date	Total Amount Paid to Stockholders (in thousands)	Date Paid
February 11, 2016	$0.04	March 18, 2016	$471	April 6, 2016
May 13, 2016	$0.04	June 17, 2016	$521	July 6, 2016
August 25, 2016	$0.04	September 16, 2016	$521	October 5, 2016
December 15, 2016	$0.04	December 23, 2016	$522	January 6, 2017

February 9, 2017	$0.05	March 17, 2017	$657	April 5, 2017
May 12, 2017	$0.05	June 16, 2017	$657	July 6, 2017
August 24, 2017	$0.05	September 15, 2017	$658	October 4, 2017
November 16, 2017	$0.05	December 15, 2017	$693	January 4, 2018

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. See Appendix A for additional information regarding regulatory restrictions on the payment of dividends.

The Company also has certain contractual restrictions on its ability to pay dividends. The Company has issued junior subordinated debentures in private placements. Under the terms of the debentures, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. None of these circumstances existed through the date of filing of this Form 10-K. See Note 16 to the Consolidated Financial Statements for additional information regarding dividend restrictions.

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Purchase of Equity Securities by the Company. There were no purchases of common stock by the Company during the years ended December 31, 2017, 2016, and 2015.

Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2012 and ending December 31, 2017, a comparison of cumulative total returns for the Company, the Nasdaq Composite Index, and the SNL Bank Nasdaq Index prepared by SNL Financial, Charlottesville, Virginia. The graph was prepared at the Company's request by SNL Financial. The information assumes that $100 was invested at the closing price on December 31, 2012 in the common stock of the Company and in each index, and that all dividends were reinvested.

	Period Ending					
Index	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**
QCR Holdings, Inc.	100.00	129.43	136.35	186.08	333.50	331.53
Nasdaq Composite Index	100.00	140.12	160.78	171.97	187.22	242.71
SNL Bank Nasdaq Index	100.00	143.73	148.86	160.70	222.81	234.58

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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,				
	2017	2016	2015	2014	2013
	(dollars in thousands, except per share data)				
STATEMENT OF INCOME DATA					
Interest income	$135,517	$106,468	$90,003	$85,965	$81,872
Interest expense	19,452	11,951	13,707	16,894	17,767
Net interest income	116,065	94,517	76,296	69,071	64,105
Provision for loan/lease losses	8,470	7,478	6,871	6,807	5,930
Non-interest income	30,482	31,037	24,364	21,282	26,846
Non-interest expense (1)	97,424	81,486	73,192	65,554	65,465
Income tax expense	4,946	8,903	3,669	3,039	4,618
Net income attributable to QCR Holdings, Inc.	35,707	27,687	16,928	14,953	14,938
Less: preferred stock dividends and discount accretion	-	-	-	1,082	3,168
Net income attributable to QCR Holdings, Inc. common stockholders	35,707	27,687	16,928	13,871	11,770
PER COMMON SHARE DATA					
Net income - Basic (2)	$2.68	$2.20	$1.64	$1.75	$2.13
Net income - Diluted (2)	2.61	2.17	1.61	1.72	2.08
Cash dividends declared	0.20	0.16	0.08	0.08	0.08
Dividend payout ratio	7.46 %	7.27 %	4.88 %	4.57 %	3.76 %
Closing stock price	$42.85	$43.30	$24.29	$17.86	$17.03
BALANCE SHEET DATA					
Total assets	$3,982,665	$3,301,944	$2,593,198	$2,524,958	$2,394,953
Securities	652,382	574,022	577,109	651,539	697,210
Total loans/leases	2,964,485	2,405,487	1,798,023	1,630,003	1,460,280
Allowance	34,356	30,757	26,141	23,074	21,448
Deposits	3,266,655	2,669,261	1,880,666	1,679,668	1,646,991
Borrowings	309,480	290,952	444,162	662,558	563,381
Stockholders' equity:					
Preferred	-	-	-	-	29,799
Common	353,287	286,041	225,886	144,079	117,778
KEY RATIOS					
ROAA (3)	1.01 %	0.97 %	0.66 %	0.61 %	0.64 %

ROACE (2)	11.51	10.56	8.79	10.49	11.48
ROAE (3)	11.51	10.56	8.79	10.48	10.24
NIM, tax equivalent yield (Non-GAAP) (4) (6)	3.78	3.75	3.37	3.15	3.03
Efficiency ratio (Non-GAAP) (5) (6)	66.48	64.90	72.71	72.55	71.98
Loans/leases to assets	74.43	72.85	69.34	64.56	60.97
Loans/leases to deposits	90.75	90.12	95.61	97.04	88.66
NPAs to total assets	0.81	0.82	0.74	1.31	1.28
Allowance to total loans/leases	1.16	1.28	1.45	1.42	1.47
Allowance to NPLs	184.28	144.85	223.33	114.78	104.70
Net charge-offs to average loans/leases	0.19	0.14	0.22	0.34	0.31
Average total stockholders' equity to average total assets	8.81	9.21	7.55	5.82	6.26

(1) Non-interest expense includes several one-time expenses - most notably, $5.4 million and $2.4 million of acquisition and post-acquisition compensation, transition and integration costs for 2017 and 2016, respectively. See Note 2 to the Consolidated Financial Statements for additional information regarding the acquisition of Guaranty Bank and CSB. Additionally, 2016 and 2015, respectively, included $4.6 million and $7.2 million of losses on debt extinguishment related to the prepayment of certain borrowings.
(2) Numerator is net income attributable to QCR Holdings, Inc. common stockholders
(3) Numerator is net income attributable to QCR Holdings, Inc.
(4) Interest earned and yields on nontaxable investments and nontaxable loans are determined on a tax equivalent basis using a 35% tax rate
(5) Non-interest expenses divided by the sum of net interest income before provision for loan/lease losses and non-interest income
(6) See GAAP to Non-GAAP reconciliations.

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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, 2017, 2016, and 2015, and our financial condition at December 31, 2017 and 2016. 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.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 to the Consolidated Financial Statements.

GENERAL

The Company was formed in February 1993 for the purpose of organizing QCBT. Over the past twenty-four years, the Company has grown to include three additional banking subsidiaries and a number of nonbanking subsidiaries. As of December 31, 2017, the Company had $4.0 billion in consolidated assets, including $3.0 billion in total loans/leases and $3.3 billion in deposits. The financial results of both Guaranty Bank and CSB for the periods since acquisition are included in this report.

EXECUTIVE OVERVIEW

The Company reported net income of $35.7 million for the year ended December 31, 2017, and diluted EPS of $2.61. For the same period in 2016, the Company reported net income of $27.7 million, and diluted EPS of $2.17. By comparison, for 2015, the Company reported net income of $16.9 million, and diluted EPS of $1.61.

The year ended December 31, 2017 was highlighted by several significant items:

- The successful acquisition of Guaranty Bank (described in Note 2 to the Consolidated Financial Statements);
- Net interest income improvement of 23%, when comparing 2017 to 2016;
- Organic deposit growth of 14.4% for the year;
- Organic loan and lease growth of 15.2% for the year;
- Solid wealth management revenue growth of 21%; and

Strong gains on the sale of government guaranteed portions of loans and swap fee income totaling $4.3 million for the year.

Following is a table that represents the various net income measurements for the years ended December 31, 2017, 2016, and 2015.

	Year Ended December 31,		
	2017	2016	2015
Net income attributable to QCR Holdings, Inc. common stockholders	$35,706,507	$27,686,787	$16,927,881
Diluted EPS	$2.61	$2.17	$1.61
Weighted average common and common equivalent shares outstanding*	13,680,472	12,766,003	10,499,841

*The 2017 and 2016 increase in the weighted average common and common equivalent shares outstanding was primarily due to the common stock issued in connection with the acquisitions of CSB and Guaranty Bank discussed in Note 2 to the Consolidated Financial Statements.

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The Company reported core net income (non-GAAP) of $36.3 million, with diluted core EPS of $2.66. See section titled "GAAP to Non-GAAP Reconciliations" for additional information. Core net income for the year excludes a number of non-recurring items, most significantly $3.5 million of after-tax acquisition and post-acquisition related costs. See Note 13 to the Consolidated Financial Statements for additional information regarding the impact of Tax Act on deferred tax assets and income tax expense.

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

	Year Ended December 31,		
	2017	2016	2015
Net interest income	$116,065,281	$94,516,777	$76,296,724
Provision for loan/lease losses	8,469,919	7,478,166	6,870,900
Noninterest income	30,482,292	31,036,875	24,363,321
Noninterest expense	97,424,697	81,485,912	73,192,022
Federal and state income tax	4,946,450	8,902,787	3,669,242
Net income	$35,706,507	$27,686,787	$16,927,881

The following are some noteworthy developments in the Company's financial results:

- Net interest income grew $21.5 million, or 23% in 2017, compared to the prior year. Net interest income for 2016 grew $18.2 million, or 24%, compared to 2015.
- Provision increased $992 thousand when comparing 2017 to 2016, while provision increased $607 thousand when comparing 2016 to 2015.
- Noninterest income decreased $555 thousand, or 2%, when compared to the prior year. Noninterest income increased $6.7 million, or 27%, when comparing 2016 to 2015, primarily due to $4.6 million of gains on sale of securities associated with a balance sheet restructuring strategy executed in 2016.
- Noninterest expense increased $15.9 million, or 20% in 2017, compared to the prior year including certain costs related to our recent acquisitions, including:
  - Acquisition and post-acquisition compensation, transition and integration costs totaled $5.4 million and $2.4 million in 2017 and 2016, respectively. The increase primarily was due to legal and accounting costs with the acquisition of Guaranty Bank and IT integration and conversion costs associated with the acquisition of Guaranty Bank and CSB.
- Professional and data processing fees increased $3.6 million in 2017, primarily due to the acquisitions of Guaranty Bank and CSB and increased legal fees.
- Salaries and benefits increased $9.4 million with the addition of personnel with the Guaranty Bank and CSB acquisitions.
- Noninterest expense increased $8.3 million, when comparing 2016 to 2015. Included in 2016 noninterest expense was $4.6 million of losses on debt extinguishment, net, as well as $2.4 million of acquisition and post-acquisition

related costs

LONG-TERM FINANCIAL GOALS

The Company has established certain financial goals by which it manages its business and measures its performance. The goals are periodically updated to reflect business developments. While the Company is determined to work prudently to achieve these goals, there is no assurance that they will be met. Moreover, the Company's ability to achieve these goals will be affected by the factors discussed under "Forward Looking Statements" as well as the factors detailed in the "Risk Factors" section included under Item 1A. of Part I of this Form 10-K. The Company's long-term financial goals are as follows:

Improve balance sheet efficiency by maintaining a gross loans and leases to total assets ratio in the range of 73 – 78%;

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Improve profitability (measured by NIM and ROAA);

Improve asset quality by reducing NPAs to total assets to below 0.75% and maintain charge-offs as a percentage of average loans/leases of under 0.25% annually;

Maintain reliance on wholesale funding at less than 15% of total assets;

Grow noninterest bearing deposits to more than 30% of total assets;

Continue to focus on generating gains on sales of government guaranteed portions of loans and swap fee income to more than $4 million annually; and

Grow wealth management segment net income by 10% annually.

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The following table shows the evaluation of the Company’s long-term financial goals.

			For the Year Ending	
			December 31,	**December 31,**
			2017	**2016**
Goal	**Key Metric (1)**	**Target (2)**	*(dollars in thousands)*	
Balance sheet efficiency	Gross loans and leases to total assets	73% - 78%	74%	73%
Profitability	NIM TEY (non-GAAP)	> 3.85%	3.78%	3.75%
	ROAA	> 1.10%	1.01%	0.97%
	Core ROAA (non-GAAP)		1.03%	1.03%
Asset quality	NPAs to total assets	< 0.75%	0.81%	0.82%
	Net charge-offs to average loans/leases	< 0.25% annually	0.19%	0.14%
Lower reliance on wholesale funding	Wholesale funding to total assets	< 15%	10%	11%
Funding mix	Noninterest bearing deposits as a percentage of	> 30%	20%	24%

	total assets			
Consistent, high quality noninterest income revenue streams	Gains on sales of government guaranteed portions of loans and swap fee income	> $4 million annually	$4.3 million	$4.9 million
	Grow wealth management segment net income	> 10% annually	35%	1%

(1) Non-GAAP calculations are provided, when applicable. Refer to GAAP to non-GAAP reconciliation table for details.
(2) Targets will be re-evaluated and adjusted as appropriate.

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STRATEGIC DEVELOPMENTS

The Company took the following actions to support our corporate strategy and the long-term financial goals shown above.

Organic loan and lease growth for the year was 15.2%. This exceeded the Company's target organic growth rate of 10-12%. A portion of this growth was in the C&I category. As of December 31, 2017, this segment of the portfolio accounted for 38% of total loans and leases. The Company has also grown CRE loans, with that segment now representing 44% of the portfolio as of December 31, 2017. The strong organic loan and lease growth has continued to help move the loan and lease to total asset ratio upward to 74%, from 73% in the prior year and 69% two years ago. The Company has reached the targeted loan and lease to total asset ratio in the range of 73% - 78%. Going forward, the Company will strive to maintain the ratio in this range.

The Company intends to continue to participate in a prudent manner as an acquirer in the consolidation taking place in our markets to further boost ROAA and improve the Company's efficiency ratio. In the fourth quarter of 2017, the Company acquired Guaranty Bank, headquartered in Cedar Rapids, Iowa. See Note 2 of the Consolidated Financial Statements for additional details.

The Company continues to focus on reducing the NPAs to total assets ratio. The ratio of NPAs to total assets decreased slightly from 0.82% at December 31, 2016 to 0.81% at December 31, 2017. The Company remains committed to improving asset quality in 2018.

Management continues to focus on reducing the Company's reliance on wholesale funding. The restructuring executed in 2016 (as described in Notes 10 and 11 of the Consolidated Financial Statements) further reduced the Company's reliance on long-term wholesale funding. These prepayments, along with the addition of CSB and Guaranty Bank, which have very strong core funding bases with minimal wholesale borrowings, assisted in lowering the Company's reliance on wholesale funding as a percentage of assets down to 10% as of December 31, 2017. Management will focus on growing core deposits as a means for funding loan and lease growth and maintaining a reliance on wholesale funding at less than 15% of total assets.

Correspondent banking continues to be a core line of business for the Company. The Company is competitively positioned with experienced staff, software systems and processes to continue growing in the three states currently served – Iowa, Illinois and Wisconsin. The Company acts as the correspondent bank for 187 downstream banks with total noninterest bearing deposits of $260.9 million and total interest bearing deposits of $236.5 million as of December 31, 2017. This line of business provides a strong source of noninterest bearing and interest bearing deposits, fee income, high-quality loan participations and bank stock loans.

SBA and USDA lending is a specialty lending area on which the Company has focused. Once these loans are originated, the government-guaranteed portion of the loan can be sold to the secondary market for premiums. The

Company aims to continue to make this a more consistent source of noninterest income.

As a result of the historically low interest rate environment, the Company is focused on executing interest rate swaps on select commercial loans. The interest rate swaps allow the commercial borrowers to pay a fixed interest rate while the Company receives a variable interest rate as well as an upfront fee dependent on the pricing. Management believes that these swaps help position the Company more favorably for rising rate environments. The Company will continue to review opportunities to execute these swaps at all of its subsidiary banks, as the circumstances are appropriate for the borrower and the Company.

Wealth management is another core line of business for the Company and includes a full range of products, including trust services, brokerage and investment advisory services, asset management, estate planning and financial planning. As of December 31, 2017 the Company had $2.6 billion of total financial assets in trust (and related) accounts and $971 million of total financial assets in brokerage (and related) accounts. Continued growth in assets under management will help to drive trust and investment advisory fees. The Company offers trust and investment advisory services to the correspondent banks that it serves. As management focuses on growing fee income, expanding market share will continue to be a primary strategy.

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GAAP TO NON-GAAP RECONCILIATIONS

The following table presents certain non-GAAP financial measures related to the “TCE/TA ratio”, “core net income”, “core net income attributable to QCR Holdings, Inc. common stockholders”, “core EPS”, “core ROAA”, “NIM (TEY)” and “efficiency ratio”. In compliance with applicable rules of the SEC, all non-GAAP measures are reconciled to the most directly comparable GAAP measure, as follows:

TCE/TA ratio (non-GAAP) is reconciled to stockholders’ equity and total assets
Core net income, core net income attributable to QCR Holdings, Inc. common stockholders, core EPS and core ROAA (all non-GAAP measures) are reconciled to net income
NIM (TEY) (non-GAAP) is reconciled to NIM
Efficiency ratio (non-GAAP) is reconciled to noninterest expense, net interest income and noninterest income

The TCE/TA non-GAAP ratio has been a focus for investors and management believes that this ratio may assist investors in analyzing the Company’s capital position without regard to the effects of intangible assets.

The table below also includes several “core” non-GAAP measurements of financial performance. The Company's management believes that these measures are important to investors as they exclude non-recurring income and expense items; therefore, they provide a better comparison for analysis and may provide a better indicator of future results.

NIM (TEY) is a financial measure that the Company’s management utilizes to take into account the tax benefit associated with certain loans and securities. It is standard industry practice to measure net interest margin using tax-equivalent measures.

The efficiency ratio is a ratio that management utilizes to compare the Company to peers. Both are also standard in the banking industry and widely utilized by investors.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

GAAP TO NON-GAAP RECONCILIATIONS	As of December 31, 2017	December 31, 2016
	(dollars in thousands, except per share data)	
TCE/TA RATIO		
Stockholders' equity (GAAP)	$353,287	$286,041
Less: Intangible assets	37,413	22,522
TCE (non-GAAP)	$315,874	$263,519
Total assets (GAAP)	$3,982,665	$3,301,944
Less: Intangible assets	37,413	22,522
TA (non-GAAP)	$3,945,252	$3,279,422
TCE/TA ratio (non-GAAP)	**8.01 %**	**8.04 %**

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CORE NET INCOME	For the Year Ended December 31, 2017	December 31, 2016	December 31, 2015
Net income (GAAP)	$35,707	$27,687	$16,928
Less nonrecurring items (post-tax) (*):			
Income:			
Securities gains	$(57)	$2,985	$519
Lawsuit award	-	-	252
Total nonrecurring income (loss) (non-GAAP)	$(57)	$2,985	$771
Expense:			
Losses on debt extinguishment	$-	$2,975	$4,671
Acquisition costs	695	1,086	-
Post-acquisition compensation, transition and integration costs	2,802	677	-
Accrual adjustments	-	-	(487)
Other non-recurring expenses	-	-	513
Total nonrecurring expense (non-GAAP)	$3,497	$4,738	$4,697
Adjustment of tax expense related to the Tax Act	$2,919	$-	$-
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP)	**$36,342**	**$29,440**	**$20,854**
CORE EARNINGS PER COMMON SHARE			
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP) (from above)	$36,342	$29,440	$20,854
Weighted average common shares outstanding	13,325,128	12,570,767	10,345,286
Weighted average common and common equivalent shares outstanding	13,680,472	12,766,003	10,499,841
Core EPS (non-GAAP):			
Basic	**$2.73**	**$2.34**	**$2.02**
Diluted	**$2.66**	**$2.31**	**$1.99**
CORE ROAA			
Core net income (non-GAAP) (from above)	$36,342	$29,440	$20,854
Average Assets	$3,519,848	$2,846,699	$2,549,921
Core ROAA (non-GAAP)	**1.03%**	**1.03%**	**0.82%**

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GAAP TO NON-GAAP RECONCILIATIONS (CONTINUED)	For the Year Ended December 31, 2017	December 31, 2016	December 31, 2015
	(dollars in thousands)		
NIM (TEY)			
Net interest income (GAAP)	$116,065	$94,517	$76,296
Plus: Tax equivalent adjustment	9,215	6,021	4,881
Net interest income - tax equivalent (Non-GAAP)	$125,280	$100,538	$81,177
Average earning assets	$3,314,836	$2,678,359	$2,406,213
NIM (GAAP)	3.50 %	3.53 %	3.17 %
NIM (TEY) (Non-GAAP)	3.78 %	3.75 %	3.37 %
EFFICIENCY RATIO			
Noninterest expense (GAAP)	$97,424	$81,486	$73,192
Net interest income (GAAP)	$116,065	$94,517	$76,296
Noninterest income (GAAP)	30,482	31,037	24,363
Total income	$146,547	$125,554	$100,659
Efficiency ratio (noninterest expense/total income) (Non-GAAP)	66.48 %	64.90 %	72.71 %

*Nonrecurring items (after-tax) are calculated using an estimated effective tax rate of 35%.

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NET INTEREST INCOME AND MARGIN (TAX EQUIVALENT BASIS) (Non-GAAP)

Net interest income, on a tax equivalent basis, grew $24.7 million, or 25%, in 2017. Net interest income improved due to several factors:

- The acquisition of CSB, whose strong net interest margin has significantly contributed to the Company's results;
- Organic loan and lease growth was strong throughout the year. Average gross loans/leases grew 28% in 2017 (including the acquisition of Guaranty Bank); and
- The Company's strategy to grow the Company's portfolio of tax exempt municipal securities. This has contributed to the 24 basis point increase in the investment securities yield in 2017.

A comparison of yields, spreads and margins from 2016 to 2017 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets increased 17 basis points from 4.20% to 4.37%.
- The average cost of interest-bearing liabilities increased 16 basis points from 0.65% to 0.81%.
- The net interest spread improved 1 basis point from 3.55% to 3.56%.
- The NIM improved 3 basis points from 3.75% to 3.78%.

Net interest income, on a tax equivalent basis, grew $19.4 million, or 24%, in 2016 compared to 2015. Net interest income improved due to several factors:

- The acquisition of CSB resulted in an additional $10.2 million for the period ending December 31, 2016;
- The Company's strategy to redeploy funds from the taxable securities portfolio into higher yielding loans and leases;
- Organic loan and lease growth was strong throughout the year. Average gross loans/leases grew 19.6% in 2016 (including the acquisition of CSB); and
- Continued balance sheet restructuring, as further described in Notes 10 and 11 to the Consolidated Financial Statements.

A comparison of yields, spreads and margins from 2015 to 2016 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets increased 26 basis points from 3.94% to 4.20%.
- The average cost of interest-bearing liabilities decreased 16 basis points from 0.81% to 0.65%.
- The net interest spread improved 42 basis points from 3.13% to 3.55%.
- The NIM improved 38 basis points from 3.37% to 3.75%.

The Company’s management closely monitors and manages NIM. 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.

The improvement in NIM in 2017 and 2016 was partially the result of the acquisition of CSB. CSB’s margin will fluctuate based on the amortization and accretion of purchase accounting adjustments, most notably the discount on the acquired loan portfolio. This benefit can fluctuate based on prepayments of both PCI and performing loans. As loans prepay, the associated discount/premium is accelerated.

The Company continues to place an emphasis on shifting its balance sheet mix. With a stated goal of maintaining loans/leases as a percentage of assets in a range of 73%-78%, the Company funded its loan/lease growth with a mixture of core deposits and cash from the investment securities portfolio. Cash from called securities and the targeted sales of securities was redeployed into the loan portfolio, resulting in a significant increase in yield, while minimizing any extension of duration. Additionally, the Company recognized net gains on these sales due to the previous rate environment. As rates rise, the Company should also have less market volatility in the investment securities portfolio, as this becomes a smaller portion of the balance sheet.

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There still exists some higher cost legacy borrowings and the Company continues to monitor and evaluate both prepayment and debt restructuring opportunities as executing on such a strategy could potentially increase NIM 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,								
	2017			**2016**			**2015**		
	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	$17,577	$149	0.85%	$15,142	$45	0.30%	$17,418	$25	0.14%
Interest-bearing deposits at financial institutions	78,842	874	1.11	70,757	393	0.56	66,897	304	0.45
Investment securities (1)	590,761	22,460	3.80	535,912	19,054	3.56	599,648	18,380	3.07
Restricted investment securities	15,768	631	4.00	13,993	522	3.73	14,727	504	3.42
Gross loans/leases receivable (1) (2) (3)	2,611,888	120,618	4.62	2,042,555	92,475	4.53	1,707,523	75,671	4.43
Total interest earning assets	$3,314,836	144,732	4.37	$2,678,359	112,489	4.20	$2,406,213	94,884	3.94
Noninterest-earning assets:									
Cash and due from banks	$67,559			$53,650			$45,178		
Premises and equipment, net	62,719			44,773			38,162		
Less allowance for estimated losses on loans/leases	(33,193)			(28,686)			(25,027)		
Other	107,927			98,603			85,395		
Total assets	$3,519,848			$2,846,699			$2,549,921		
LIABILITIES AND STOCKHOLDERS'									

EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$1,622,723	7,992	0.49%	$1,092,687	3,843	0.35%	$821,043	1,836	0.22%
Time deposits	528,834	5,020	0.95	436,070	2,175	0.50	388,691	2,660	0.68
Short-term borrowings	22,596	114	0.50	50,899	94	0.18	151,141	210	0.14
Federal Home Loan Bank advances	120,206	1,981	1.65	114,797	1,284	1.12	154,268	3,511	2.28
Other borrowings	73,394	2,879	3.92	98,105	3,318	3.38	126,902	4,234	3.34
Junior subordinated debentures	34,030	1,466	4.31	33,735	1,237	3.67	40,364	1,256	3.11
Total interest-bearing liabilities	$2,401,783	19,452	0.81	$1,826,293	11,951	0.65	$1,682,409	13,707	0.81
Noninterest-bearing demand deposits	$765,019			$714,867			$641,848		
Other noninterest-bearing liabilities	42,836			43,464			33,175		
Total liabilities	$3,209,638			$2,584,624			$2,357,432		
Stockholders' equity	310,210			262,075			192,489		
Total liabilities and stockholders' equity	$3,519,848			$2,846,699			$2,549,921		
Net interest income		$125,280			$100,538			$81,177	
Net interest spread			3.56%			3.55%			3.13%
Net interest margin			3.50%			3.53%			3.17%
Net interest margin (TEY)(Non-GAAP)			3.78%			3.75%			3.37%
Ratio of average interest earning assets to average interest-bearing liabilities	138.02 %			146.66 %			143.02 %		

(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.

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

	For the years ended December 31, 2017, 2016 and 2015					
	Inc./(Dec.) from Prior Year	Components of Change (1) Rate	Volume	Inc./(Dec.) from Prior Year	Components of Change (1) Rate	Volume
	2017 vs. 2016 (dollars in thousands)			2016 vs. 2015 (dollars in thousands)		
INTEREST INCOME						
Federal funds sold	$104	$96	$8	$20	$23	$(3)
Interest-bearing deposits at other financial institutions	481	431	50	89	70	19
Investment securities (2)	3,406	1,376	2,030	674	2,753	(2,079)
Restricted investment securities	109	40	69	18	44	(26)
Gross loans/leases receivable (2) (3)	28,143	1,886	26,257	16,804	1,669	15,135
Total change in interest income	$32,243	$3,829	$28,414	$17,605	$4,559	$13,046
INTEREST EXPENSE						
Interest-bearing demand deposits	$4,149	$1,876	$2,273	$2,007	$1,273	$734
Time deposits	2,845	2,302	543	(485)	(782)	297
Short-term borrowings	20	94	(74)	(116)	54	(170)
Federal Home Loan Bank advances	697	634	63	(2,227)	(1,482)	(745)
Other borrowings	(439)	478	(917)	(916)	58	(974)
Junior subordinated debentures	229	218	11	(19)	205	(224)
Total change in interest expense	$7,501	$5,602	$1,899	$(1,756)	$(674)	$(1,082)
Total change in net interest income	$24,742	$(1,773)	$26,515	$19,361	$5,233	$14,128

(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.

ALLOWANCE FOR LOAN AND LEASE LOSSES

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.

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 both locally and nationally, 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 MD&A section entitled “Financial Condition – Allowance for Estimated Losses on Loans/Leases.”

Although management believes the level of the allowance as of December 31, 2017 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.

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RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, and 2015

INTEREST INCOME

For 2017, interest income grew $29.0 million, or 27%. In total, the Company's average interest-earning assets increased $636.5 million, or 24%, year-over-year. Average loans/leases grew 28%, while average securities grew 10%. The acquisition of CSB occurred in the third quarter of 2016, therefore 2017 was the first full year that CSB was included in the Company's financial results. The acquisition of Guaranty Bank in the fourth quarter of 2017contributed to the increase in interest income and average interest-earning assets.

For 2016, interest income grew $16.5 million, or 18%. In total, the Company's average interest-earning assets increased $272.1 million, or 11%, year-over-year. Average loans/leases grew 20%, while average securities declined 11%. This shift was part of the Company's strategy to shift the mix of earning assets from lower yielding securities to higher yielding loans/leases. The acquisition of CSB also contributed to the increase in interest income and average interest-earning assets.

Additionally, the Company continued to diversify its securities portfolio, including increasing its portfolio of tax exempt municipal securities. The large majority of these are privately placed debt issuances by municipalities 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.

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 2017 to 2016, interest expense increased $7.5 million, or 63%, year-over-year. Average interest-bearing liabilities increased 32% in 2017. The acquisition of CSB occurred in the third quarter of 2016, therefore 2017 was the first full year that CSB was included in the Company's financial results which contributed to the increase in interest expense and average interest-bearing liabilities. Guaranty Bank, acquired in the fourth quarter of 2017, also contributed to the increase in interest expense and average interest-bearing liabilities. The Company's cost of funds increased because the Company has rate sensitive deposits that have repriced with the increase in certain market rates.

Comparing 2016 to 2015, interest expense declined $1.8 million, or 13%, year-over-year. Average interest-bearing liabilities increased 9% in 2016. The Company was successful in continuing to manage down its cost of funds through continued growth in noninterest bearing deposit accounts (average noninterest bearing balances grew 11% in 2016, 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. Average interest bearing deposits increased 26%, while average borrowings decreased 37% during 2016.

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 is expected to strengthen the Company's franchise value, reduce funding costs, and increase fee income opportunities through deposit service charges.

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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 $8.5 million for 2017, an increase of $992 thousand from 2016. Notably, CSB incurred $2.8 million of provision expense for the full year. As acquired loans renew, the discount associated with those loans is accreted and the Company must re-establish a loan loss reserve. When comparing 2016 to 2015, the Company's provision increased by $607 thousand. In 2016, CSB incurred $1.5 million of provision expense for the partial year since acquisition.

The Company had an allowance of 1.16% of total gross loans/leases at December 31, 2017, compared to 1.28% of total gross loans/leases at December 31, 2016, and compared to 1.45% of total gross loans/leases at December 31, 2015.

The Company's allowance to total NPLs was 184.28% at December 31, 2017, which was up from 144.85% at December 31, 2016, and down from 223.33% at December 31, 2015.

The fluctuations in these ratios were the result of the acquisitions of CSB and Guaranty Bank. In accordance with GAAP for acquisition accounting, acquired loans must be recorded at fair value; therefore, no accreted allowance was associated with these loans. As acquired loans renew, the discount associated with those loans is eliminated and the Company must establish an allowance.

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NONINTEREST INCOME. The following tables set forth the various categories of noninterest income for the years ended December 31, 2017, 2016, and 2015.

	Years Ended December 31, 2017	December 31, 2016	$ Change	% Change
Trust department fees	$7,187,820	$6,164,137	$1,023,683	16.6 %
Investment advisory and management fees	3,869,699	2,992,811	876,888	29.3
Deposit service fees	5,919,317	4,439,455	1,479,862	33.3
Gains on sales of residential real estate loans, net	408,655	431,313	(22,658)	(5.3)
Gains on sales of government guaranteed portions of loans, net	1,163,741	3,159,073	(1,995,332)	(63.2)
Swap fee income	3,094,939	1,708,204	1,386,735	81.2
Securities gains, net	(87,885)	4,592,398	(4,680,283)	(101.9)
Earnings on bank-owned life insurance	1,802,443	1,771,396	31,047	1.8
Debit card fees	2,941,703	1,814,488	1,127,215	62.1
Correspondent banking fees	915,647	1,050,142	(134,495)	(12.8)
Other	3,266,213	2,913,458	352,755	12.1
Total noninterest income	$30,482,292	$31,036,875	$(554,583)	(1.8)%

	Years Ended December 31, 2016	December 31, 2015	$ Change	% Change
Trust department fees	$6,164,137	$6,131,209	$32,928	0.5 %
Investment advisory and management fees	2,992,811	2,971,964	20,847	0.7
Deposit service fees	4,439,455	3,784,935	654,520	17.3
Gains on sales of residential real estate loans, net	431,313	322,872	108,441	33.6
Gains on sales of government guaranteed portions of loans, net	3,159,073	1,304,575	1,854,498	142.2
Swap fee income	1,708,204	1,717,552	(9,348)	(0.5)
Securities gains, net	4,592,398	798,983	3,793,415	474.8
Earnings on bank-owned life insurance	1,771,396	1,762,107	9,289	0.5
Debit card fees	1,814,488	1,244,912	569,576	45.8
Correspondent banking fees	1,050,142	1,190,411	(140,269)	(11.8)
Other	2,913,458	3,133,801	(220,343)	(7.0)
Total noninterest income	$31,036,875	$24,363,321	$6,673,554	27.4 %

In recent years, the Company has been successful in expanding its wealth management customer base. Trust department fees continue to be a significant contributor to noninterest income and, due to favorable market conditions, coupled with strong growth in assets under management, trust department fees increased 17% in the current year. Comparatively, trust fee income increased 1% when comparing 2016 to 2015. 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. Additionally, the Company recently started offering trust operations services to correspondent banks.

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). Similar to trust department fees, fees from these services 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. Due to this growth and favorable market conditions in 2017, investment advisory and management fees increased 29% in 2017. Comparatively, investment advisory and management fees increased 1% in 2016. The acquisition of CSB also contributed to this increase, as it had an established investment advisory and management services department at acquisition.

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Deposit service fees expanded 33% in 2017 and 17% in 2016. The increases in both years were the result of the addition of CSB. Additionally, the Company continues its emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits across all its markets. With this shift in mix, the Company has increased the number of demand deposit accounts, which tend to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to further focus on growing deposit service fees.

Gains on sales of residential real estate loans decreased 5% in 2017, while increasing 34% in 2016. Overall, with the continued low interest rate environment, refinancing activity has slowed, as many of the Company's existing and prospective customers have already executed a refinancing. Therefore, this area has become a much smaller contributor to overall noninterest income.

The Company's gains on the sale of government-guaranteed portions of loans for 2017 decreased 63%, while increasing 142% in the prior year. Given the nature of these gains, large fluctuations can happen from quarter-to-quarter and year-to-year. As one of its core strategies, the Company continues to leverage its 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 loans that fit the criteria for the government guarantee. Further, the size of the transactions can vary and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can vary. 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.

As a result of the continued low interest rate environment, the Company was able to execute numerous interest rate swaps on select commercial loans over the past two years. The interest rate swaps allow the commercial borrowers to pay a fixed interest rate while the Company receives a variable interest rate as well as an upfront fee dependent upon the pricing. Management believes that these swaps help position the Company more favorably for rising rate environments. Management will continue to review opportunities to execute these swaps at all of its subsidiary banks, as the circumstances are appropriate for the borrower and the Company. Swap fee income totaled $3.1 million in 2017, compared to $1.7 million in 2016 and $1.7 million in 2015. Future levels of swap fee income are dependent upon prevailing interest rates.

Securities losses (net) were $88 thousand for the current year, compared to securities gains (net) of $4.6 million for the prior year and $799 thousand in 2015. In 2016, the Company took advantage of market opportunities by selling approximately $130.2 million of investments that were low-yielding. Proceeds were then used to purchase higher-yielding tax-exempt municipal bonds and to fund loan and lease growth. Additionally, in the third quarter of 2016, the Company sold an equity investment and recognized a gain of $4.0 million, which was then used to reduce wholesale borrowings and further de-lever the balance sheet.

Earnings on BOLI increased 2% in 2017 and 1% in 2016. There were no purchases of BOLI in 2016 or 2017. Yields on BOLI (based on a simple average and excluding the impact of the federal income tax exemption) were 3.05% for 2017, 3.09% for 2016, and 3.23% for 2015. 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 are the interchange fees paid on certain debit card customer transactions. Debit card fees increased 62% in 2017, compared to 46% in the prior year. The primary reason for the increase in both years was the addition of CSB, which has a large retail customer base and therefore generates significant interchange revenue. These fees can vary based on customer debit card usage, so fluctuations from period to period may occur. As an opportunity to maximize fees, the Company offers a deposit product with a modestly higher interest rate that incentivizes debit card activity.

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Correspondent banking fees decreased 13% in 2017 and decreased 12% in the prior year. As interest rates rise, the correspondent bank deposit accounts receive a higher earnings credit, which then reduces the direct fees that the Company receives. Management will continue to evaluate earnings credit rates and the resulting impact on deposit balances and fees while balancing the ability to grow market share. 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 loan growth as well as a steady source of fee income. The Company now serves approximately 187 banks in Iowa, Illinois and Wisconsin.

Other noninterest income increased 12% in 2017, while decreasing 7% in 2016. The primary reason for the increase was rental income due to the acquisition of Guaranty Bank. Rental income totaled $176 thousand in 2017 as compared to no rental income in 2016.

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NONINTEREST EXPENSES. The following tables set forth the various categories of noninterest expenses for the years ended December 31, 2017, 2016, and 2015.

	Years Ended December 31, 2017	December 31, 2016	$ Change	% Change
Salaries and employee benefits	$55,722,288	$46,317,060	$9,405,228	20.3 %
Occupancy and equipment expense	10,938,037	8,404,605	2,533,432	30.1
Professional and data processing fees	10,757,057	7,113,443	3,643,614	51.2
Acquisition costs	1,068,918	1,400,004	(331,086)	(23.6)
Post-acquisition compensation, transition and integration costs	4,309,565	1,041,169	3,268,396	313.9
FDIC insurance, other insurance and regulatory fees	2,752,270	2,549,314	202,956	8.0
Loan/lease expense	1,163,708	662,299	501,409	75.7
Net cost of operations of other real estate	1,599	591,303	(589,704)	(99.7)
Advertising and marketing	2,624,951	2,127,566	497,385	23.4
Bank service charges	1,770,942	1,692,957	77,985	4.6
Losses on debt extinguishment, net	-	4,577,668	(4,577,668)	(100.0)
Correspondent banking expense	807,077	750,646	56,431	7.5
CDI amortization	1,000,561	442,850	557,711	125.9
Other	4,507,724	3,815,028	692,696	18.2
Total noninterest expense	$97,424,697	$81,485,912	$15,938,785	19.6 %

	Years Ended December 31, 2016	December 31, 2015	$ Change	% Change
Salaries and employee benefits	$46,317,060	$42,967,915	$3,349,145	7.8 %
Occupancy and equipment expense	8,404,605	7,042,706	1,361,899	19.3
Professional and data processing fees	7,113,443	5,523,447	1,589,996	28.8
Acquisition costs	1,400,004	-	1,400,004	100.0
Post-acquisition compensation, transition and integration costs	1,041,169	-	1,041,169	100.0
FDIC insurance, other insurance and regulatory fees	2,549,314	2,724,968	(175,654)	(6.4)
Loan/lease expense	662,299	882,591	(220,292)	(25.0)
Net cost of (income from) operations of other real estate	591,303	(1,092,401)	1,683,704	(154.1)
Advertising and marketing	2,127,566	1,900,539	227,027	11.9
Bank service charges	1,692,957	1,486,265	206,692	13.9
Losses on debt extinguishment	4,577,668	7,185,601	(2,607,933)	(36.3)
Correspondent banking expense	750,646	703,495	47,151	6.7
CDI amortization	442,850	199,512	243,338	122.0
Other	3,815,028	3,667,384	147,644	4.0

Total noninterest expense	$81,485,912	$73,192,022	$8,293,890	11.3 %

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 20% and 8% in 2017 and 2016, respectively. This increase was primarily related to the acquisition of CSB late in the third quarter of 2016 and the acquisition of Guaranty Bank in the fourth quarter of 2017.

Occupancy and equipment expense increased 30% in 2017 and increased 19% in 2016. These increases were largely due to the addition of CSB late in 2016 and the acquisition of Guaranty Bank in the fourth quarter of 2017.

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Professional and data processing fees increased 51% in 2017 and increased 29% in 2016. This increased expense was mostly due to the additions of Guaranty Bank and CSB. Legal expense was elevated due to a legal matter at RBT where two employees have been charged with wrongdoing in connection with an SBA loan application. The Company anticipates these legal expenses will continue until the court proceedings are completed, which the Company expects to be sometime in late 2018. Neither RB&T, nor the Company, have been charged in the case. Generally, professional and data processing fees can fluctuate depending on certain one-time project costs. Management will continue to focus on minimizing such one-time costs and driving recurring costs down through contract negotiation or managed reduction in activity where costs are determined on a usage basis.

Acquisition costs totaled $1.1 million and $1.4 million for 2017 and 2016, respectively. These costs were comprised primarily of legal, accounting and investment banking costs related to the acquisitions described in Note 2 to the Consolidated Financial Statements.

Post-acquisition compensation, transition and integration costs totaled $4.3 million and $1.0 million for 2017 and 2016, respectively. These costs were comprised primarily of personnel costs, IT integration, and conversion costs related to the acquisitions described in Note 2 to the Consolidated Financial Statements.

FDIC and other insurance expense increased 8% in 2017 and decreased 6% in 2016. The increase in expense was due to the acquisition of CSB, partially offset by a decrease in the assessment rate designated by the FDIC.

Loan/lease expense increased 76% in 2017 and decreased 25% in 2016. The Company incurred elevated levels of expense during 2017 for certain existing NPLs in connection with the work-out of these loans. Generally, loan/lease expense has a direct relationship with the level of NPLs; however, it may deviate depending upon the individual NPLs.

Net cost of operations of other real estate includes gains/losses on the sale of OREO, write-downs of OREO and all income/expenses associated with OREO. Net costs of operations totaled $2 thousand for 2017 and $591 thousand for 2016. Occupancy rates for one of the OREO properties managed by the Company have improved over the past year, increasing cash flow from the property and reducing net operating costs.

Advertising and marketing expense increased 23% in 2017 and increased 12% in 2016. The increase in expense was due to the additions of CSB and Guaranty Bank.

Bank service charges, a large portion of which include indirect costs incurred to provide services to QCBT’s correspondent banking customer portfolio, increased over the past two years (5% in 2017 and 14% in 2016). The increases were due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio. As transaction volumes continue to increase and the number of correspondent banking clients increases, the associated expenses will also increase.

In 2016, the Company incurred $4.6 million in losses on debt extinguishment (net), while in 2015, the Company incurred $7.2 million of losses on debt extinguishment (net). These losses relate to the prepayment of certain FHLB advances and wholesale structured repurchase agreements. Additionally, the Company recognized gains on extinguishment related to the repurchase of junior subordinated debentures that were acquired at a discount through auction.

Correspondent banking expense increased 8% in 2017 and 7% in 2016. These are direct costs incurred to provide services to QCBT’s correspondent banking customer portfolio, including safekeeping and cash management services. The increases in both years were due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio.

Core deposit intangible amortization expense increased 126% in 2017 and 122% in 2016. Increases were due to the acquisition of Guaranty Bank and CSB.

Other noninterest expense increased 18% in 2017 and 4% in 2016. Included in other noninterest expense are items such as subscriptions, sales and use tax and expenses related to wealth management. A portion of this increase is also related to the additions of CSB and Guaranty Bank.

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INCOME TAX EXPENSE

The provision for income taxes was $4.9 million for 2017, or an effective tax rate of 12.2%, compared to $8.9 million for 2016, or an effective tax rate of 24.3%, and compared to $3.7 million for 2015, or an effective tax rate of 17.8%. The effective tax rate for 2017 was significantly impacted by a $2.9 million income tax benefit for the re-valuation of deferred taxes at the lower federal income tax rate as a result of the Tax Act. See Note 13 to the Consolidated Financial Statements for additional information regarding the impact of Tax Act on deferred tax assets and income tax.

Refer to the reconciliation of the expected income tax rate to the effective tax rate that is included in Note 13 to the Consolidated Financial Statements for additional details.

FINANCIAL CONDITION, AS OF THE YEARS ENDED DECEMBER 31, 2017 AND 2016

OVERVIEW

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

	As of December 31,			
	2017		2016	
	(dollars in thousands)			
	Amount	%	Amount	%
Cash, federal funds sold, and interest-bearing deposits	$161,684	4 %	$156,776	5 %
Securities	652,382	16 %	574,022	17 %
Net loans/leases	2,930,130	74 %	2,374,730	72 %
Other assets	238,469	6 %	196,416	6 %
Total assets	$3,982,665	100%	$3,301,944	100%
Total deposits	$3,266,655	82 %	$2,669,261	81 %
Total borrowings	309,480	8 %	290,952	9 %
Other liabilities	53,243	1 %	55,690	2 %
Total stockholders' equity	353,287	9 %	286,041	8 %
Total liabilities and stockholders' equity	$3,982,665	100%	$3,301,944	100%

In 2017, total assets grew $680.7 million, or 21%. This included $259.6 million in assets acquired and new goodwill of $15.2 million as part of the Guaranty Bank acquisition (further described in Note 2 to the Consolidated Financial Statements). The Company organically grew its net loan/lease portfolio $362.9 million, which was primarily funded by deposit growth. Deposits grew $384.9 million, or 14% during 2017, excluding the $212.5 million of deposits acquired. Borrowings decreased $2.5 million, or 1% during 2017, excluding the $21.1 million of borrowings acquired.

In 2016, total assets grew $708.7 million, or 27%. This included $581.7 million in assets acquired and new goodwill of $9.9 million as part of the CSB acquisition (further described in Note 2 to the Consolidated Financial Statements). The Company organically grew its net loan/lease portfolio $183.8 million, which was partly funded by cash from the securities portfolio, as it decreased $105.7 million, or 18%, excluding the $102.6 million of securities acquired in 2016. Deposits grew $302.3 million, or 16% during 2016, excluding the $486.3 million of deposits acquired. Borrowings decreased $153.2 million, or 34% during 2016, mostly due the balance sheet restructuring activities that took place throughout 2016, the details of which are in Notes 10 and 11 to the Consolidated Financial Statements.

INVESTMENT SECURITIES

The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on interest rate risk and maximizing return, while minimizing credit risk. The Company has further diversified the portfolio by decreasing U.S government sponsored agency securities, while increasing residential mortgage-backed and related securities and tax-exempt municipal securities. Of the latter, the large majority are privately placed tax-exempt 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.

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Following is a breakdown of the Company's securities portfolio by type as of December 31, 2017, 2016, and 2015.

	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
U.S. govt. sponsored agency securities	$38,097	6 %	$46,084	8 %	$213,537	37 %
Municipal securities	445,049	68 %	374,463	65 %	280,203	49 %
Residential mortgage-backed and related securities	163,301	25 %	147,702	26 %	80,670	14 %
Other securities	5,935	1 %	5,773	1 %	2,699	0 %
	$652,382	100%	$574,022	100%	$577,109	100%
As a % of total assets	16.38 %		17.38 %		22.25 %	
Net unrealized losses as a % of amortized cost	(0.18)%		(0.87)%		(0.03)%	
Duration (in years)	7.0		6.0		6.2	
Yield on investment securities (tax equivalent)	3.80 %		3.56 %		3.07 %	

Management monitors the level of unrealized gains/losses including performing quarterly reviews of individual securities for evidence of OTTI. Management identified no OTTI in 2017, 2016 or 2015.

In 2017, the duration of the securities portfolio increased due, in large part, to the continued shift in mix. Duration was extended from the strong growth in longer term fixed rate municipal securities.

In 2016, the duration of the securities portfolio stayed relatively flat. Duration was extended from the strong growth in longer term fixed rate municipal securities, but was partially offset by the duration shortening of agency and mortgage-backed securities portfolios resulting from targeted sales of longer duration investments and as the remaining agency portfolio rolled closer to maturities or call dates.

The Company has not invested in non-agency commercial or residential mortgage-backed securities or pooled trust preferred securities. Additionally, the Company has not invested in the types of securities subject to the Volcker Rule (a provision of the Dodd-Frank Act).

See Note 3 to the Consolidated Financial Statements for additional information regarding the Company's investment securities.

LOANS/LEASES

The Company's organic loan/lease portfolio grew $366.5 million, or 15%, during 2017. The remaining growth in the loan/lease portfolio was related to the acquisition of Guaranty Bank (further described in Note 2 to the Consolidated Financial Statements). Notably, C&I loans increased $306.9 million, or 37% and CRE loans grew $210.0 million, or 19%.

The Company's organic loan/lease portfolio grew $188.4 million, or 11%, during 2016. The remaining growth in the loan/lease portfolio was related to the acquisition of CSB (further described in Note 2 to the Consolidated Financial Statements). Notably, C&I loans increased $179.5 million, or 28% and CRE loans grew $369.1 million, or 51%. CSB's loan portfolio was heavily reliant on high-quality CRE, with that category representing 63% of their total loan portfolio as of December 31, 2016. This reliance increased the Company's overall reliance on CRE.

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

	As of December 31,									
	2017		2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
C&I loans	$1,134,516	38 %	$827,637	34 %	$648,160	36 %	$523,927	32 %	$431,688	30 %
CRE loans	1,303,492	44 %	1,093,459	46 %	724,369	41 %	702,140	43 %	671,753	46 %
Direct financing leases	141,448	5 %	165,419	7 %	173,656	10 %	166,032	10 %	128,902	9 %
Residential real estate loans	258,646	9 %	229,233	10 %	170,433	9 %	158,633	10 %	147,356	10 %
Installment and other consumer loans	118,611	4 %	81,666	3 %	73,669	4 %	72,607	5 %	76,034	5 %
Total loans/leases	$2,956,713	100%	$2,397,414	100%	$1,790,287	100%	$1,623,339	100%	$1,455,733	100%
Plus deferred loan/lease origination costs, net of fees	7,773		8,073		7,736		6,664		4,547	
Less allowance	(34,356)		(30,757)		(26,141)		(23,074)		(21,448)	
Net loans/leases	$2,930,130		$2,374,730		$1,771,882		$1,606,929		$1,438,832	

Historically, the Company structures most residential real estate loans to conform to the underwriting requirements of Freddie Mac and Fannie Mae to allow the subsidiary banks to resell the loans on the secondary market to avoid the interest rate risk associated with longer term fixed rate loans and recognizing noninterest income from the gain on sale. Loans originated for this purpose were classified as held for sale and are included in the residential real estate loans in the table above. Historically, the subsidiary banks structure most loans that will not conform to those underwriting requirements as adjustable rate mortgages that mature or adjust in one to five years, and then retain these loans in their portfolios. The Company holds a limited amount of 15-year fixed rate residential real estate loans originated in prior years that met certain credit guidelines. In addition, the Company has not originated any subprime, Alt-A, no documentation, or stated income residential real estate loans throughout its history.

The following tables set forth the remaining maturities by loan/lease type as of December 31, 2017 and 2016. Maturities are based on contractual dates.

	As of December 31, 2017				
				Maturities After One Year	
	Due in one year or less	Due after one through 5 years	Due after 5 years	Predetermined interest rates	Adjustable interest rates
	(dollars in thousands)				
C&I loans	$378,849	$427,347	$328,320	$505,345	$ 250,322
CRE loans	225,712	715,661	362,119	734,844	342,936
Direct financing leases	8,504	127,853	5,091	132,944	-
Residential real estate loans	6,793	7,546	244,307	184,284	67,569
Installment and other consumer loans	28,908	54,565	35,138	43,817	45,886
	$648,766	$1,332,972	$974,975	$1,601,234	$ 706,713
Percentage of total loans/leases	22 %	45 %	33 %	69 %	31 %

	As of December 31, 2016				
				Maturities After One Year	
	Due in one year or less	Due after one through 5 years	Due after 5 years	Predetermined interest rates	Adjustable interest rates
	(dollars in thousands)				
C&I loans	$280,778	$326,656	$220,203	$354,499	$ 192,360
CRE loans	183,027	581,650	328,782	625,806	284,626
Direct financing leases	5,999	154,002	5,418	159,420	-
Residential real estate loans	7,018	6,432	215,783	166,069	56,146
Installment and other consumer loans	17,040	44,727	19,899	28,439	36,187
	$493,862	$1,113,467	$790,085	$1,334,233	$ 569,319
Percentage of total loans/leases	21 %	46 %	33 %	70 %	30 %

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As CRE loans have historically been the Company's largest portfolio segment, management places a strong emphasis on monitoring the composition of the Company's CRE loan portfolio. For example, management tracks the level of owner-occupied CRE loans relative to non owner-occupied loans. Owner-occupied loans are generally considered to have less risk. As of December 31, 2017 and 2016, respectively, approximately 26% and 30% of the CRE loan portfolio was owner-occupied. The decrease in this percentage in 2017 was mostly due to the addition of Guaranty Bank, which had a slightly lower owner-occupied percentage as compared to the legacy charters. Guaranty Bank's percentage of owner-occupied loans was 18% of their CRE portfolio.

Over the past several years, the Company has been successful in shifting the mix of its commercial loan portfolio by adding more C&I loans. C&I loans grew $306.9 million, or 37% over the past twelve months. A portion of this growth was attributable to the acquisition of Guaranty Bank, which had $44.7 million of C&I loans at acquisition.

A syndicated loan is a commercial loan provided by a group of lenders and is structured, arranged and administered by one or several commercial or investment banks known as arrangers. The nationally syndicated loans invested in by the Company consist of fully funded, highly liquid term loans for which there is a liquid secondary market. The amount of nationally syndicated loans totaled $51.2 million and $46.5 million as of December 31, 2017 and 2016, respectively.

The Company also has several loans that are syndicated to borrowers in our existing markets or purchased from peer banks that we have a relationship with. These loans were immaterial as of December 31, 2017 and 2016.

See Note 4 to the Consolidated Financial Statements for additional information on the Company's loan/lease portfolio.

ALLOWANCE FOR ESTIMATED LOSSES ON LOANS/LEASES

The allowance totaled $34.4 million at December 31, 2017, which was an increase of $3.6 million, or 12%, from $30.8 million at December 31, 2016. Provision totaled $8.5 million for 2017 and outpaced net charge-offs of $4.9 million (or 19 basis points of average loans/leases outstanding).

The allowance totaled $30.8 million at December 31, 2016, which was an increase of $4.6 million, or 18%, from $26.1 million at December 31, 2015. Provision totaled $7.5 million for 2016 and outpaced net charge-offs of $2.9 million (or 14 basis points of average loans/leases outstanding).

The increase in allowance in both 2017 and 2016 was primarily due to a combination of general allocations related to loan growth, as well as changes in qualitative and quantitative factors. Additionally, a portion of the increase in both years was due to the acquisition of CSB. Although purchase accounting eliminates the allowance at acquisition, as acquired loans refinance and new loans are originated, an allowance must be established.

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The following table summarizes the activity in the allowance.

	Years ended December 31,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Average amount of loans/leases outstanding, before allowance	$2,611,888	$2,042,555	$1,707,523	$1,540,382	$1,425,364
Allowance:					
Balance, beginning of fiscal year	$30,757	$26,141	$23,074	$21,448	$19,925
Charge-offs:					
C&I	(1,150)	(527)	(454)	(1,476)	(963)
CRE	(1,795)	(24)	(2,560)	(2,756)	(3,573)
Direct financing leases	(2,285)	(2,503)	(1,789)	(1,504)	(917)
Residential real estate	(102)	(77)	(170)	(131)	(162)
Installment and other consumer	(41)	(113)	(252)	(269)	(229)
Subtotal charge-offs	(5,373)	(3,244)	(5,225)	(6,136)	(5,844)
Recoveries:					
C&I	191	109	634	363	626
CRE	43	33	502	418	574
Direct financing leases	186	93	136	68	12
Residential real estate	29	1	4	10	17
Installment and other consumer	53	146	145	96	208
Subtotal recoveries	502	382	1,421	955	1,437
Net charge-offs	(4,871)	(2,862)	(3,804)	(5,181)	(4,407)
Provision charged to expense	8,470	7,478	6,871	6,807	5,930
Balance, end of fiscal year	$34,356	$30,757	$26,141	$23,074	$21,448
Net charge-offs to average loans/leases outstanding	0.19%	0.14%	0.22%	0.34%	0.31%

The adequacy of the allowance was determined by management based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, historical loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, government guarantees and other factors that, in management's judgment, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on the increase/decrease in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed quarterly with specific detailed reviews completed on all credits risk-rated less than “fair quality” and carrying aggregate exposure in excess of $250 thousand. The adequacy of the allowance was monitored by the credit administration staff and reported to management and the board of directors.

The following is a table that reports the historical trends of criticized and classified loan totals as of December 31, 2017, 2016 and 2015.

	As of December 31,		
Internally Assigned Risk Rating *	2017	2016	2015
	(dollars in thousands)		
Special Mention (Rating 6)	$31,024	$20,082	$37,289
Substandard (Rating 7)	43,435	49,035	27,962
Doubtful (Rating 8)	271	-	-
	$74,730	$69,117	$65,251
Criticized Loans **	$74,730	$69,117	$65,251
Classified Loans ***	$43,706	$49,035	$27,962

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

** Criticized loans are defined as C&I and CRE loans with internally assigned risk ratings of 6, 7, or 8, regardless of performance.

*** Classified loans are defined as C&I and CRE loans with internally assigned risk ratings of 7 or 8, regardless of performance.

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Criticized loans increased 8% in 2017 and 6% in 2016. Classified loans decreased 11% in 2017 after increasing 75% in 2016.

NPLs (consisting of nonaccrual loans/leases, accruing loans/leases past due 90 days or more, and accruing TDRs) decreased $2.6 million, or 12%, during 2017. NPLs increased $9.5 million, or 81%, during 2016. See the table in the following section for further detail on NPLs and NPAs.

In 2017 and 2016, allowance as a percentage of gross loans/leases decreased due to the acquisitions of CSB and Guaranty Bank. In accordance with GAAP for acquisition accounting, acquired loans were recorded at fair value; therefore, there was no allowance associated with these loans at acquisition. Management continues to evaluate the allowance needed on the acquired loans factoring in the net remaining discount ($8.1 million at December 31, 2017). When factoring this remaining discount into the Company's allowance to total loans and leases calculation, the Company's allowance as a percentage of total loans and leases increases from 1.16% to 1.43%.

The following table summarizes the trend in allowance as a percentage of gross loans/leases and as a percentage of NPLs as of December 31, 2017, 2016, and 2015.

	As of December 31,		
	2017	2016	2015
Allowance / Gross Loans/Leases	1.16 %	1.28 %	1.45 %
Allowance / NPLs	184.28 %	144.85 %	223.33 %

The following table presents the allowance by type and the percentage of loan/lease type to total loans/leases.

	As of December 31,									
	2017		2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
C&I loans	14,323	38 %	12,545	34 %	10,484	36 %	8,834	32 %	5,649	30 %
CRE loans	13,963	44 %	11,671	46 %	9,375	41 %	8,353	43 %	10,705	46 %
Direct financing leases	2,382	5 %	3,112	7 %	3,395	10 %	3,359	10 %	2,517	9 %
Residential real estate loans	2,466	9 %	2,342	10 %	1,790	9 %	1,526	10 %	1,396	10 %
Installment and other consumer loans	1,222	4 %	1,087	3 %	1,097	4 %	1,002	5 %	1,181	5 %
	$34,356	100 %	$30,757	100 %	$26,141	100 %	$23,074	100 %	$21,448	100 %

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

Although management believes that the allowance at December 31, 2017 is at a level adequate to absorb probable losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require additional increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks and its leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

See Note 4 to the Consolidated Financial Statements for additional information on the Company's allowance.

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NONPERFORMING ASSETS

The table below presents the amounts of NPAs.

	As of December 31,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Nonaccrual loans/leases (1) (2)	$11,441	$13,919	$10,648	$18,588	$17,878
Accruing loans/leases past due 90 days or more	89	967	3	93	84
TDRs - accruing	7,113	6,347	1,054	1,421	2,523
NPLs	18,643	21,233	11,705	20,102	20,485
OREO	13,558	5,523	7,151	12,768	9,729
Other repossessed assets	80	202	246	155	346
NPAs	$32,281	$26,958	$19,102	$33,025	$30,560
NPLs to total loans/leases	0.63 %	0.88 %	0.65 %	1.23 %	1.40 %
NPAs to total loans/leases plus repossessed property	1.08 %	1.12 %	1.06 %	2.01 %	2.08 %
NPAs to total assets	0.81 %	0.82 %	0.74 %	1.31 %	1.28 %

(1) Includes government guaranteed portions of loans, if applicable.

(2) Includes TDRs of $2.3 million at December 31, 2017, $2.3 million at December 31, 2016, $1.5 million at December 31, 2015, $5.0 million at December 31, 2014, and $10.9 million at December 31, 2013.

The large majority of the Company's NPAs consists of nonaccrual loans/leases, accruing TDRs and OREO. For nonaccrual loans/leases, management thoroughly reviewed these loans/leases and provided specific allowances as appropriate. OREO is carried at the lower of carrying amount or fair value less costs to sell.

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

In 2017, the Company's NPAs increased $5.3 million, or 20%. OREO increased $8.0 million primarily due to the addition of one large non owner-occupied CRE relationship.

In 2016, the Company's NPAs increased $7.9 million, or 41%. Nonaccrual loans increased $3.3 million as a result of one large credit that was added in the fourth quarter, partially offset by paydowns of nonaccrual loans. Accruing loans/leases past due 90 days or more increased $964 thousand, mostly due to loans acquired through the purchase of CSB. TDRs increased $5.3 million due to one large credit that was restructured in the fourth quarter of 2016. OREO decreased $1.6 million during the year.

The Company's lending/leasing practices remain unchanged and asset quality remains a top priority for management.

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DEPOSITS

Deposits grew $597.3 million during 2017 ($384.8 million of organic growth, excluding the $212.5 million of deposits acquired through the purchase of Guaranty Bank). For 2016, deposits grew $788.6 million ($302.3 million of organic growth, excluding the $486.3 million of deposits acquired through the purchase of CSB). The table below presents the composition of the Company's deposit portfolio.

	As of December 31,					
	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
Noninterest-bearing demand deposits	$789,548	24 %	$797,415	30 %	$615,292	33 %
Interest-bearing demand deposits	1,855,893	57 %	1,369,226	51 %	886,294	47 %
Time deposits	516,058	16 %	439,169	17 %	309,974	16 %
Brokered deposits*	105,156	3 %	63,451	2 %	69,106	4 %
	$3,266,655	100%	$2,669,261	100%	$1,880,666	100%

*Includes brokered money market balances of $25.1 million, $22.0 million and $16.0 million as of December 31, 2017, 2016 and 2015, respectively.

The Company has been successful in growing its noninterest-bearing deposit portfolio over the past several years, growing average balances 7% in 2017 and 11% in 2016. Year-end balances can fluctuate a great deal due to large customer and correspondent bank activity. Trends have shown that this fluctuation is generally temporary.

Management will continue to focus on growing its noninterest bearing deposit portfolio, including its correspondent banking business at QCBT, as well as shifting the mix from brokered and other higher cost deposits to lower cost core deposits. With the significant success achieved by QCBT in growing its correspondent banking business, QCBT has

developed procedures to proactively monitor this industry concentration of deposits and loans. Other deposit-related industry concentrations and large accounts are monitored by the internal asset liability management committee. See discussion regarding policy limits on bank stock loans in the Lending/Leasing section under Item 1 – Business in Part I of this Form 10-K.

SHORT-TERM BORROWINGS

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

	As of December 31,		
	2017	2016	2015
	(dollars in thousands)		
Overnight repurchase agreements with customers	$7,003	$8,131	$73,873
Federal funds purchased	6,990	31,840	70,790
	$13,993	$39,971	$144,663

In 2016, the Company shifted overnight customer repurchase agreement funds to insured deposit products which do not require collateral, helping to free up additional liquidity for the Company. This also allowed the Company to further execute on the strategy of rotating out of investment securities into loans and leases.

Regarding the Company's federal funds purchased, this fluctuates based on the short-term funding needs of the Company's subsidiary banks. See Note 9 to the Consolidated Financial Statements for additional information on the Company's short-term borrowings.

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FHLB ADVANCES AND OTHER BORROWINGS

As a result of their memberships in the FHLB of Des Moines and Chicago, the subsidiary banks have the ability to borrow funds for short-term or long-term purposes under a variety of programs. The subsidiary banks utilize FHLB advances for loan matching as a hedge against the possibility of rising interest rates or when these advances provide a less costly source of funds than customer deposits. For 2017, FHLB advances increased $54.5 million, or 40%, due to the timing of strong loan and lease growth which temporarily outpaced the Company's deposit growth. The FHLB advance increases were overnight advances. There were no increases in term advances. See Note 10 of the Consolidated Financial Statements for additional details. For 2016, FHLB advances decreased $13.5 million, or 9%, as several prepayments of advances were included in balance sheet restructurings throughout the year. See Note 10 of the Consolidated Financial Statements for additional details.

	As of December 31,		
	2017	2016	2015
	(dollars in thousands)		
Amount Due	$192,000	$137,500	$151,000
Weighted Average Interest Rate at Year-End	1.82 %	1.25 %	1.37 %

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

	As of December 31,		
	2017	2016	2015
	(dollars in thousands)		
Wholesale structured repurchase agreements	$35,000	$45,000	$110,000
Term notes	31,000	30,000	-
Revolving line of credit	-	5,000	-
	$66,000	$80,000	$110,000

In 2017, other borrowings decreased $14 million with the paydown of $5.0 million revolving line of credit and the maturity of $10.0 million wholesale structured repurchase agreement. In 2016, other borrowings decreased $30 million.

See Notes 10 and 11 to the Consolidated Financial Statements for additional information regarding FHLB advances, other borrowings and the balance sheet restructurings that occurred in 2015 and 2016.

It is management's intention to continue to reduce its reliance on wholesale funding, including FHLB advances, wholesale structured repurchase agreements, and brokered deposits. Replacement of this funding with core deposits helps to reduce interest expense as the wholesale funding tends to be higher cost. However, the Company may choose to utilize wholesale funding sources to supplement funding needs, as this is a way for the Company to effectively and efficiently manage interest rate risk.

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STOCKHOLDERS’ EQUITY

The table below presents the composition of the Company’s stockholders’ equity.

	As of December 31,		
	2017	2016	2015
	Amount	Amount	Amount
	(dollars in thousands)		
Common stock	$13,918	$13,107	$11,761
Additional paid in capital	189,078	156,777	123,283
Retained earnings	151,962	118,617	92,966
AOCI	(1,671)	(2,460)	(2,124)
Total stockholders' equity	$353,287	$286,041	$225,886
TCE/TA ratio (non-GAAP)	8.01 %	8.04 %	8.55 %

*TCE/TA ratio is a non-GAAP measure. Refer to the GAAP to Non-GAAP Reconciliations section of this report for more information.

As of December 31, 2017, 2016 and 2015, no preferred stock was outstanding.

In connection with the acquisition of Guaranty Bank in the fourth quarter of 2017, the Company issued 678,670 shares of its common stock at a price of $45.50 per share. This issuance significantly increased common stock and additional paid in capital in comparison to the prior year. Refer to Note 2 of the Consolidated Financial Statements for additional information.

In connection with the acquisition of CSB in the third quarter of 2016, the Company sold 1,215,000 shares of its common stock at a price of $24.75 per share, for net proceeds of $29.8 million, after deducting expenses. This offering significantly increased common stock and additional paid in capital in comparison to the prior year. Refer to Note 2 of the Consolidated Financial Statements for additional information.

The following table presents the rollforward of stockholders’ equity for the years ended December 31, 2017 and 2016, respectively.

	For the Years Ended December 31,	
	2017	2016
	(dollars in thousands)	
Beginning balance	$286,041	$225,886
Net income	35,707	27,686
Other comprehensive income (loss), net of tax	1,093	(336)
Common cash dividends declared	(2,665)	(2,036)
Proceeds from issuance of 678,670 shares of common stock, net of costs	30,741	-
Proceeds from issuance of 1,215,000 shares of common stock, net of costs	-	29,829
Other *	2,370	5,012
Ending balance	$353,287	$286,041

*Includes mostly common stock issued for options exercised and the employee stock purchase plans, as well as stock-based compensation.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers' credit needs. The Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which averaged $164.0 million during 2017, $139.5 million during 2016 and $129.5 million during 2015. The Company's on balance sheet liquidity position can fluctuate based on short-term activity in deposits and loans.

The subsidiary banks have a variety of sources of short-term liquidity available to them, including federal funds purchased from correspondent banks, FHLB advances, structured repos, brokered deposits, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities available for sale, and loan/lease participations or sales. The Company also generates liquidity from the regular principal payments and prepayments made on its loan/lease portfolio, and on the regular principal payments on its securities portfolio.

At December 31, 2017, the subsidiary banks had 34 lines of credit totaling $375.0 million, of which $3.0 million was secured and $372.0 million was unsecured. At December 31, 2017, the full $375.0 million was available.

At December 31, 2016, the subsidiary banks had 33 lines of credit totaling $381.4 million, of which $34.4 million was secured and $347.0 million was unsecured. At December 31, 2016, $361.4 million was available as $20.0 million was utilized for short-term borrowing needs at QCBT.

The Company has emphasized growing the number and amount of lines of credit in an effort to strengthen this contingent source of liquidity. Additionally, the Company maintains a $10.0 million secured revolving credit note with a variable interest rate and a maturity of June 30, 2018. At December 31, 2017, the full $10.0 million was available. See Note 11 to the Consolidated Financial Statements for additional information.

Investing activities used cash of $410.5 million during 2017 compared to $169.0 million during 2016, and $66.1 million during 2015. Proceeds from calls, maturities, pay downs, and sales of securities were $152.6 million for 2017 compared to $285.2 million for 2016, and $308.8 million for 2015. Purchases of securities used cash of $179.8 million for 2017 compared to $179.6 million for 2016, and $232.1 million for 2015. The net increase in loans/leases used cash of $375.2 million for 2017 compared to $187.5 million for 2016, and $172.8 million for 2015. The Company paid net cash of $3.4 million and $69.9 million related to the acquisition of Guaranty Bank and CSB, respectively.

Financing activities provided cash of $382.0 million for 2017 compared to $154.4 million for 2016, and $39.5 million for 2015. Net increases in deposits totaled $385.1 million, $302.4 million, and $201.0 million for 2017, 2016, and 2015, respectively. Net short-term borrowings decreased $39.1 million, $104.7 million and $123.7 million in 2017 and 2016 and 2015, respectively. In 2017, 2016, and 2015, respectively, the Company used $4.1 million, $104.7 million, and $120.7 million to prepay select FHLB advances and other borrowings. In 2016, the Company received $29.8 million of proceeds from the common stock offering of 1.2 million shares of common stock. Short-term FHLB advances increased $60.9 million, $20.5 million. and $47.0 million in 2017, 2016, and 2015, respectively.

Total cash provided by operating activities was $33.7 million for 2017, compared to $43.4 million for 2016, and $30.1 million for 2015.

Throughout its history, the Company has secured additional capital through various resources, including common and preferred stock and the issuance of trust preferred securities.

The Company filed a universal shelf registration statement on Form S-3 with the SEC on October 27, 2016, as amended on January 11, 2017. Declared effective by the SEC on January 31, 2017, the registration statement allows the Company to offer and sell various types of securities, including common stock, preferred stock, debt securities and/or warrants, from time to time up to an aggregate amount of $100 million. The Company utilized $30.1 million of its previous $100 million shelf registration filing through the offer and sale of its common stock in the second quarter of 2016 to help fund the acquisition of CSB (see Note 2 to the Consolidated Financial Statements). This Form S-3 filing replenished the amount available to the previous level of $100 million. The specific terms and prices of any securities offered pursuant to the registration statement will be determined at the time of any future offering and described in a separate prospectus supplement, which would be filed with the SEC at the time of the particular offering, if any. There were no securities issued under this shelf registration statement during 2017.

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As of December 31, 2017 and 2016, the subsidiary banks remained "well-capitalized" in accordance with regulatory capital requirements administered by the federal banking authorities. See Note 16 to the Consolidated Financial Statements for detail of the capital amounts and ratios for the Company and subsidiary banks.

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

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

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

Standby letters of credit are conditional commitments issued by the subsidiary banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The banks hold collateral, as described above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the banks would be required to fund the commitments. The maximum potential amount of future payments the banks could be required to make is represented by the contractual amount. If the commitment is funded, the banks would be entitled to seek recovery from the customer. At December 31, 2017 and 2016, no amounts had been recorded as liabilities for the banks' potential obligations under these guarantees.

As of December 31, 2017 and 2016, commitments to extend credit aggregated $791,550,060 and $666,778,085, respectively. As of December 31, 2017 and 2016, standby letters of credit aggregated $17,283,025 and $15,697,469, respectively. Management does not expect that all of these commitments will be funded.

Additional information regarding commitments, contingencies, and off-balance sheet arrangements is described in Note 18 to the Consolidated Financial Statements.

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The Company has various financial obligations, including contractual obligations and commitments, which may require future cash payments. The following table presents, as of December 31, 2017, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Description	Financial Statement Note Reference	Payments Due by Period Total	One Year or Less	2 - 3 Years	4 - 5 Years	After 5 Years
		(dollars in thousands)				
Deposits without a stated maturity	N/A	$2,670,583	$2,670,583	$-	$-	$-
Certificates of deposit	8	596,072	478,334	104,375	13,296	67
Short-term borrowings	9	13,993	13,993	-	-	-
FHLB advances	10	192,000	190,400	1,600	-	-
Other borrowings	11	66,000	7,750	50,500	7,750	-
Junior subordinated debentures	12	37,486	-	-	-	37,486
Rental commitments	5	1,294	364	615	252	63
Operating contracts	N/A	34,363	11,752	11,424	5,891	5,296
Total contractual cash obligations		$3,611,791	$3,373,176	$168,514	$27,189	$42,912

The Company's operating contract obligations represent short and long-term contractual payments for data processing equipment and services, software, and other equipment and professional services.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements of the Company and the accompanying notes have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollar amounts without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company’s operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company’s performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

FORWARD LOOKING STATEMENTS

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

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

- The strength of the local and national economy.
- Changes in the interest rate environment.
- The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.
- The impact of cybersecurity risks.
- The costs, effects and outcomes of existing or future litigation.
- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the FASB, the SEC or the PCAOB.
- Unexpected results of acquisitions (including the acquisition of Guaranty Bank and CSB), which may include failure to realize the anticipated benefits of the acquisition.
- The economic impact of exceptional weather occurrences such as tornadoes, floods and blizzards.
- The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

In an attempt to manage the Company's exposure to changes in interest rates, management monitors the Company's interest rate risk. Each subsidiary bank has an asset/liability management committee of the board of directors that meets quarterly to review the bank's interest rate risk position and profitability, and to make or recommend adjustments for consideration by the full board of each bank.

Internal asset/liability management teams consisting of members of the subsidiary banks’ management meet weekly to manage the mix of assets and liabilities to maximize earnings and liquidity and minimize interest rate and other risks. Management also reviews the subsidiary banks’ securities portfolios, formulates investment strategies, and oversees the timing and implementation of transactions to assure attainment of the board's objectives in the most effective manner. Notwithstanding the Company’s interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

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

One method used to quantify interest rate risk is a short-term earnings at risk summary, which is a detailed and dynamic simulation model used to quantify the estimated exposure of net interest income to sustained interest rate changes. This simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest sensitive assets and liabilities reflected on the Company’s consolidated balance sheet. This sensitivity analysis demonstrates net interest income exposure annually over a five-year horizon, assuming no balance sheet growth, no balance sheet mix change, and various interest rate scenarios including no change in rates; 200, 300, 400, and 500 basis point upward shifts; and a 100 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date.

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The model assumes parallel and pro rata shifts in interest rates over a twelve-month period for the 200 basis point upward shift and 100 basis point downward shift. For the 400 basis point upward shift, the model assumes a parallel and pro rata shift in interest rates over a twenty-four month period. For the 500 basis point upward shift, the model assumes a flattening and pro rata shift in interest rates over a twelve-month period where the short-end of the yield curve shifts upward greater than the long-end of the yield curve.

Further, in recent years, the Company added additional interest rate scenarios where interest rates experience a parallel and instantaneous shift ("shock") upward of 100, 200, 300, and 400 basis points and a parallel and instantaneous shock downward of 100 basis points. The Company will run additional interest rate scenarios on an as-needed basis.

The asset/liability management committees of the subsidiary bank boards of directors have established policy limits of a 10% decline in net interest income for the 200 basis point upward parallel shift and the 100 basis point downward parallel shift. For the 300 basis point upward shock, the established policy limit is a 25% decline in net interest income. The increased policy limit is appropriate as the shock scenario is extreme and unlikely and warrants a higher limit than the more realistic and traditional parallel/pro-rata shift scenarios.

Application of the simulation model analysis for select interest rate scenarios at December 31, 2017, 2016 and 2015 demonstrated the following:

		NET INTEREST INCOME EXPOSURE in YEAR 1		
INTEREST RATE SCENARIO	POLICY LIMIT	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015
100 basis point downward shift	-10.0 %	0.3 %	-1.7 %	-2.1 %
200 basis point upward shift	-10.0 %	-3.7 %	-1.2 %	-2.7 %
300 basis point upward shock	-25.0 %	-8.4 %	-1.4 %	-7.1 %

The simulation is within the board-established policy limits for all three scenarios. Additionally, for all of the various interest rate scenarios modeled and measured by management (as described above), the results at December 31, 2017 were well within established risk tolerances as established by policy or by best practice (if the interest rate scenario didn't have a specific policy limit).

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

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Item 8. Financial Statements

QCR Holdings, Inc.

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of QCR Holdings, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 9, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our

audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 1993.

Davenport, Iowa

March 9, 2018

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QCR Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2017 and 2016

Assets	**2017**	**2016**
Cash and due from banks	$75,721,663	$70,569,993
Federal funds sold	30,197,000	22,257,000
Interest-bearing deposits at financial institutions	55,765,012	63,948,925
Securities held to maturity, at amortized cost	379,474,205	322,909,056
Securities available for sale, at fair value	272,907,907	251,113,139
Total securities	652,382,112	574,022,195
Loans receivable, held for sale	645,001	1,135,500
Loans/leases receivable, held for investment	2,963,840,399	2,404,351,485
Gross loans/leases receivable	2,964,485,400	2,405,486,985
Less allowance for estimated losses on loans/leases	(34,355,728)	(30,757,448)
Net loans/leases receivable	2,930,129,672	2,374,729,537
Bank-owned life insurance	59,059,494	57,257,051
Premises and equipment, net	62,838,255	60,643,508
Restricted investment securities, at cost	19,782,525	14,997,025
Other real estate owned, net	13,558,308	5,523,104
Goodwill	28,334,092	13,110,913
Core deposit intangible	9,078,953	7,381,213
Other assets	45,817,687	37,503,284
Total assets	**$3,982,664,773**	**$3,301,943,748**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$789,547,696	$797,415,090
Interest-bearing	2,477,107,360	1,871,846,183
Total deposits	**3,266,655,056**	**2,669,261,273**
Short-term borrowings	13,993,122	39,971,387
Federal Home Loan Bank advances	192,000,000	137,500,000
Other borrowings	66,000,000	80,000,000
Junior subordinated debentures, net	37,486,487	33,480,202
Other liabilities	53,242,979	55,690,087
Total liabilities	**3,629,377,644**	**3,015,902,949**
Commitments and Contingencies		
Stockholders' Equity:		

Preferred stock, $1 par value; shares authorized 250,000		
December 2017 and 2016 - No shares issued or outstanding	-	-
Common stock, $1 par value; shares authorized 20,000,000	*13,918,168*	*13,106,845*
December 2017 - 13,918,168 shares issued and outstanding		
December 2016 - 13,106,845 shares issued and outstanding		
Additional paid-in capital	*189,077,550*	*156,776,642*
Retained earnings	*151,962,661*	*118,616,901*
Accumulated other comprehensive loss:		
Securities available for sale	*(866,223*)	*(1,527,433*)
Interest rate cap derivatives	*(805,027*)	*(932,156*)
Total stockholders' equity	***353,287,129***	***286,040,799***
Total liabilities and stockholders' equity	**$*3,982,664,773***	**$*3,301,943,748***

See Notes to Consolidated Financial Statements.

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QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Interest and dividend income:			
Loans/leases, including fees	$117,465,275	$91,235,049	$74,615,499
Securities:			
Taxable	5,144,336	4,585,300	6,772,244
Nontaxable	11,253,351	9,686,844	7,782,370
Interest-bearing deposits at financial institutions	873,988	393,048	304,602
Restricted investment securities	631,049	522,047	503,764
Federal funds sold	149,319	45,447	24,774
Total interest and dividend income	**135,517,318**	**106,467,735**	**90,003,253**
Interest expense:			
Deposits	13,011,906	6,018,366	4,495,538
Short-term borrowings	113,981	93,934	210,306
Federal Home Loan Bank advances	1,981,593	1,284,212	3,511,541
Other borrowings	2,878,879	3,317,513	4,233,193
Junior subordinated debentures	1,465,678	1,236,933	1,255,951
Total interest expense	**19,452,037**	**11,950,958**	**13,706,529**
Net interest income	**116,065,281**	**94,516,777**	**76,296,724**
Provision for loan/lease losses	8,469,919	7,478,166	6,870,900
Net interest income after provision for loan/lease losses	**107,595,362**	**87,038,611**	**69,425,824**
Noninterest income:			
Trust department fees	7,187,820	6,164,137	6,131,209
Investment advisory and management fees	3,869,699	2,992,811	2,971,964
Deposit service fees	5,919,317	4,439,455	3,784,935
Gains on sales of residential real estate loans, net	408,655	431,313	322,872
Gains on sales of government guaranteed portions of loans, net	1,163,741	3,159,073	1,304,575
Swap fee income	3,094,939	1,708,204	1,717,552
Securities gains (losses), net	(87,885)	4,592,398	798,983
Earnings on bank-owned life insurance	1,802,443	1,771,396	1,762,107
Debit card fees	2,941,703	1,814,488	1,244,912
Correspondent banking fees	915,647	1,050,142	1,190,411
Other	3,266,213	2,913,458	3,133,801
Total noninterest income	**30,482,292**	**31,036,875**	**24,363,321**
Noninterest expenses:			
Salaries and employee benefits	55,722,288	46,317,060	42,967,915
Occupancy and equipment expense	10,938,037	8,404,605	7,042,706
Professional and data processing fees	10,757,057	7,113,443	5,523,447
Acquisition costs	1,068,918	1,400,004	-

Post-acquisition compensation, transition and integration costs	*4,309,565*	*1,041,169*	-
FDIC insurance, other insurance and regulatory fees	*2,752,270*	*2,549,314*	*2,724,968*
Loan/lease expense	*1,163,708*	*662,299*	*882,591*
Net cost of (income from) operations of other real estate	*1,599*	*591,303*	*(1,092,401*)
Advertising and marketing	*2,624,951*	*2,127,566*	*1,900,539*
Bank service charges	*1,770,942*	*1,692,957*	*1,486,265*
Losses on debt extinguishment, net	-	*4,577,668*	*7,185,601*
Correspondent banking expense	*807,077*	*750,646*	*703,495*
CDI amortization	*1,000,561*	*442,850*	*199,512*
Other	*4,507,724*	*3,815,028*	*3,667,384*
Total noninterest expenses	***97,424,697***	***81,485,912***	***73,192,022***
Income before income taxes	***40,652,957***	***36,589,574***	***20,597,123***
Federal and state income tax expense	*4,946,450*	*8,902,787*	*3,669,242*
Net income	**$*35,706,507***	**$*27,686,787***	**$*16,927,881***
Basic earnings per common share	$*2.68*	$*2.20*	$*1.64*
Diluted earnings per common share	$*2.61*	$*2.17*	$*1.61*
Weighted average common shares outstanding	*13,325,128*	*12,570,767*	*10,345,286*
Weighted average common and common equivalent shares outstanding	*13,680,472*	*12,766,003*	*10,499,841*
Cash dividends declared per common share	$*0.20*	$*0.16*	$*0.08*

See Notes to Consolidated Financial Statements.

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QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Net income	$*35,706,507*	$*27,686,787*	$*16,927,881*
Other comprehensive income (loss):			
Unrealized gains on securities available for sale:			
Unrealized holding gains arising during the period before tax	*1,257,289*	*4,258,154*	*1,144,314*
Less reclassification adjustment for gains (losses) included in net income before tax	*(87,885)*	*4,592,398*	*798,983*
	1,345,174	*(334,244)*	*345,331*
Unrealized losses on interest rate cap derivatives:			
Unrealized holding losses arising during the period before tax	*(69,827)*	*(279,497)*	*(631,363)*
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	*(484,891)*	*(75,290)*	*(15,895)*
	415,064	*(204,207)*	*(615,468)*
Other comprehensive income (loss), before tax	*1,760,238*	*(538,451)*	*(270,137)*
Tax expense (benefit)	*668,085*	*(202,691)*	*(81,524)*
Other comprehensive income (loss), net of tax	*1,092,153*	*(335,760)*	*(188,613)*
Comprehensive income	$*36,798,660*	$*27,351,027*	$*16,739,268*

See Notes to Consolidated Financial Statements

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QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2017, 2016, and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2014	**$*8,074,443***	**$*61,668,968***	**$*77,876,824***	**$ *(1,935,216)***	**$*(1,606,510)***	**$*144,078,509***
Net income	-	-	*16,927,881*	-	-	*16,927,881*
Other comprehensive loss, net of tax	-	-	-	*(188,613)*	-	*(188,613)*
Common cash dividends declared, $0.08 per share	-	-	*(934,682)*	-	-	*(934,682)*
Issuance of 3,680,000 shares of common stock, net of issuance costs	*3,680,000*	*59,804,123*	-	-	-	*63,484,123*
Issuance of 24,033 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	*24,033*	*375,120*	-	-	-	*399,153*
Issuance of 79,638 shares of common stock as s result of stock options exercised	*79,638*	*1,091,402*	-	-	-	*1,171,040*
Stock-based compensation expense	-	*941,469*	-	-	-	*941,469*
Tax benefit of nonqualified stock options exercised	-	*93,096*	-	-	-	*93,096*
Retirement of treasury stock, 121,246 shares of common stock	*(121,246)*	*(580,886)*	*(904,378)*	-	*1,606,510*	-
Restricted stock awards - 28,846 shares of common stock	*28,846*	*(28,846)*	-	-	-	-
Exchange of 4,631 shares of common stock in connection	*(4,631)*	*(81,595)*	-	-	-	*(86,226)*

with stock options exercised and restricted stock vested						
Balance, December 31, 2015	**$*11,761,083***	**$*123,282,851***	**$*92,965,645***	**$ *(2,123,829)***	**$-**	**$*225,885,750***
Net income	-	-	*27,686,787*	-	-	*27,686,787*
Other comprehensive loss, net of tax	-	-	-	*(335,760)*	-	*(335,760)*
Common cash dividends declared, $0.16 per share	-	-	*(2,035,531)*	-	-	*(2,035,531)*
Issuance of 1,215,000 shares of common stock, net of issuance costs	*1,215,000*	*28,613,916*	-	-	-	*29,828,916*
Issuance of 20,192 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	*20,192*	*417,336*	-	-	-	*437,528*
Issuance of 111,423 shares of common stock as a result of stock options exercised	*111,423*	*1,556,823*	-	-	-	*1,668,246*
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	-	*2,132,415*	-	-	-	*2,132,415*
Stock-based compensation expense	-	*947,174*	-	-	-	*947,174*
Tax benefit of nonqualified stock options exercised	-	*394,149*	-	-	-	*394,149*
Restricted stock awards - 21,882 shares of common stock	*21,882*	*(21,882)*	-	-	-	-
Exchange of 22,735 shares of common stock in connection with stock options exercised and restricted stock vested	*(22,735)*	*(546,140)*	-	-	-	*(568,875)*
Balance, December 31, 2016	**$*13,106,845***	**$*156,776,642***	**$*118,616,901***	**$ *(2,459,589)***	**$-**	**$*286,040,799***
Net income	-	-	*35,706,507*	-	-	*35,706,507*
Other comprehensive loss, net of tax	-	-	-	*1,092,153*	-	*1,092,153*
Reclassification of certain tax effects from	-	-	*303,814*	*(303,814)*	-	-

accumulated other comprehensive income						
Common cash dividends declared, $0.20 per share	-	-	(2,664,561)	-	-	(2,664,561)
Issuance of 678,670 shares of common stock as a result of the acquisition of Guaranty Bank & Trust, net of issuance cost	678,670	30,062,744	-	-	-	30,741,414
Issuance of 13,318 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	13,318	454,822	-	-	-	468,140
Issuance of 114,100 shares of common stock as a stock as a result of stock options exercised	114,100	1,611,338	-	-	-	1,725,438
Stock-based compensation expense	-	1,187,036	-	-	-	1,187,036
Restricted stock awards - 28,289 shares of common stock	28,289	(28,289)	-	-	-	-
Exchange of 23,054 shares of common stock in connection with stock options exercised and restricted stock vested	(23,054)	(986,743)	-	-	-	(1,009,797)
Balance, December 31, 2017	**$13,918,168**	**$189,077,550**	**$151,962,661**	**$ (1,671,250)**	**$-**	**$353,287,129**

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QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2017, 2016, and 2015

	2017	**2016**	**2015**
Cash Flows from Operating Activities:			
Net income	$*35,706,507*	$*27,686,787*	$*16,927,881*
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	*3,948,934*	*3,424,140*	*3,065,031*
Provision for loan/lease losses	*8,469,919*	*7,478,166*	*6,870,900*
Deferred income taxes	*(6,029,555)*	*(3,066,407)*	*(2,004,532)*
Stock-based compensation expense	*1,187,036*	*947,174*	*941,469*
Deferred compensation expense accrued	*1,425,717*	*1,171,406*	*1,023,827*
Losses (gains) on sale of other real estate owned, net	*(151,211)*	*243,858*	*(1,021,242)*
Amortization of premiums on securities, net	*1,839,196*	*1,302,962*	*1,040,275*
Securities (gains) losses, net	*87,885*	*(4,592,398)*	*(798,983)*
Loans originated for sale	*(49,578,773)*	*(74,329,667)*	*(38,748,100)*
Proceeds on sales of loans	*51,641,668*	*77,850,553*	*40,362,697*
Gains on sales of residential real estate loans, net	*(408,655)*	*(431,313)*	*(322,872)*
Gains on sales of government guaranteed portions of loans, net	*(1,163,741)*	*(3,159,073)*	*(1,304,575)*
Losses on debt extinguishment, net	-	*4,577,668*	*7,185,601*
Amortization of core deposit intangible	*1,000,561*	*442,849*	*199,512*
Accretion of acquisition fair value adjustments, net	*(5,040,873)*	*(3,718,160)*	*(367,009)*
Increase in cash value of bank-owned life insurance	*(1,802,443)*	*(1,771,396)*	*(1,762,107)*
(Increase) decrease in other assets	*826,449*	*(943,891)*	*(3,910,486)*
Increase (decrease) in other liabilities	*(8,245,340)*	*10,269,563*	*2,721,335*
Net cash provided by operating activities	***33,713,281***	***43,382,821***	***30,098,622***
Cash Flows from Investing Activities:			
Net decrease (increase) in federal funds sold	*(7,940,000)*	*(1,709,000)*	*26,930,000*
Net decrease (increase) in interest-bearing deposits at financial institutions	*12,137,820*	*(12,904,803)*	*(979,283)*
Proceeds from sales of other real estate owned	*1,138,520*	*2,084,696*	*7,696,026*
Activity in securities portfolio:			
Purchases	*(179,785,944)*	*(179,598,630)*	*(232,092,732)*
Calls, maturities and redemptions	*43,010,478*	*117,876,284*	*211,942,737*
Paydowns	*38,495,801*	*33,169,638*	*15,476,369*
Sales	*71,091,580*	*134,188,737*	*81,410,368*
Activity in restricted investment securities:			
Purchases	*(4,824,000)*	*(1,098,200)*	*(3,752,450)*
Redemptions	*515,000*	*2,450,000*	*4,476,100*
Net increase in loans/leases originated and held for investment	*(375,226,301)*	*(187,496,180)*	*(172,786,032)*
Purchase of premises and equipment	*(5,760,802)*	*(6,032,416)*	*(4,394,255)*
Net cash paid for acquisitions	*(3,368,909)*	*(69,905,355)*	-

Net cash used in investing activities	***(410,516,757)***	***(168,975,229)***	***(66,073,152)***
Cash Flows from Financing Activities:			
Net increase in deposits	*385,082,234*	*302,390,928*	*200,988,645*
Net decrease in short-term borrowings	*(39,080,308)*	*(104,691,329)*	*(123,688,954)*
Activity in Federal Home Loan Bank advances:			
Term advances	*1,600,000*	-	*5,000,000*
Calls and maturities	*(8,000,000)*	*(24,000,000)*	*(26,000,000)*
Net change in short-term and overnight advances	*60,900,000*	*20,500,000*	*47,000,000*
Prepayments	*(4,108,027)*	*(31,008,668)*	*(84,401,601)*
Activity in other borrowings:			
Proceeds from other borrowings	*7,000,000*	*35,000,000*	-
Calls, maturities and scheduled principal payments	*(21,000,000)*	-	*(7,350,000)*
Prepayments	-	*(69,769,000)*	*(34,559,000)*
Retirement of junior subordinated debentures	-	*(3,955,000)*	*(1,762,000)*
Payment of cash dividends on common and preferred stock	*(2,494,260)*	*(1,981,541)*	*(782,054)*
Net proceeds from common stock offering	-	*29,828,916*	*63,484,123*
Proceeds from issuance of common stock, net	*2,055,507*	*2,105,774*	*1,552,673*
Net cash provided by financing activities	***381,955,146***	***154,420,080***	***39,481,832***
Net increase in cash and due from banks	***5,151,670***	***28,827,672***	***3,507,302***
Cash and due from banks, beginning	*70,569,993*	*41,742,321*	*38,235,019*
Cash and due from banks, ending	$*75,721,663*	$*70,569,993*	$*41,742,321*

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QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - Continued
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Supplemental Disclosures of Cash Flow Information, cash payments for:			
Interest	$19,053,645	$11,926,012	$14,027,512
Income and franchise taxes	13,039,516	10,758,611	2,619,288
Supplemental Schedule of Noncash Investing and Financing Activities:			
Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale and derivative instruments, net	1,092,153	(335,760)	(188,613)
Exchange of shares of common stock in connection with payroll taxes for restricted stock and options exercised	(1,009,797)	(568,875)	(68,706)
Tax benefit of nonqualified stock options exercised	-	394,149	93,096
Transfers of loans to other real estate owned	9,022,514	51,000	1,577,060
Due to broker for purchases of securities	-	2,655,492	-
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	-	2,132,415	-
Increase (decrease) in the fair market value of interest rate swap assets and liabilities	2,058,957	(706,244)	1,568,548
Dividends payable	692,874	522,573	468,583
Supplemental disclosure of cash flow information for acquisitions:			
Fair value of assets acquired:			
Cash and due from banks *	$4,434,511	$10,094,645	$-
Federal funds sold	-	698,000	-
Interest-bearing deposits at financial institutions	3,953,907	14,730,157	-
Securities	49,703,419	102,640,029	-
Loans receivable, net	192,517,677	419,029,277	-
Premises and equipment, net	4,808,343	20,684,880	-
Restricted investment securities	476,500	1,512,900	-
Other real estate owned	-	650,000	-
Core deposit intangible	2,698,301	6,352,653	-
Other assets	997,810	5,283,937	-
Total assets acquired	$259,590,468	$581,676,478	$-
Fair value of liabilities assumed:			
Deposits	$212,467,514	$486,298,262	$-
Short-term borrowings	13,102,043	-	-
FHLB advances	4,108,027	20,368,877	-
Junior subordinated debentures	3,857,275	-	-
Other liabilities	2,595,883	4,897,564	-
Total liabilities assumed	236,130,742	511,564,703	-

Net assets acquired	$*23,459,726*	$*70,111,775*	$-
Consideration paid:			
Cash paid *	$*7,803,420*	$*80,000,000*	$-
Common stock	*30,879,485*	-	-
Total consideration paid	*38,682,905*	*80,000,000*	-
Goodwill	$*15,223,179*	$*9,888,225*	$-

* Net cash paid at closing totaled $3,368,909 for acquisition of Guaranty Bank in 2017.
Net cash paid at closing totaled $69,905,355 for acquisition of CSB in 2016.

See Notes to Consolidated Financial Statements.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies

Basis of presentation:

The acronyms and abbreviations identified below are used in the Notes to the Consolidated Financial Statements, as well as in the other sections of this Form *10*-K (including appendices). It *may* be helpful to refer back to this page as you read this report.

Allowance: Allowance for estimated losses on loans/leases
AOCI: Accumulated other comprehensive income (loss)
AFS: Available for sale
ASC: Accounting Standards Codification
ASC *805:* Business Combination Standard
ASU: Accounting Standards Update
BHCA: Bank Holding Company Act of *1956*
BOLI: Bank-owned life insurance
Caps: Interest rate cap derivatives
CFPB: Bureau of Consumer Financial Protection
Community National: Community National Bancorporation
CNB: Community National Bank
CRA: Community Reinvestment Act
CRBT: Cedar Rapids Bank & Trust Company
CRE: Commercial real estate
CRE Guidance: Interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance
CSB: Community State Bank
C&I: Commercial and industrial
Dodd-Frank Act: Dodd-Frank Wall Street Reform and

Goldman Sachs: Goldman Sachs and Company
HTM: Held to maturity
Iowa Superintendent: Iowa Superintendent of Banking
LCR: Liquidity Coverage Ratio
m2: m2 Lease Funds, LLC
MD&A: Management's Discussion & Analysis
MSA: Metropolitan Statistical Area
NIM: Net interest margin
NPA: Nonperforming asset
NPL: Nonperforming loan
NSFR: Net Stable Funding Ratio
OREO: Other real estate owned
OTTI: Other-than-temporary impairment
PCAOB: Public Company Accounting Oversight Board
PCI: Purchased credit impaired
Provision: Provision for loan/lease losses
PUD LOC: Public Unit Deposit Letter of Credit
QCBT: Quad City Bank & Trust Company
RB&T: Rockford Bank & Trust Company
ROAA: Return on Average Assets

Consumer Protection Act
IDFPR: Illinois Department of Financial & Professional Regulation
DGCL: Delaware General Corporation Law
DIF: Deposit Insurance Fund
EPS: Earnings per share
Exchange Act: Securities Exchange Act of *1934,* as amended
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
Federal Reserve: Board of Governors of the Federal Reserve System
FHLB: Federal Home Loan Bank
FICO: Financing Corporation
FRB: Federal Reserve Bank of Chicago
FTEs: Full-time equivalents
GAAP: Generally Accepted Accounting Principles
Guaranty: Guaranty Bankshares, Ltd.
Guaranty Bank: Guaranty Bank and Trust Company
ROACE: Return on Average Common Equity
ROAE: Return on Average Equity
SBA: U.S. Small Business Administration
SBLF: Small Business Lending Fund
SEC: Securities and Exchange Commission
SERPs: Supplemental Executive Retirement Plans
TA: Tangible assets
Tax Act: Tax Cuts and Jobs Act
TCE: Tangible common equity
TDRs: Troubled debt restructurings
TEY: Tax equivalent yield
The Company: QCR Holdings, Inc.
Treasury: U.S. Department of the Treasury
USA Patriot Act: Uniting and Strengthening America by
Providing Appropriate Tools Required to Intercept and
Obstruct Terrorism Act of *2001*
USDA: U.S. Department of Agriculture

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

Nature of business:

QCR Holdings, Inc. is a bank holding company that has elected to operate as a financial holding company under the BHCA. The Company provides bank and bank-related services through its banking subsidiaries, QCBT, CRBT, CSB and RB&T. The Company also engages in direct financing lease contracts through its wholly-owned equity investment by QCBT in *m2,* headquartered in Milwaukee, Wisconsin.

On *October 1, 2017* the Company acquired Guaranty Bank, headquartered in Cedar Rapids, Iowa, from Guaranty. On *December 2, 2017,* the Company merged Guaranty Bank with and into CRBT, with CRBT as the surviving bank. On *August 31, 2016,* the Company acquired Community State Bank in Ankeny, Iowa (Des Moines MSA). The financial results of the acquisitions of both Guaranty Bank and CSB for the periods since acquisition are included in this report. See Note *2* to the Consolidated Financial Statements for additional information.

QCBT is a commercial bank that serves the Iowa and Illinois Quad Cities and adjacent communities. CRBT is a commercial bank that serves Cedar Rapids, Iowa, and adjacent communities including Cedar Falls and Waterloo, Iowa. CSB is a commercial bank that serves Des Moines, Iowa, and adjacent communities. RB&T is a commercial bank that serves Rockford, Illinois, and adjacent communities.

QCBT, CRBT, and CSB are chartered and regulated by the state of Iowa, and RB&T is chartered and regulated by the state of Illinois. All *four* subsidiary banks are insured and subject to regulation by the FDIC and all are members of and regulated by the Federal Reserve System.

The remaining subsidiaries of the Company consist of *six* non-consolidated subsidiaries formed for the issuance of trust preferred securities. See Note *12* for a listing of these subsidiaries and additional information.

Significant accounting policies:

Accounting estimates: The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance, OTTI of securities, the fair value of financial instruments, and the fair value of assets acquired/liabilities assumed in a business combination.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, except those *six* subsidiaries formed for the issuance of trust preferred securities which do *not* meet the criteria for consolidation. See Note *12* for a detailed listing of these subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks include cash on hand and noninterest bearing amounts due from banks. Cash flows from federal funds sold, interest bearing deposits at financial institutions, loans/leases, deposits, and short-term borrowings are treated as net increases or decreases.

Cash and due from banks: The subsidiary banks are required by federal banking regulations to maintain certain cash and due from bank reserves. The reserve requirement was approximately *$41,803,000* and *$42,233,000* as of *December 31, 2017* and *2016,* respectively.

Investment securities: Investment securities held to maturity are those debt securities that the Company has the ability and intent to hold until maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. Such securities are carried at cost adjusted for amortization of premiums and accretion of discounts. If the ability or intent to hold to maturity is *not* present for certain specified securities, such securities are considered AFS as the Company intends to hold them for an indefinite period of time but *not* necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other factors. Securities AFS are carried at fair value. Unrealized gains or losses, net of taxes, are reported as increases or decreases in AOCI. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

All securities are evaluated to determine whether declines in fair value below their amortized cost are other-than-temporary.

In estimating OTTI losses on AFS debt securities, 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 lack of intent of the Company to sell the security prior to recovery and whether it is *not* more-likely-than-*not* that it will be required to sell

the security prior to recovery.

If the Company lacks the intent to sell the security, and it is *not* more-likely-than-*not* the entity will be required to sell the security before recovery of its amortized cost basis, the Company will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an OTTI recorded in other comprehensive income for the noncredit portion would be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans receivable, held for sale: Residential real estate loans which are originated and intended for resale in the secondary market in the foreseeable future are classified as held for sale. These loans are carried at the lower of cost or estimated market value in the aggregate. As assets specifically acquired for resale, the origination of, disposition of, and gain/loss on these loans are classified as operating activities in the statement of cash flows.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

Loans receivable, held for investment: Loans that management has the intent and ability to hold for the foreseeable future, or until pay-off or maturity occurs, are classified as held for investment. These loans are stated at the amount of unpaid principal adjusted for charge-offs, the allowance, and any deferred fees and/or costs on originated loans. Interest is credited to earnings as earned based on the principal amount outstanding. Deferred direct loan origination fees and/or costs are amortized as an adjustment of the related loan's yield. As assets held for and used in the production of services, the origination and collection of these loans are classified as investing activities in the statement of cash flows.

The Company discloses the allowance for credit losses (also known as the allowance) by portfolio segment, and credit quality information, impaired financing receivables, nonaccrual status, and TDRs by class of financing receivable. A portfolio segment is the level at which the Company develops and documents a systematic methodology to determine its allowance for credit losses. A class of financing receivable is a further disaggregation of a portfolio segment based on risk characteristics and the Company's method for monitoring and assessing credit risk. See the following information and Note *4*.

The Company's portfolio segments are as follows:

C&I
CRE
Residential real estate
Installment and other consumer

Direct financing leases are considered a segment within the overall loan/lease portfolio.

The Company's classes of loans receivable are as follows:

C&I
Owner-occupied CRE
Commercial construction, land development, and other land loans that are *not* owner-occupied CRE
Other non-owner-occupied CRE
Residential real estate
Installment and other consumer

Direct financing leases are considered a class of financing receivable within the overall loan/lease portfolio. The accounting policies for direct financing leases are disclosed below.

Generally, for all classes of loans receivable, loans are considered past due when contractual payments are delinquent for *31* days or greater.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

For all classes of loans receivable, loans will generally be placed on nonaccrual status when the loan has become *90* days past due (unless the loan is well secured and in the process of collection); or if any of the following conditions exist:

- It becomes evident that the borrower will *not* make payments, or will *not* or cannot meet the terms for renewal of a matured loan;
- When full repayment of principal and interest is *not* expected;
- When the loan is graded "doubtful";
- When the borrower files bankruptcy and an approved plan of reorganization or liquidation is *not* anticipated in the near future; or
- When foreclosure action is initiated.

When a loan is placed on nonaccrual status, income recognition is ceased. Previously recorded but uncollected amounts of interest on nonaccrual loans are reversed at the time the loan is placed on nonaccrual status. Generally, cash collected on nonaccrual loans is applied to principal. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income.

For all classes of loans receivable, nonaccrual loans *may* be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made;
- All principal and interest amounts contractually due, including past due payments, are reasonably assured of repayment within a reasonable period; and
- There is a period of minimum repayment performance, as follows, by the borrower in accordance with contractual terms:
- Six months of repayment performance for contractual monthly payments, or
- One year of repayment performance for contractual quarterly or semi-annual payments.

Direct finance leases receivable, held for investment: The Company leases machinery and equipment to customers under leases that qualify as direct financing leases for financial reporting and as operating leases for income tax purposes. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual values (approximately *3%* to *25%* of the cost of the related equipment), are recorded as lease receivables when the lease is signed and the lease property delivered to the customer. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned lease income. Unearned lease income is recognized over the term of the lease on a basis that results in an approximate level rate of return on the unrecovered lease investment.

Lease income is recognized on the interest method. Residual value is the estimated fair market value of the equipment on lease at lease termination. In estimating the equipment's fair value at lease termination, the Company relies on historical experience by equipment type and manufacturer and, where available, valuations by independent appraisers, adjusted for known trends.

The Company's estimates are reviewed continuously to ensure reasonableness; however, the amounts the Company will ultimately realize could differ from the estimated amounts. If the review results in a lower estimate than had been previously established, a determination is made as to whether the decline in estimated residual value is other-than-temporary. If the decline in estimated unguaranteed residual value is judged to be other-than-temporary, the accounting for the transaction is revised using the changed estimate. The resulting reduction in the investment is recognized as a loss in the period in which the estimate is changed. An upward adjustment of the estimated residual value is *not* recorded.

The policies for delinquency and nonaccrual for direct financing leases are materially consistent with those described above for all classes of loan receivables.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

The Company defers and amortizes fees and certain incremental direct costs over the contractual term of the lease as an adjustment to the yield. These initial direct leasing costs generally approximate *5.5%* of the leased asset's cost. The unamortized direct costs are recorded as a reduction of unearned lease income.

TDRs: TDRs exist when the Company, for economic or legal reasons related to the borrower's/lessee's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower/lessee and the Company) to the borrower/lessee that it would *not* otherwise consider. The Company attempts to maximize its recovery of the balances of the loans/leases through these various concessionary restructurings.

The following criteria, related to granting a concession, together or separately, create a TDR:

A modification of terms of a debt such as *one* or a combination of:

The reduction of the stated interest rate to a rate lower than the current market rate for new debt with similar risk.
The extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
The reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.
The reduction of accrued interest.

A transfer from the borrower/lessee to the Company of receivables from *third* parties, real estate, other assets, or an equity position in the borrower to fully or partially satisfy a loan.

The issuance or other granting of an equity position to the Company to fully or partially satisfy a debt unless the equity position is granted pursuant to existing terms for converting the debt into an equity position.

Allowance: For all portfolio segments, the allowance is established as losses are estimated to have occurred through a provision that is charged to earnings. Loan/lease losses, for all portfolio segments, are charged against the allowance when management believes the uncollectability of a loan/lease balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

For all portfolio segments, the allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans/leases in light of historical experience, the nature and volume of the loan/lease portfolio, adverse situations that *may* affect the borrower's/lessee's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

A discussion of the risk characteristics and the allowance by each portfolio segment follows:

For C&I loans, the Company focuses on small and mid-sized businesses with primary operations as wholesalers, manufacturers, building contractors, business services companies, other banks, and retailers. The Company provides a wide range of C&I loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of facilities, equipment and other purposes. 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.

Collateral for C&I 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.

The Company's lending policy specifies maximum term limits for C&I loans. For term loans, the maximum term is generally *7* years with average terms ranging from *3* to *5* years. For lines of credit, the maximum term is generally *365* days.

In addition, the Company often takes personal guarantees or cosigners to help assure repayment. Loans *may* be made on an unsecured basis if warranted by the overall financial condition of the borrower.

CRE loans are subject to underwriting standards and processes similar to C&I loans, in addition to those standards and processes specific to real estate loans. Collateral for CRE 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 CRE (CRE loans on improved property, raw land, land development, and commercial construction). These limits are the same limits established by regulatory authorities.

The Company's lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. In addition, the Company often takes personal guarantees to help assure repayment.

In addition, management tracks the level of owner-occupied CRE loans versus non-owner occupied loans. Owner-occupied loans are generally considered to have less risk. As of *December 31, 2017* and *2016,* approximately *26%* and *30%,* respectively, of the CRE loan portfolio was owner-occupied.

The Company's lending policy incorporates regulatory guidelines which stipulate that non-owner occupied CRE lending in excess of *300%* of total risk-based capital, and construction, land development, and other land loans in excess of *100%* of total risk-based capital warrant the use of heightened risk management practices. As of *December 31, 2017* and *2016,* QCBT, CRBT and RB&T were in compliance with these limits. Although the CSB's loan portfolio has historically been real estate dominated and its real estate portfolio levels exceed these policy limits, it has established a Credit Risk Committee to routinely monitor its real estate loan portfolio. CSB's real estate levels, while still elevated at *December 31, 2017,* have declined since *December 31, 2016.*

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 and below. In general, exceptions to the lending policy do *not* significantly deviate from the guidelines and limits established within the Company's lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan/lease approval documents.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

For C&I and CRE loans, the allowance consists of specific and general components.

The specific component relates to loans that are classified as impaired, as defined below. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan.

For C&I loans and all classes of CRE loans, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are *not* classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a case-by-case basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. See below for a detailed description of the Company's internal risk rating scale. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are *not* fully reflected in the historical loss or risk rating data.

For C&I and CRE loans, the Company utilizes the following internal risk rating scale:

1. Highest Quality (Pass) – loans of the highest quality with *no* credit risk, including those fully secured by subsidiary bank certificates of deposit and U.S. government securities.

2. Superior Quality (Pass) – loans with very strong credit quality. Borrowers have exceptionally strong earnings, liquidity, capital, cash flow coverage, and management ability. Includes loans secured by high quality marketable securities, certificates of deposit from other institutions, and cash value of life insurance. Also includes loans supported by U.S. government, state, or municipal guarantees.

3. Satisfactory Quality (Pass) – loans with satisfactory credit quality. Established borrowers with satisfactory financial condition, including credit quality, earnings, liquidity, capital and cash flow coverage. Management is capable and experienced. Collateral coverage and guarantor support, if applicable, are more than adequate. Includes loans secured by personal assets and business assets, including equipment, accounts receivable, inventory, and real estate.

4. Fair Quality (Pass) – loans with moderate but still acceptable credit quality. The primary repayment source remains adequate; however, management's ability to maintain consistent profitability is unproven or uncertain. Borrowers exhibit acceptable leverage and liquidity. *May* include new businesses with inexperienced management or unproven performance records in relation to peer, or borrowers operating in highly cyclical or declining industries.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

5. Early Warning (Pass) – loans where the borrowers have generally performed as agreed, however unfavorable financial trends exist or are anticipated. Earnings *may* be erratic, with marginal cash flow or declining sales. Borrowers reflect leveraged financial condition and/or marginal liquidity. Management *may* be new and a track record of performance has yet to be developed. Financial information *may* be incomplete, and reliance on secondary repayment sources *may* be increasing.

6. Special Mention – loans where the borrowers exhibit credit weaknesses or unfavorable financial trends requiring close monitoring. Weaknesses and adverse trends are more pronounced than Early Warning loans, and if left uncorrected, *may* jeopardize repayment according to the contractual terms. Currently, *no* loss of principal or interest is expected. Borrowers in this category have deteriorated to the point that it would be difficult to refinance with another lender. Special Mention should be assigned to borrowers in turnaround situations. This rating is intended as a transitional rating, therefore, it is generally *not* assigned to a borrower for a period of more than *one* year.

7. Substandard – loans which are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if applicable. These loans have a well-defined weakness or weaknesses which jeopardize repayment according to the contractual terms. There is distinct loss potential if the weaknesses are *not* corrected. Includes loans with insufficient cash flow coverage which are collateral dependent, other real estate owned, and repossessed assets.

8. Doubtful – loans which have all the weaknesses inherent in a Substandard loan, with the added characteristic that existing weaknesses make full principal collection, on the basis of current facts, conditions and values, highly doubtful. The possibility of loss is extremely high, but because of pending factors, recognition of a loss is deferred until a more exact status can be determined. All doubtful loans will be placed on non-accrual, with all payments, including principal and interest, applied to principal reduction.

The Company has certain loans risk-rated *7* (substandard), which are *not* classified as impaired based on the facts of the credit. For these non-impaired and risk-rated *7* loans, the Company does *not* follow the same allowance methodology as it does for all other non-impaired, collectively evaluated loans. Rather, the Company performs a more detailed analysis including evaluation of the cash flow and collateral valuations. Based upon this evaluation, an estimate of the probable loss in this portfolio is collectively evaluated under ASC *450-20.* These non-impaired risk-rated *7* loans exist primarily in the C&I and CRE segments.

For term C&I and CRE loans greater than *$1,000,000,* a loan review is required within *15* months of the most recent credit review. The review is completed in enough detail to, at a minimum, validate the risk rating. Additionally, the review shall include an analysis of debt service requirements, covenant compliance, if applicable, and collateral adequacy. The frequency of the review is generally accelerated for loans with poor risk ratings.

The Company's Loan Quality area performs a documentation review of a sampling of C&I and CRE loans, the primary purpose of which is to ensure the credit is properly documented and closed in accordance with approval authorities and conditions. A review is also performed by the Company's Internal Audit Department of a sampling of C&I and CRE loans for proper documentation, according to an approved schedule. Validation of the risk rating is also part of Internal Audit's review (performed by Internal Loan Review). Additionally, over the past several years, the Company has contracted an independent outside *third* party to review a sampling of C&I and CRE loans. Validation of the risk rating is part of this review as well.

The Company leases machinery and equipment to C&I 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.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

For direct financing leases, the allowance consists of specific and general components.

The specific component relates to leases that are classified as impaired, as defined for commercial loans above. For those leases that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired lease is lower than the carrying value of that lease.

The general component consists of quantitative and qualitative factors and covers nonimpaired leases. The quantitative factors are based on historical charge-off experience for the entire lease portfolio. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are *not* fully reflected in the historical loss data.

Generally, the Company's 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 mature or adjust in *one* to *five* years or fixed rate mortgages that mature in *15* years, and then retain these loans in their portfolios. 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 Company provides many types of installment and other consumer loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The Company's lending policy addresses specific credit guidelines by consumer loan type.

For residential real estate loans, and installment and other consumer loans, these large groups of smaller balance homogenous loans are collectively evaluated for impairment. The Company applies a quantitative factor based on

historical charge-off experience in total for each of these segments. Accordingly, the Company generally does *not* separately identify individual residential real estate loans, and/or installment or other consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

TDRs are considered impaired loans/leases and are subject to the same allowance methodology as described above for impaired loans/leases by portfolio segment. Once a loan is classified as a TDR, it will remain a TDR until the loan is paid off, charged off, moved to OREO or restructured into a new note without a concession. TDR status *may* also be removed if the TDR was restructured in a prior calendar year, is current, accruing interest and shows sustained performance.

Credit related financial instruments: In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded when they are funded.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

Transfers of financial assets: Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (*1*) the assets have been isolated from the Company, (*2*) the transferee obtains the right to pledge or exchange the assets it received, and *no* condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor, and (*3*) the Company does *not* maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loan receivables), the transfer must meet the definition of a "participating interest" in order to account for the transfer as a sale. Following are the characteristics of a "participating interest":

Pro-rata ownership in an entire financial asset.
From the date of the transfer, all cash flows received from entire financial assets are divided proportionately among the participating interest holders in an amount equal to their share of ownership.
The rights of each participating interest holder have the same priority, and *no* participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, *no* participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.
No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

BOLI: BOLI is carried at cash surrender value with increases/decreases reflected as income/expense in the statement of income.

Premises and equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets.

Restricted investment securities: Restricted investment securities represent FHLB and FRB common stock. The stock is carried at cost. These equity securities are "restricted" in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other tradable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. There have been *no* other-than-temporary write-downs recorded on these securities.

OREO: Real estate acquired through, or in lieu of, loan foreclosures, is held for sale and initially recorded at fair value less costs to sell, establishing a new cost basis. Any writedown to fair value taken at the time of foreclosure is charged to the allowance. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Subsequent write-downs to fair value are charged to earnings.

Repossessed assets: Equipment or other non-real estate property acquired through, or in lieu of foreclosure, is held for sale and initially recorded at fair value less costs to sell.

Goodwill: The Company recorded goodwill totaling *$3,222,688* from QCBT's purchase of *80%* of *m2* in *August 2005.* Goodwill totaling *$9,888,225* was also recognized as part of the acquisition of CSB in *2016.* The goodwill is *not* being amortized, but is evaluated at least annually for impairment. An impairment charge is recognized when the calculated fair value of the reporting unit, including goodwill, is less than its carrying amount. Based on the annual analysis completed as of *September 30, 2017,* the Company determined that the goodwill was *not* impaired. Goodwill totaling *$15,223,179* was also recognized as part of the acquisition of Guaranty Bank in *2017.* See Note *2* to the Consolidated Financial Statements for additional information. This goodwill is *not* being amortized, and will be evaluated annually for impairment beginning in *2018.*

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

Core deposit intangible: The Company has recorded a core deposit intangible from historical acquisitions including CNB, CSB and Guaranty Bank. The core deposit intangible was the portion of the acquisition purchase price which represented the value assigned to the existing deposit base at acquisition. See Notes *2* and *7* to the Consolidated Financial Statements for additional information. The core deposit intangibles have a finite life and are amortized over the estimated useful life of the deposits (estimated to be *ten* years).

Swap transactions: The Company offers a loan swap program to certain commercial loan customers. Through this program, the Company originates a variable rate loan with the customer. The Company and the swap customer will then enter into a fixed interest rate swap. Lastly, an identical offsetting swap is entered into by the Company with a counterparty. These "back-to-back" swap arrangements are intended to offset each other and allow the Company to book a variable rate loan, while providing the customer with a contract for fixed interest payments. In these arrangements, the Company's net cash flow is equal to the interest income received from the variable rate loan originated with the customer. These customer swaps are *not* designated as hedging instruments and are recorded at fair value in other assets and other liabilities. Additionally, the Company receives an upfront fee from the counterparty, dependent upon the pricing that is recognized upon receipt from the counterparty. Swap fee income totaled *$3.1* million, *$1.7* million and *$1.7* million for the years ending *December 31, 2017, 2016* and *2015,* respectively.

Derivatives and hedging activities: The Company enters into derivative financial instruments as part of its strategy to manage its exposure to changes in interest rates.

Derivative instruments represent contracts between parties that result in *one* party delivering cash to the other party based on a notional amount and an underlying index (such as a rate, security price or price index) as specified in the contract. The amount of cash delivered from *one* party to the other is determined based on the interaction of the notional amount of the contract with the underlying index.

The derivative financial instruments currently used by the Company to manage its exposure to interest rate risk include: (*1*) interest rate lock commitments provided to customers to fund certain mortgage loans to be sold into the secondary market (although this type of derivative is negligible); and (*2*) interest rate caps to manage the interest rate risk of certain short-term fixed rate liabilities.

Interest rate caps are valued by the transaction counterparty on a monthly basis and corroborated by a *third* party annually. The company uses the hypothetical derivative method to assess and measure effectiveness in accordance with ASC *815,* Derivatives and Hedging.

Preferred stock: The Company currently has *250,000* shares of preferred stock authorized, but *none* outstanding as of *December 31, 2017* and *2016.* Should the Company have preferred stock outstanding in the future, dividends declared on those shares would be deducted from net income to arrive at net income available to common stockholders. Net income available to common stockholders would then be used in the earnings per share computations.

Treasury stock: Treasury stock is accounted for by the cost method, whereby shares of common stock reacquired are recorded at their purchase price. When treasury stock is reissued, any difference between the sales proceeds, or fair value when issued for business combinations, and the cost is recognized as a charge or credit to additional paid-in capital. The Company’s then outstanding treasury stock was retired in *2015.*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

Stock-based compensation plans: The Company accounts for stock-based compensation with measurement of compensation cost for all stock-based awards at fair value on the grant date and recognition of compensation over the requisite service period for awards expected to vest.

As discussed in Note *15,* during the years ended *December 31, 2017, 2016,* and *2015,* the Company recognized stock-based compensation expense for the grant-date fair value of stock based awards that are expected to vest over the requisite service period of *$1,187,035, $947,174* and *$941,469,* respectively. As required, management made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option grants with the following assumptions for the indicated periods:

	2017			2016			2015		
Dividend yield	*0.36%*	*to*	*0.47%*	*0.35%*	*to*	*0.51%*	*0.37%*	*to*	*0.46%*
Expected volatility	*29.64%*	*to*	*29.95%*	*29.32%*	*to*	*29.37%*	*28.92%*	*to*	*29.32%*
Risk-free interest rate	*2.50%*	*to*	*2.81%*	*1.73%*	*to*	*2.18%*	*1.89%*	*to*	*2.37%*
Expected life of option grants (in years)		*6*			*6*			*6*	
Weighted-average grant date fair value		*$14.75*			*$7.31*			*$5.11*	

The Company also uses the Black-Scholes option pricing model to estimate the fair value of stock purchase grants with the following assumptions for the indicated periods:

	2017			2016			2015		
Dividend yield	*0.37%*	*to*	*0.42%*	*0.33%*	*to*	*0.59%*	*0.37%*	*to*	*0.45%*
Expected volatility	*19.80%*	*to*	*19.86%*	*12.70%*	*to*	*15.60%*	*8.81%*	*to*	*13.10%*
Risk-free interest rate	*0.67%*	*to*	*1.18%*	*0.39%*	*to*	*0.57%*	*0.09%*	*to*	*.016%*
Expected life of purchase grants (in months)	*3*	*to*	*6*	*3*	*to*	*6*	*3*	*to*	*6*

Weighted-average grant date fair value	*$6.42*	*$3.28*	*$2.39*

The fair value is amortized on a straight-line basis over the vesting periods of the grants and will be adjusted for subsequent changes in estimated forfeitures. The expected dividend yield assumption is based on the Company's current expectations about its anticipated dividend policy. Expected volatility is based on historical volatility of the Company's common stock price. The risk-free interest rate for periods within the contractual life of the option or purchase is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of the option and purchase grants is derived using the “simplified” method and represents the period of time that options and purchases are expected to be outstanding. Historical data is used to estimate forfeitures used in the model. Two separate groups of employees (employees subject to broad based grants, and executive employees and directors) are used.

As of *December 31, 2017,* there was *$961,972* of unrecognized compensation cost related to stock options granted, which is expected to be recognized over a weighted average period of *1.92* years.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the *495,004* options that were in-the-money at *December 31, 2017.* The aggregate intrinsic value at *December 31, 2017* was *$13.2* million on options outstanding and *$10.5* million on options exercisable. During the years ended *December 31, 2017, 2016* and *2015,* the aggregate intrinsic value of options exercised under the Company's stock option plans was *$1,055,193, $1,525,902,* and *$480,354,* respectively, and determined as of the date of the option exercise.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

Restricted stock awards granted *may not* be sold or otherwise transferred until the service periods have lapsed. During the vesting periods, participants have voting rights and receive dividends. Upon termination of employment, common shares upon which the service periods have *not* lapsed must be returned to the Company.

All restricted share awards are classified as equity awards. The grant-date fair value of equity-classified restricted stock awards is amortized as compensation expense on a straight-line basis over the period restrictions lapse.

As of *December 31, 2017,* there was $*1,210,425* of unrecognized compensation cost related to nonvested restricted stock awards expected to be recognized over a period of *2.60* years.

Income taxes: The Company files its tax return on a consolidated basis with its subsidiaries. The entities follow the direct reimbursement method of accounting for income taxes under which income taxes or credits which result from the inclusion of the subsidiaries in the consolidated tax return are paid to or received from the parent company.

Deferred income taxes are provided under the liability method whereby deferred tax assets are recognized for deductible temporary differences and net operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than *not* that some or all of the deferred tax assets will *not* be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in

the period during which, based on all available evidence, management believes it is more likely than *not* that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are *not* offset or aggregated with other positions. Tax positions that meet the more likely than *not* recognition threshold are measured as the largest amount of tax benefit that is more than *50* percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of income.

Trust assets: Trust assets held by the subsidiary banks in a fiduciary, agency, or custodial capacity for their customers, other than cash on deposit at the subsidiary banks, are *not* included in the accompanying consolidated financial statements since such items are *not* assets of the subsidiary banks.

Earnings per share: See Note *17* for a complete description and calculation of basic and diluted earnings per share.

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

New accounting pronouncements:

In *May 2014,* FASB issued ASU *2014-09, Revenue from Contracts with Customers*. ASU *2014-09* implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU *2014-09* is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU *2014-09* was originally effective for the Company on *January 1, 2017,* however, FASB issued ASU *2015-14* which deferred the effective date in order to provide additional time for both public and private entities to evaluate the impact. ASU *2014-09* was adopted by the Company on *January 1, 2018* and had *no* significant financial impact on the Company's consolidated financial statements. Under the standard, additional disclosures related to non-interest income will be required.

In *January 2016,* FASB issued ASU *2016-01, Financial Instruments – Overall*. ASU *2016-01* makes targeted adjustments to GAAP by eliminating the available for sale classification for equity securities and requiring equity investments to be measured at fair value with changes in fair value recognized in net income. The standard also requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. The standard clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. It also requires an entity to present separately (within other comprehensive income) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the standard eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU *2016-01was* adopted by the Company on *January 1, 2018* and had *no* significant impact on the consolidated financial statements.

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

Effective *January 1, 2017.* The Company adopted ASU *2016-09, Compensation – Stock Compensation*. Under the standard, the excess tax benefit (deficiency) related to stock options exercised and restricted stock awards vested is recorded as an adjustment to income tax expense. In the past, this tax benefit (deficiency) was recorded directly to equity. This change in accounting resulted in *$1.2* million of reduced income tax expense for *2017.*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *1.* Nature of Business and Significant Accounting Policies (continued)

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

In *February 2018,* the FASB issued ASU *2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* Under the standard, entities are allowed to make a *one*-time reclassification from AOCI to retained earnings for the effect of remeasuring deferred tax liabilities and assets originally recorded in other comprehensive income as a result of the change in the federal tax rate as defined by the Tax Act. ASU *2018-02* is effective for fiscal years beginning after *December 15, 2018,* including interim periods within those years. Companies *may* choose to early adopt for fiscal years or interim periods that have *not* been issued or made available for issuance as of *February 14, 2018.* The Company chose to early adopt ASU *2018-02* and apply the guidance to the consolidated financial statements for the year ended *December 31, 2017.* The reclassification from AOCI to retained earnings for *2017* totaled *$304* thousand and is presented in the Consolidated Statements of Changes in Stockholders' Equity.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *2.* Acquisitions

Guaranty Bank and Trust

On *October 1, 2017* the Company acquired Guaranty Bank, headquartered in Cedar Rapids, Iowa, from Guaranty.Guaranty Bank is an Iowa-chartered bank that operates *five* banking locations throughout the Cedar Rapids metropolitan area.

The acquisition of Guaranty Bank allowed the Company to grow its market share in the Cedar Rapids market. Guaranty Bank has a strong core deposit base and retail franchise. Although Guaranty already has strong earnings, the Company has identified several opportunities for enhanced future earnings performance. Lastly, financial metrics related to the transaction were favorable, as measured by EPS accretion, ROAA accretion and earn back of tangible book value dilution.

In the acquisition, the Company acquired *100%* of Guaranty Bank's outstanding common stock and purchased certain assets and assumed certain liabilities of Guaranty for aggregate consideration consisting of *79%* QCR Holdings common stock (*678,670* shares) and *21%* cash (*$7.8* million). On *September 29, 2017,* the last trading date before the closing, the Company's common stock closed at *$45.50,* resulting in stock consideration valued at *$30.9* million and total consideration paid by the Company of *$38.7* million.

To help fund the cash portion of the purchase price, on *September 27, 2017,* the Company executed a *$7.0* million *four*-year term note with principal and interest due quarterly. See further information in Note *11.* This note is included within other borrowings on the *December 31, 2017* Consolidated Balance Sheets. The remaining cash consideration paid to Guaranty came from operating cash.

The Company accounted for the business combination under the acquisition method of accounting in accordance with ASC *805*. The Company recognized the full fair value of the assets acquired and liabilities assumed at the acquisition date, net of applicable income tax effects. The Company considers all purchase accounting adjustments as provisional and fair values are subject to refinement for up to *one* year after the closing date.

The excess of the consideration paid over the fair value of the net assets acquired is recorded as goodwill. This goodwill is deductible over *15* years for tax purposes.

The Company has several areas of specialization, including government guaranteed lending, C&I lending, interest rate swaps, leasing, wealth management, private banking and municipal bond offerings that will be offered in this expanded market, increasing future earnings potential. Guaranty Bank has a strong core deposit base. There is also value added to the Company through having an expanded footprint in a market that has strong growth potential. The experience and value of the personnel at Guaranty Bank and their knowledge of the expanded market is also beneficial.

On *December 2, 2017*, the Company merged Guaranty Bank with and into CRBT, with CRBT as the surviving bank. As part of the merger, the Guaranty Bank branches located at *302 3*rd Avenue SE, Cedar Rapids, Iowa and *1819 42*nd Street NE, Cedar Rapids, Iowa, permanently closed. These locations (with a cost basis (based upon acquisition date fair value) totaling *$3.6* million) are now held for sale and are included in Other Assets in the *December 31, 2017* consolidated balance sheet. The *three* remaining Guaranty Bank branches have become banking offices of CRBT.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Acquisitions (continued)

The fair values of the assets acquired and liabilities assumed including the consideration paid and resulting goodwill is as follows:

	As of October 1, 2017
ASSETS	
Cash and due from banks	$*4,434,511*
Interest-bearing deposits at financial institutions	*3,953,907*
Securities	*49,703,419*
Loans/leases receivable, net	*192,517,677*
Premises and equipment	*4,808,343*
Restricted investment securities	*476,500*
Core deposit intangible	*2,698,301*
Other assets	*997,810*
Total assets acquired	$*259,590,468*
LIABILITIES	
Deposits	$*212,467,514*
Short-term borrowings	*13,102,043*
FHLB advances	*4,108,027*
Junior subordinated debentures	*3,857,275*
Other liabilities	*2,595,883*
Total liabilities assumed	*236,130,742*
Net assets acquired	$*23,459,726*
CONSIDERATION PAID:	
Cash	$*7,803,420*
Common stock	*30,879,485*
Total consideration paid	*38,682,905*
Goodwill	$*15,223,179*

Loans acquired in a business combination are recorded and initially measured at their estimated fair value as of the acquisition date. Credit discounts are included in the determination of fair value. A *third* party valuation consultant assisted with the determination of fair value.

Purchased loans are segregated into *two* categories: PCI loans and non-PCI (performing) loans. PCI loans are accounted for in accordance with ASC *310-30,* as they display significant credit deterioration since origination and it is probable, as of the acquisition date, that the Company will be unable to collect all contractually required payments from the borrower. Performing loans are accounted for in accordance with ASC *310-20,* as these loans do *not* have evidence of significant credit deterioration since origination and it is probable that the contractually required payments will be received from the borrower.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *2.* Acquisitions (continued)

For PCI loans, the difference between the contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable discount. Further, any excess cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the expected remaining life of the loan. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for loan and lease losses and provision for loan losses.

For performing loans, the difference between the estimated fair value of the loans and the principal balance outstanding is accreted over the remaining life of the loans

The following table presents the purchased loans as of the acquisition date:

	PCI Loans	Performing Loans	Total
Contractually required principal payments	$*3,126,327*	$*192,982,439*	$*196,108,766*
Nonaccretable discount	*(1,147,198*)	-	*(1,147,198*)
Principal cash flows expected to be collected	*1,979,129*	*192,982,439*	*194,961,568*
Accretable discount	*(219,902*)	*(2,223,989*)	*(2,443,891*)
Fair Value of acquired loans	$*1,759,227*	$*190,758,450*	$*192,517,677*

Changes in accretable yield for the loans acquired are as follows:

	For the year ended December 31, 2017		
	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$-	$-	$-
Discount added at acquisition	*(219,902*)	*(2,223,989*)	*(2,443,891*)
Accretion recognized	*54,070*	*26,836*	*80,906*
Balance at the end of the period	$*(165,832*)	$*(2,197,153*)	$*(2,362,985*)

During *2017,* there was also *$158* thousand of nonaccretable discount that was recognized due to the repayment of PCI loans.

Premises and equipment acquired with a fair value of $*4,808,343* includes *five* branch locations with a fair value of *$4,614,604,* including a write-down of *$998,343.* The fair value was determined with the assistance of a *third* party appraiser. The buildings and related fair value adjustments will be recognized in depreciation expense over *39* years.

The Company recorded a core deposit intangible totaling $*2,698,301* which is the portion of the acquisition purchase price which represents the value assigned to the existing deposit base. The core deposit intangible has a finite life and is amortized using an accelerated method over the estimated useful life of the deposits (estimated to be *ten* years). See Note *6* to the Consolidated Financial Statements for additional information.

During the current year, the Company incurred *$1.1* million of expenses related to the acquisition, comprised primarily of legal, accounting and investment banking costs. These acquisition costs are presented on their own line within the consolidated statements of income. Also during *2017,* the Company incurred *$3.1* million of post-acquisition expenses, comprised primarily of personnel costs, IT integration, and conversion costs. Guaranty Bank results are included in the consolidated statements of income effective on the acquisition date.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *2.* Acquisitions (continued)

Unaudited pro forma combined operating results for the years ended *December 31, 2017* and *2016,* giving effect to the Guaranty Bank acquisition as if it had occurred as of *January 1, 2016,* are as follows:

	Year Ended December 31,	
	2017	2016
	(dollars in thousands, except per share data)	
Net interest income	$*122,923*	$*102,902*
Noninterest income	$*32,703*	$*34,238*
Net income	$*38,728*	$*27,103*
Earnings per common share:		
Basic	$*2.80*	$*2.05*
Diluted	$*2.73*	$*2.02*

The pro forma results do *not* purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on *January 1, 2016* or of future results of operations of the consolidated entities.

Community State Bank

On *August 31, 2016,* the Company acquired Community State Bank from Van Diest Investment Company. CSB is headquartered in Ankeny, Iowa and is an Iowa-chartered bank that operates *ten* banking locations throughout the Des Moines metropolitan area. The Company purchased *100%* of the outstanding common stock of CSB for cash consideration of *$80.0* million.

The acquisition of CSB allowed the Company to expand its footprint into the Des Moines market. CSB has an experienced and capable leadership team that is committed to leading the Company's efforts in the Des Moines area. CSB has demonstrated significant improvement in earnings and asset quality during the last *three* years. Additionally, CSB has a strong core deposit base and retail franchise. Although CSB already has strong earnings, the Company has identified several opportunities for enhanced future earnings performance. With *$581* million of assets acquired, the Company believes this acquisition is large enough to provide meaningful impact on the financial results, but is *not* too large to overstrain existing infrastructure. Lastly, financial metrics related to the transaction were favorable, as measured by EPS accretion and earn-back of tangible book value dilution.

In connection with the acquisition, during the *second* quarter of *2016,* the Company sold *1,215,000* shares of its common stock at a price of *$24.75* per share, for net proceeds of *$29.8* million, after deducting expenses. The shares were offered to institutional investors in a registered direct offering conducted without an underwriter or placement agent. The offering was a partial take-down of a previously filed shelf registration and closed on *May 23, 2016.*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *2.* Acquisitions (continued)

Cash received from the common stock offering was used to help finance the purchase price of the acquisition. Additionally, the Company drew *$5.0* million on its *$10.0* million revolving line of credit and fully funded its *$30.0* million term facility. Both of these facilities are described further in Note *11* to the Consolidated Financial Statements. Cash dividends of *$15.2* million from QCBT and CRBT were used to fund the remainder of the purchase price.

The Company accounted for the business combination under the acquisition method of accounting in accordance with ASC *805.* The Company recognized the full fair value of the assets acquired and liabilities assumed at the acquisition date, net of applicable income tax effects.

The excess of the consideration paid over the fair value of the net assets acquired is recorded as goodwill. This goodwill is *not* deductible for tax purposes.

The Company has several areas of specialization, including government guaranteed lending, C&I lending, interest rate swaps, leasing, wealth management, private banking and municipal bond offerings that will be offered in this new market, increasing future earnings potential. There is also value added to the Company through having a footprint in a market that has strong growth potential. Additionally, there are qualitative benefits gained through the addition of a new charter including better leverage of centralized operations and increased lending limits. The experience and value of the personnel at CSB and their knowledge of the Des Moines MSA is also beneficial.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Acquisitions (continued)

The fair values of the assets acquired and liabilities assumed including the consideration paid and resulting goodwill is as follows:

	As of August 31, 2016
ASSETS	
Cash and due from banks	$ *10,094,645*
Federal funds sold	*698,000*
Interest-bearing deposits at financial institutions	*14,730,157*
Securities	*102,640,029*
Loans/leases receivable, net	*419,029,277*
Premises and equipment	*20,684,880*
Core deposit intangible	*6,352,653*
Restricted investment securities	*1,512,900*
Other real estate owned	*650,000*
Other assets	*5,283,937*
Total assets acquired	$ *581,676,478*
LIABILITIES	
Deposits	$ *486,298,262*
FHLB advances	*20,368,877*
Other liabilities	*4,897,564*
Total liabilities assumed	$ *511,564,703*
Net assets acquired	$ *70,111,775*
CONSIDERATION PAID:	
Cash	$ *80,000,000*
Total consideration paid	$ *80,000,000*
Goodwill	$ *9,888,225*

Loans acquired in a business combination are recorded and initially measured at their estimated fair value as of the acquisition date. Credit discounts are included in the determination of fair value. A *third* party valuation consultant assisted with the determination of fair value.

Purchased loans are segregated into *two* categories: PCI loans and non-PCI (performing) loans. PCI loans are accounted for in accordance with ASC *310-30,* as they display significant credit deterioration since origination and it is probable, as of the acquisition date, that the Company will be unable to collect all contractually required payments from the borrower. Performing loans are accounted for in accordance with ASC *310-20,* as these loans do *not* have evidence of significant credit deterioration since origination and it is probable that the contractually required payments will be received from the borrower.

For PCI loans, the difference between the contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable discount. Further, any excess cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the expected remaining life of the loan. Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording an allowance for loan and lease losses and provision for loan losses.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Acquisitions (continued)

For performing loans, the difference between the estimated fair value of the loans and the principal balance outstanding is accreted over the remaining life of the loans.

The following table presents the purchased loans as of the acquisition date:

	PCI Loans	Performing Loans	Total
Contractually required principal payments	$8,349,688	$427,398,400	$435,748,088
Nonaccretable discount	(4,525,223)	-	(4,525,223)
Principal cash flows expected to be collected	$3,824,465	$427,398,400	$431,222,865
Accretable discount	(277,579)	(11,916,009)	(12,193,588)
Fair Value of acquired loans	$3,546,886	$415,482,391	$419,029,277

Changes in accretable yield for the loans acquired are as follows:

	For the year ended December 31, 2017		
	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$(194,306)	$(9,115,614)	$(9,309,920)
Accretion recognized	169,006	5,032,692	5,201,698
Balance at the end of the period	$(25,300)	$(4,082,922)	$(4,108,222)

	For the year ended December 31, 2016		
	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$ -	$ -	$ -
Discount added at acquisition	*(277,579)*	*(11,916,009)*	*(12,193,588)*
Accretion recognized	*83,273*	*2,800,395*	*2,883,668*
Balance at the end of the period	$ *(194,306)*	$ *(9,115,614)*	$ *(9,309,920)*

During *2017* and *2016,* there was also *$198* thousand and *$186* thousand, respectively, of nonaccretable discount that was recognized due to the repayment of PCI loans.

Premises and equipment acquired with a fair value of *$20,684,880* includes *ten* branch locations with a fair value of *$19,735,000,* including a write-up of *$8,334,437.* The fair value was determined with the assistance of a *third* party appraiser. The buildings and building write-ups will be recognized in depreciation expense over *39* years.

The Company recorded a core deposit intangible totaling *$6,352,653* which is the portion of the acquisition purchase price which represents the value assigned to the existing deposit base. The core deposit intangible has a finite life and is amortized using an accelerated method over the estimated useful life of the deposits (estimated to be *ten* years). See Note *6* to the Consolidated Financial Statements for additional information.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *2.* Acquisitions (continued)

During *2016,* the Company incurred *$1.4* million of expenses related to the acquisition, comprised primarily of legal, accounting, and investment banking costs. These acquisition costs are presented on their own line within the consolidated statements of income. Also during *2016,* the Company incurred *$1.0* million of post-acquisition expenses, comprised primarily of personnel costs, IT integration, and conversion costs. CSB results are included in the consolidated statements of income effective on the acquisition date. For the period *August 31, 2016* to *December 31, 2016,* CSB reported revenues of *$11.4* million and net income of *$2.1* million, which included *$473* thousand of after tax acquisition costs.

During the current year, the Company incurred *$1.2* million of post-acquisition compensation, transition and integration costs, comprised entirely of a fee that was paid for a core processor conversion of CSB.

Unaudited pro forma combined operating results for the years ended *December 31, 2016* and *2015,* giving effect to the CSB acquisition as if it had occurred as of *January 1, 2015,* are as follows:

	Year Ended December 31,	
	2016	2015
	(dollars in thousands, except per share data)	
Net interest income	$*110,035*	$*98,483*
Noninterest income	$*34,773*	$*31,051*
Net income	$*34,137*	$*22,118*
Earnings per common share:		
Basic	$*2.62*	$*1.91*
Diluted	$*2.58*	$*1.89*

The pro forma results do *not* purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on *January 1, 2015* or of future results of operations of the consolidated entities.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *3.* Investment Securities

The amortized cost and fair value of investment securities as of *December 31, 2017* and *2016* are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2017:				
Securities held to maturity:				
Municipal securities	$*378,424,205*	$*2,763,718*	$*(2,488,119)*	$*378,699,804*
Other securities	*1,050,000*	-	-	*1,050,000*
	$*379,474,205*	$*2,763,718*	$*(2,488,119)*	$*379,749,804*
Securities available for sale:				
U.S. govt. sponsored agency securities	$*38,409,157*	$*37,344*	$*(349,967)*	$*38,096,534*
Residential mortgage-backed and related securities	*165,459,470*	*155,363*	*(2,313,529)*	*163,301,304*
Municipal securities	*66,176,364*	*660,232*	*(211,100)*	*66,625,496*
Other securities	*4,014,004*	*896,384*	*(25,815)*	*4,884,573*
	$*274,058,995*	$*1,749,323*	$*(2,900,411)*	$*272,907,907*
December 31, 2016:				
Securities held to maturity:				
Municipal securities	$*321,859,056*	$*2,200,577*	$*(4,694,734)*	$*319,364,899*
Other securities	*1,050,000*	-	-	*1,050,000*
	$*322,909,056*	$*2,200,577*	$*(4,694,734)*	$*320,414,899*
Securities available for sale:				
U.S. govt. sponsored agency securities	$*46,281,306*	$*132,886*	$*(330,585)*	$*46,083,607*
Residential mortgage-backed and related securities	*150,465,222*	*174,993*	*(2,938,088)*	*147,702,127*
Municipal securities	*52,816,541*	*425,801*	*(637,916)*	*52,604,426*
Other securities	*4,046,332*	*703,978*	*(27,331)*	*4,722,979*
	$*253,609,401*	$*1,437,658*	$*(3,933,920)*	$*251,113,139*

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

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

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *3.* Investment Securities (continued)

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of *December 31, 2017* and *2016,* are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017:						
Securities held to maturity:						
Municipal securities	$*23,750,826*	$*(354,460*)	$*72,611,780*	$*(2,133,659*)	$*96,362,606*	$*(2,488,119*)
Securities available for sale:						
U.S. govt. sponsored agency securities	$*28,576,258*	$*(200,022*)	$*3,640,477*	$*(149,945*)	$*32,216,735*	$*(349,967*)
Residential mortgage-backed and related securities	*88,927,779*	*(871,855*)	*57,931,731*	*(1,441,674*)	*146,859,510*	*(2,313,529*)
Municipal securities	*10,229,337*	*(41,151*)	*9,997,433*	*(169,949*)	*20,226,770*	*(211,100*)
Other securities	*923,535*	*(25,815*)	-	-	*923,535*	*(25,815*)
	$*128,656,909*	$*(1,138,843*)	$*71,569,641*	$*(1,761,568*)	$*200,226,550*	$*(2,900,411*)
December 31, 2016:						
Securities held to maturity:						
Municipal securities	$*122,271,533*	$*(4,076,647*)	$*13,010,803*	$*(618,087*)	$*135,282,336*	$*(4,694,734*)
Securities available for sale:						
U.S. govt. sponsored agency securities	$*21,788,139*	$*(257,640*)	$*5,499,012*	$*(72,945*)	$*27,287,151*	$*(330,585*)
Residential mortgage-backed and related securities	*121,506,582*	*(2,641,664*)	*7,437,615*	*(296,424*)	*128,944,197*	*(2,938,088*)
Municipal securities	*34,152,822*	*(618,462*)	*338,099*	*(19,454*)	*34,490,921*	*(637,916*)

Other securities	*3,177,414*	*(27,331*)	-	-	*3,177,414*	*(27,331*)
	$*180,624,957*	$*(3,545,097*)	$*13,274,726*	$*(388,823*)	$*193,899,683*	$*(3,933,920*)

At *December 31, 2017,* the investment portfolio included *613* securities. Of this number, *223* securities were in an unrealized loss position. The aggregate losses of these securities totaled approximately *0.8%* of the total aggregate amortized cost. Of these *223* securities, *110* securities had an unrealized loss for *12* months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company lacks the intent to sell these securities and/or it is *not* more-likely-than-*not* that the Company will be required to sell these debt securities before their anticipated recovery. At *December 31, 2017* and *2016,* the Company's equity securities represent less than *1%* of the total portfolio.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *3.* Investment Securities (continued)

The Company did *not* recognize OTTI on any debt or equity securities for the years ended *December 31, 2017, 2016* or *2015.*

All sales of securities for the years ended *December 31, 2017, 2016* and *2015,* respectively, were from securities identified as AFS. Information on proceeds received, as well as the gains and losses from the sale of those securities are as follows:

	2017	2016	2015
Proceeds from sales of securities	$*71,091,580*	$*134,188,737*	$*81,410,368*
Gross gains from sales of securities	*67,351*	*4,845,009*	*1,045,444*
Gross losses from sales of securities	*(155,236*)	*(252,611*)	*(246,461*)

In *September 2016,* the Company sold an equity security and recognized a pre-tax gross gain on the sale of *$4,010,877.* The equity security was acquired by the Company at *no* cost as part of a membership in the invested company in *2002.*

The amortized cost and fair value of securities as of *December 31, 2017,* by contractual maturity are shown below. Expected maturities of mortgage-backed and related securities *may* differ from contractual maturities because the mortgages underlying the securities *may* be called or prepaid without any penalties. Therefore, these securities are *not* included in the maturity categories in the following summary. “Other securities” available for sale are excluded from the maturity categories as there is *no* fixed maturity date for those securities.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	$*2,912,158*	$*2,909,816*
Due after one year through five years	*20,838,734*	*20,896,388*
Due after five years	*355,723,313*	*355,943,600*
	$*379,474,205*	$*379,749,804*
Securities available for sale:		
Due in one year or less	$*1,991,755*	$*1,996,584*
Due after one year through five years	*26,984,843*	*26,986,584*
Due after five years	*75,608,923*	*75,738,862*
	$*104,585,521*	$*104,722,030*
Residential mortgage-backed and related securities	*165,459,470*	*163,301,304*
Other securities	*4,014,004*	*4,884,573*
	$*274,058,995*	$*272,907,907*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *3.* Investment Securities (continued)

Portions of the U.S. government sponsored agencies and municipal securities contain call options, at the discretion of the issuer, to terminate the security at predetermined dates prior to the stated maturity, summarized as follows:

	Amortized Cost	Fair Value
Securities held to maturity:		
Municipal securities	$*208,103,672*	$*208,961,233*
Securities available for sale:		
U.S. govt. sponsored agency securities	*5,048,756*	*4,988,073*
Municipal securities	*57,554,280*	*57,817,498*
	$*62,603,036*	$*62,805,571*

As of *December 31, 2017* and *2016,* investment securities with a carrying value of *$78,642,843* and *$118,811,905,* respectively, were pledged on FHLB advances, customer and wholesale repurchase agreements, and for other purposes as required or permitted by law.

As of *December 31, 2017,* the Company’s municipal securities portfolios were comprised of general obligation bonds issued by *131* issuers with fair values totaling *$108.0* million and revenue bonds issued by *145* issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling *$337.3* million. The Company held investments in general obligation bonds in *26* states, including *6* states in which the aggregate fair value exceeded *$5.0* million. The Company held investments in revenue bonds in *16* states, including *7* states in which the aggregate fair value exceeded *$5.0* million.

As of *December 31, 2016,* the Company's municipal securities portfolios were comprised of general obligation bonds issued by *116* issuers with fair values totaling *$116.5* million and revenue bonds issued by *120* issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling *$255.5* million. The Company held investments in general obligation bonds in *21* states, including *5* states in which the aggregate fair value exceeded *$5.0* million. The Company held investments in revenue bonds in *12* states, including *6* states in which the aggregate fair value exceeded *$5.0* million.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Investment Securities (continued)

The amortized cost and fair values of the Company's portfolio of general obligation bonds are summarized in the following tables by the issuer's state:

December 31, 2017:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Illinois	*20*	$*19,328,700*	$*19,514,024*	$*975,701*
Iowa	*16*	*13,881,689*	*13,969,512*	*873,095*
Missouri	*17*	*9,243,355*	*9,308,287*	*547,546*
North Dakota	*7*	*21,626,574*	*21,724,197*	*3,103,457*
Ohio	*9*	*8,002,705*	*7,938,028*	*882,003*
Texas	*17*	*11,253,775*	*11,308,848*	*665,226*
Other	*45*	*24,000,278*	*24,215,119*	*538,114*
Total general obligation bonds	*131*	$*107,337,076*	$*107,978,015*	$*824,260*

December 31, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)

Illinois	*19*	$*29,214,559*	$*29,308,438*	$*1,542,549*
Iowa	*27*	*32,258,612*	*32,231,936*	*1,193,775*
Missouri	*14*	*8,291,192*	*8,323,245*	*594,518*
North Dakota	*7*	*22,169,050*	*21,499,075*	*3,071,296*
Ohio	*8*	*6,790,398*	*6,651,897*	*831,487*
Other	*41*	*18,481,496*	*18,458,044*	*450,196*
Total general obligation bonds	*116*	$*117,205,307*	$*116,472,635*	$*1,004,074*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *3.* Investment Securities (continued)

The amortized cost and fair values of the Company's portfolio of revenue bonds are summarized in the following tables by the issuer's state:

December 31, 2017:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Illinois	*2*	$*17,211,441*	$*17,408,544*	$*8,704,272*
Indiana	*26*	*51,171,818*	*50,861,336*	*1,956,205*
Iowa	*29*	*68,724,899*	*69,079,470*	*2,382,051*
Kansas	*6*	*12,873,329*	*12,877,087*	*2,146,181*
Missouri	*56*	*106,259,015*	*106,232,837*	*1,897,015*
North Dakota	*5*	*11,451,560*	*11,351,676*	*2,270,335*
Ohio	*10*	*55,766,091*	*55,820,203*	*5,582,020*
Other	*11*	*13,805,340*	*13,716,132*	*1,246,921*
Total revenue bonds	*145*	$*337,263,493*	$*337,347,285*	$*2,326,533*

December 31, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per

				Issuer (Fair Value)
Indiana	*22*	$*47,994,737*	$*47,582,138*	$*2,162,824*
Iowa	*31*	*70,788,393*	*71,142,393*	*2,294,916*
Kansas	*6*	*13,476,366*	*13,427,491*	*2,237,915*
Missouri	*47*	*90,784,441*	*89,664,013*	*1,907,745*
North Dakota	*4*	*8,089,067*	*7,796,381*	*1,949,095*
Ohio	*3*	*13,650,000*	*13,405,222*	*4,468,407*
Other	*7*	*12,687,286*	*12,479,052*	*1,782,722*
Total revenue bonds	*120*	$*257,470,290*	$*255,496,690*	$*2,129,139*

As of *December 31, 2017* and *2016,* the Company did *not* hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded *5%* of the Company's stockholders' equity. Of the general obligation and revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated bonds were underwritten according to loan underwriting standards and have an average risk rating of *2,* indicating very high quality. Additionally, many of these bonds are funding essential municipal services (water, sewer, education, medical facilities).

The Company's municipal securities are owned by each of the *four* charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually and as of *December 31, 2017,* all were well-within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of total risk-based capital.

As of *December 31, 2017,* the Company's standard monitoring of its municipal securities portfolio had *not* uncovered any facts or circumstances resulting in significantly different credits ratings than those assigned by a nationally recognized statistical rating organization, or in the case of unrated bonds, the rating assigned using the credit underwriting standards.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable

The composition of the loan/lease portfolio as of *December 31, 2017* and *2016* is presented as follows:

	2017	2016
C&I loans	$*1,134,516,315*	$*827,637,263*
CRE loans		
Owner-occupied CRE	*332,742,477*	*332,387,621*
Commercial construction, land development, and other land	*186,402,404*	*165,149,491*
Other non owner-occupied CRE	*784,347,000*	*595,921,748*
	1,303,491,882	*1,093,458,860*
Direct financing leases *	*141,448,232*	*165,419,360*
Residential real estate loans **	*258,646,265*	*229,233,104*
Installment and other consumer loans	*118,610,799*	*81,665,695*
	2,956,713,493	*2,397,414,282*
Plus deferred loan/lease origination costs, net of fees	*7,771,907*	*8,072,703*
	2,964,485,400	*2,405,486,985*
Less allowance	*(34,355,728*)	*(30,757,448*)
	$*2,930,129,672*	$*2,374,729,537*
* Direct financing leases:		
Net minimum lease payments to be received	$*156,583,887*	$*184,274,802*
Estimated unguaranteed residual values of leased assets	*929,932*	*1,085,154*
Unearned lease/residual income	*(16,065,587*)	*(19,940,596*)
	141,448,232	*165,419,360*
Plus deferred lease origination costs, net of fees	*4,624,027*	*5,881,778*
	146,072,259	*171,301,138*
Less allowance	*(2,382,098*)	*(3,111,898*)
	$*143,690,161*	$*168,189,240*

Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors and management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal.

At *December 31, 2017,* the Company had *10* leases remaining with residual values totaling *$929,932* that were *not* protected with a lease end options rider. At *December 31, 2016,* the Company had *13* leases remaining with residual values totaling *$1,085,164* that were *not* protected with a lease end options rider. Management has performed specific evaluations of these unguaranteed residual values and determined that the valuations are appropriate. There were *no* losses related to unguaranteed residual values during the years ended *December 31, 2017, 2016,* and *2015.*

**Includes residential real estate loans held for sale totaling *$645,001* and *$1,135,500* as of *December 31, 2017* and *2016,* respectively.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

Changes in accretable yield for the loans acquired in the CSB and Guaranty Bank acquisitions are as follows:

	For the year ended December 31, 2017		
	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$*(194,306)*	$*(9,115,614)*	$*(9,309,920)*
Discount added at acquisition	*(219,902)*	*(2,223,989)*	*(2,443,891)*
Accretion recognized	*223,076*	*5,059,528*	*5,282,604*
Balance at the end of the period	$*(191,132)*	$*(6,280,075)*	$*(6,471,207)*

	For the year ended December 31, 2016		
	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	$ -	$ -	$ -
Discount added at acquisition	*(277,579)*	*(11,916,009)*	*(12,193,588)*
Accretion recognized	*83,273*	*2,800,395*	*2,883,668*
Balance at the end of the period	$*(194,306)*	$*(9,115,614)*	$*(9,309,920)*

The aging of the loan/lease portfolio by classes of loans/leases as of *December 31, 2017* and *2016* is presented as follows:

Classes of Loans/Leases	2017 Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past	Nonaccrual Loans/Leases	Total

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

Classes of Loans/Leases	2016 Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
C&I	$*821,637,507*	$*1,455,185*	$*10,551*	$*346,234*	$*4,187,786*	$*827,637,263*
CRE Owner-Occupied	*331,812,571*	-	*242,902*	-	*332,148*	*332,387,621*
CRE Commercial Construction, Land Development, and Other Land	*160,760,034*	*35,638*	-	-	*4,353,819*	*165,149,491*
Other Non Owner-Occupied CRE	*594,384,926*	*100,673*	-	-	*1,436,149*	*595,921,748*
Direct Financing Leases	*161,452,627*	*730,627*	*574,700*	*215,225*	*2,446,181*	*165,419,360*

Residential Real Estate	*227,023,552*	*473,478*	*365,581*	*294,854*	*1,075,639*	*229,233,104*
Installment and Other Consumer	*81,199,766*	*204,973*	*63,111*	*110,501*	*87,344*	*81,665,695*
	$*2,378,270,983*	$*3,000,574*	$*1,256,845*	$*966,814*	$*13,919,066*	$*2,397,414,282*
As a percentage of total loan/lease portfolio	*99.20* %	*0.13* %	*0.05* %	*0.04* %	*0.58* %	*100.00* %

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

NPLs by classes of loans/leases as of *December 31, 2017* and *2016* is presented as follows:

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

*At *December 31, 2017,* nonaccrual loans/leases included *$2,282,495* of TDRs, including *$122,598* in C&I loans, *$1,336,871* in CRE loans, *$700,255* in direct financing leases, *$115,190* in residential real estate loans, and *$7,581* in installment loans.

Classes of Loans/Leases	2016 Accruing Past	Nonaccrual	Accruing TDRs	Total NPLs	Percentage of

	Due 90 Days or More	Loans/Leases **			Total NPLs
C&I	$*346,234*	$*4,187,786*	$*4,733,997*	$*9,268,017*	*43.65* %
CRE					
Owner-Occupied CRE	-	*332,148*	-	*332,148*	*1.56* %
Commercial Construction, Land Development, and Other Land	-	*4,353,819*	-	*4,353,819*	*20.51* %
Other Non Owner-Occupied CRE	-	*1,436,149*	-	*1,436,149*	*6.77* %
Direct Financing Leases	*215,225*	*2,446,181*	*1,008,244*	*3,669,650*	*17.28* %
Residential Real Estate	*294,854*	*1,075,639*	*585,541*	*1,956,034*	*9.21* %
Installment and Other Consumer	*110,501*	*87,344*	*18,746*	*216,591*	*1.02* %
	$*966,814*	$*13,919,066*	$*6,346,528*	$*21,232,408*	*100.00* %

** At *December 31, 2016,* nonaccrual loans/leases included *$2,300,479* of TDRs, including *$48,501* in C&I loans, *$1,380,047* in CRE loans, *$816,149* in direct financing leases, *$43,579* in residential real estate loans, and *$12,203* in installment loans.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

Changes in the allowance by portfolio segment for the years ended *December 31, 2017, 2016,* and *2015* are presented as follows:

	Year Ended December 31, 2017					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$*12,545,110*	$*11,670,609*	$*3,111,898*	$*2,342,344*	$*1,087,487*	$*30,757,448*
Provisions charged to expense	*2,736,296*	*4,044,460*	*1,369,624*	*197,034*	*122,505*	*8,469,919*
Loans/leases charged off	*(1,149,790*)	*(1,795,229*)	*(2,284,910*)	*(102,088*)	*(41,196*)	*(5,373,213*)
Recoveries on loans/leases previously charged off	*191,420*	*42,848*	*185,486*	*29,141*	*52,679*	*501,574*
Balance, ending	$*14,323,036*	$*13,962,688*	$*2,382,098*	$*2,466,431*	$*1,221,475*	$*34,355,728*

	Year Ended December 31, 2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$*10,484,080*	$*9,375,117*	$*3,395,088*	$*1,790,150*	$*1,096,471*	$*26,140,906*
Provisions (credits) charged to expense	*2,478,912*	*2,286,953*	*2,127,463*	*628,114*	*(43,276*)	*7,478,166*
Loans/leases charged off	*(527,152*)	*(24,304*)	*(2,503,417*)	*(76,820*)	*(112,490*)	*(3,244,183*)
Recoveries on loans/leases previously charged off	*109,270*	*32,843*	*92,764*	*900*	*146,782*	*382,559*
Balance, ending	$*12,545,110*	$*11,670,609*	$*3,111,898*	$*2,342,344*	$*1,087,487*	$*30,757,448*

	Year Ended December 31, 2015					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$*8,833,832*	$*8,353,386*	$*3,359,400*	$*1,525,952*	$*1,001,795*	$*23,074,365*
Provisions charged to expense	*1,470,526*	*3,080,611*	*1,688,031*	*430,087*	*201,645*	*6,870,900*
Loans/leases charged off	*(453,782*)	*(2,560,749*)	*(1,788,772*)	*(169,996*)	*(251,838*)	*(5,225,137*)
Recoveries on loans/leases previously charged off	*633,504*	*501,869*	*136,429*	*4,107*	*144,869*	*1,420,778*
Balance, ending	$*10,484,080*	$*9,375,117*	$*3,395,088*	$*1,790,150*	$*1,096,471*	$*26,140,906*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

The allowance by impairment evaluation and by portfolio segment as of *December 31, 2017* and *2016* is presented as follows:

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

percentage of nonimpaired loans/leases						
Total allowance as a percentage of total loans/leases	*1.26* %	*1.07* %	*1.68* %	*0.95* %	*1.03* %	*1.16* %

	2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for impaired loans/leases	$*1,771,537*	$*693,919*	$*848,919*	$*289,112*	$*39,481*	$*3,642,968*
Allowance for nonimpaired loans/leases	*10,773,573*	*10,976,690*	*2,262,979*	*2,053,232*	*1,048,006*	*27,114,480*
	$*12,545,110*	$*11,670,609*	$*3,111,898*	$*2,342,344*	$*1,087,487*	$*30,757,448*
Impaired loans/leases	$*8,936,451*	$*6,112,114*	$*3,256,264*	$*1,661,180*	$*106,090*	$*20,072,099*
Nonimpaired loans/leases	*818,700,812*	*1,087,346,746*	*162,163,096*	*227,571,924*	*81,559,605*	*2,377,342,183*
	$*827,637,263*	$*1,093,458,860*	$*165,419,360*	$*229,233,104*	$*81,665,695*	$*2,397,414,282*
Allowance as a percentage of impaired loans/leases	*19.82* %	*11.35* %	*26.07* %	*17.40* %	*37.21* %	*18.15* %
Allowance as a percentage of nonimpaired loans/leases	*1.32* %	*1.01* %	*1.40* %	*0.90* %	*1.28* %	*1.14* %
Total allowance as a percentage of total loans/leases	*1.52* %	*1.07* %	*1.88* %	*1.02* %	*1.33* %	*1.28* %

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

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

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the years ended *December 31, 2017, 2016,* and *2015* are presented as follows:

	2017					
Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$ *1,634,269*	$ *1,644,706*	$ -	$ *1,406,310*	$ *71,183*	$ *71,183*
CRE						
Owner-Occupied CRE	*289,261*	*289,261*	-	*79,317*	*11,902*	*11,902*
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	*1,171,565*	*1,171,565*	-	*1,176,738*	-	-
Direct Financing Leases	*2,944,540*	*2,944,540*	-	*2,879,695*	*132,167*	*132,167*
Residential Real Estate	*943,388*	*1,018,167*	-	*685,807*	*1,161*	*1,161*
Installment and Other Consumer	*134,245*	*134,245*	-	*126,474*	-	-

	$*7,117,268*	$*7,202,484*	$*-*	$*6,354,341*	$*216,413*	$*216,413*
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$*4,613,940*	$*4,617,879*	$*715,627*	$*4,584,142*	$*203,221*	$*203,221*
CRE						
Owner-Occupied CRE	*151,962*	*151,962*	*48,462*	*221,260*	-	-
Commercial Construction, Land Development, and Other Land	*4,844,312*	*4,844,312*	*1,379,235*	*4,447,831*	-	-
Other Non Owner-Occupied CRE	*72,163*	*72,163*	*1,763*	*44,667*	-	-
Direct Financing Leases	*724,953*	*724,953*	*504,469*	*625,107*	-	-
Residential Real Estate	*761,458*	*761,458*	*355,167*	*549,286*	*14,990*	*14,990*
Installment and Other Consumer	*68,109*	*68,109*	*38,596*	*40,152*	*410*	*410*
	$*11,236,897*	$*11,240,836*	$*3,043,319*	$*10,512,445*	$*218,621*	$*218,621*
Total Impaired Loans/Leases:						
C&I	$*6,248,209*	$*6,262,585*	$*715,627*	$*5,990,452*	$*274,404*	$*274,404*
CRE						
Owner-Occupied CRE	*441,222*	*441,222*	*48,462*	*300,577*	*11,902*	*11,902*
Commercial Construction, Land Development, and Other Land	*4,844,312*	*4,844,312*	*1,379,235*	*4,447,831*	-	-
Other Non Owner-Occupied CRE	*1,243,728*	*1,243,728*	*1,763*	*1,221,405*	-	-
Direct Financing Leases	*3,669,492*	*3,669,492*	*504,469*	*3,504,802*	*132,167*	*132,167*
Residential Real Estate	*1,704,846*	*1,779,625*	*355,167*	*1,235,093*	*16,151*	*16,151*
Installment and Other Consumer	*202,354*	*202,354*	*38,596*	*166,626*	*410*	*410*
	$*18,354,163*	$*18,443,318*	$*3,043,319*	$*16,866,786*	$*435,034*	$*435,034*

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

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

Classes of Loans/Leases	2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$ *841,895*	$ *951,600*	$ -	$ *2,858,343*	$ *16,748*	$ *16,748*
CRE						
Owner-Occupied CRE	-	*93,774*	-	*312,242*	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	*1,196,549*	*1,196,549*	-	*1,322,654*	-	-
Direct Financing Leases	*1,690,121*	*1,690,121*	-	*1,731,982*	*43,461*	*43,461*
Residential Real Estate	*853,294*	*892,495*	-	*964,590*	*9,903*	*9,903*
Installment and Other Consumer	*55,734*	*55,734*	-	*321,175*	*4,475*	*4,475*
	$ *4,637,593*	$ *4,880,273*	$ -	$ *7,510,986*	$ *74,587*	$ *74,587*
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$ *8,094,556*	$ *8,098,395*	$ *1,771,537*	$ *2,959,495*	$ *17,742*	$ *17,742*
CRE						
Owner-Occupied CRE	*322,148*	*322,148*	*57,398*	*385,269*	-	-
Commercial Construction, Land Development, and Other Land	*4,353,817*	*4,353,819*	*577,611*	*1,022,930*	-	-
Other Non Owner-Occupied CRE	*239,600*	*239,600*	*58,910*	*47,920*	-	-
Direct Financing Leases	*1,566,143*	*1,566,143*	*848,919*	*841,733*	*36,303*	*36,303*

Residential Real Estate	*807,886*	*882,018*	*289,112*	*573,211*	*11,675*	*11,675*
Installment and Other Consumer	*50,356*	*50,356*	*39,481*	*40,384*	*527*	*527*
	$*15,434,506*	$*15,512,479*	$*3,642,968*	$*5,870,942*	$ *66,247*	$ *66,247*
Total Impaired Loans/Leases:						
C&I	$*8,936,451*	$*9,049,995*	$*1,771,537*	$*5,817,838*	$ *34,490*	$ *34,490*
CRE						
Owner-Occupied CRE	*322,148*	*415,922*	*57,398*	*697,511*	-	-
Commercial Construction, Land Development, and Other Land	*4,353,817*	*4,353,819*	*577,611*	*1,022,930*	-	-
Other Non Owner-Occupied CRE	*1,436,149*	*1,436,149*	*58,910*	*1,370,574*	-	-
Direct Financing Leases	*3,256,264*	*3,256,264*	*848,919*	*2,573,715*	*79,764*	*79,764*
Residential Real Estate	*1,661,180*	*1,774,513*	*289,112*	*1,537,801*	*21,578*	*21,578*
Installment and Other Consumer	*106,090*	*106,090*	*39,481*	*361,559*	*5,002*	*5,002*
	$*20,072,099*	$*20,392,752*	$*3,642,968*	$*13,381,928*	$ *140,834*	$ *140,834*

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

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

Classes of Loans/Leases	2015 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$ *234,636*	$ *346,072*	$ -	$ *380,495*	$ *7,436*	$ *7,436*
CRE						
Owner-Occupied CRE	*256,761*	*350,535*	-	*447,144*	-	-
Commercial Construction, Land Development, and Other Land	-	*228,818*	-	*117,406*	-	-
Other Non Owner-Occupied CRE	*1,578,470*	*1,578,470*	-	*2,953,888*	-	-
Direct Financing Leases	*871,884*	*871,884*	-	*892,281*	*4,142*	*4,142*
Residential Real Estate	*613,486*	*649,064*	-	*1,047,001*	*3,929*	*3,929*
Installment and Other Consumer	*377,304*	*377,304*	-	*817,854*	*9,563*	*9,563*
	$ *3,932,541*	$ *4,402,147*	$ -	$ *6,656,069*	$ *25,070*	$ *25,070*
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$ *5,051,846*	$ *5,055,685*	$ *2,592,270*	$ *4,811,046*	$ -	$ -
CRE						
Owner-Occupied CRE	-	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	*193,804*	*205,804*	*76,934*	*195,986*	-	-
Other Non Owner-Occupied CRE	-	-	-	-	-	-
Direct Financing Leases	*829,457*	*829,457*	*306,193*	*474,458*	-	-

Residential Real Estate	*805,301*	*805,301*	*185,801*	*712,085*	*7,913*	*7,913*
Installment and Other Consumer	*210,438*	*210,438*	*143,089*	*189,539*	*5,693*	*5,693*
	$*7,090,846*	$*7,106,685*	$*3,304,287*	$*6,383,114*	$ *13,606*	$ *13,606*
Total Impaired Loans/Leases:						
C&I	$*5,286,482*	$*5,401,757*	$*2,592,270*	$*5,191,541*	$ *7,436*	$ *7,436*
CRE						
Owner-Occupied CRE	*256,761*	*350,535*	-	*447,144*	-	-
Commercial Construction, Land Development, and Other Land	*193,804*	*434,622*	*76,934*	*313,392*	-	-
Other Non Owner-Occupied CRE	*1,578,470*	*1,578,470*	-	*2,953,888*	-	-
Direct Financing Leases	*1,701,341*	*1,701,341*	*306,193*	*1,366,739*	*4,142*	*4,142*
Residential Real Estate	*1,418,787*	*1,454,365*	*185,801*	*1,759,086*	*11,842*	*11,842*
Installment and Other Consumer	*587,742*	*587,742*	*143,089*	*1,007,393*	*15,256*	*15,256*
	$*11,023,387*	$*11,508,832*	$*3,304,287*	$*13,039,183*	$ *38,676*	$ *38,676*

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

For C&I and CRE loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial loan is assigned a risk rating upon origination. The risk rating is reviewed every *15* months, at a minimum, and on an as needed basis depending on the specific circumstances of the loan. See Note *1* for further discussion on the Company's risk ratings.

For direct financing leases, residential real estate loans, and installment and other consumer loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of *December 31, 2017* and *2016:*

	2017					
		CRE				
Internally Assigned Risk Rating	C&I	Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total
Pass (Ratings 1 through 5)	$ *1,098,722,101*	$ *318,293,608*	$ *179,142,839*	$ *767,119,909*	$ *2,363,278,457*	*96.94* %

Special Mention (Rating 6)	*10,944,924*	*8,230,060*	*1,780,000*	*10,068,870*	*31,023,854*	*1.27* %
Substandard (Rating 7)	*24,578,731*	*6,218,809*	*5,479,565*	*7,158,221*	*43,435,326*	*1.78* %
Doubtful (Rating 8)	*270,559*	*-*	*-*	*-*	*270,559*	*0.01* %
	$*1,134,516,315*	$*332,742,477*	$*186,402,404*	$*784,347,000*	$*2,438,008,197*	*100.00*%

Delinquency Status *	2017 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$*137,778,740*	$*256,935,448*	$*118,333,529*	$*513,047,716*	*98.91* %
Nonperforming	*3,669,492*	*1,710,818*	*277,270*	*5,657,580*	*1.09* %
	$*141,448,232*	$*258,646,265*	$*118,610,799*	$*518,705,296*	*100.00*%

Internally Assigned Risk Rating	2016 C&I	CRE Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total
Pass (Ratings 1 through 5)	$*796,568,451*	$*314,447,662*	$*158,108,465*	$*582,854,048*	$*1,851,978,626*	*96.40* %
Special Mention (Rating 6)	*6,305,772*	*7,559,380*	*1,780,000*	*4,437,122*	$*20,082,274*	*1.05* %
Substandard (Rating 7)	*24,763,040*	*10,380,369*	*5,261,026*	*8,630,578*	$*49,035,013*	*2.55* %
Doubtful (Rating 8)	*-*	*210*	*-*	*-*	$*210*	*0.00* %
	$*827,637,263*	$*332,387,621*	$*165,149,491*	$*595,921,748*	$*1,921,096,123*	*100.00*%

Delinquency Status *	2016 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$*161,749,710*	$*227,277,070*	$*81,449,104*	$*470,475,884*	*98.77* %
Nonperforming	*3,669,650*	*1,956,034*	*216,591*	$*5,842,275*	*1.23* %

$*165,419,360*	$*229,233,104*	$*81,665,695*	$*476,318,159*	*100.00%*

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

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

As of *December 31, 2017* and *2016,* TDRs totaled *$9,394,967* and *$8,647,007,* respectively.

For each class of financing receivable, the following presents the number and recorded investment of TDRs, by type of concession, that were restructured during the years ended *December 31, 2017* and *2016.* The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of restructuring. The specific allowance is as of *December 31, 2017* and *2016,* respectively. The following excludes any TDRs that were restructured and paid off or charged off in the same year.

Classes of Loans/Leases	2017 Number of Loans / Leases	Pre- Modification Recorded Investment	Post- Modification Recorded Investment	Specific Allowance
CONCESSION - Extension of Maturity				
Direct Financing Leases	*3*	$ *115,236*	$ *115,236*	$ -
	3	$ *115,236*	$ *115,236*	$ -
CONCESSION - Significant Payment Delay				
C&I	*7*	$ *826,531*	$ *826,531*	$ *62,596*
CRE - Owner Occupied	*1*	$ *107,322*	$ *107,322*	-
Direct Financing Leases	*24*	*1,703,255*	*1,703,255*	-
	32	$ *2,637,108*	$ *2,637,108*	$ *62,596*
TOTAL	*35*	$ *2,752,344*	$ *2,752,344*	$ *62,596*

Classes of Loans/Leases	2016 Number of Loans/Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Extension of Maturity				
C&I	*3*	$ *247,476*	$ *247,476*	$ *60,767*
Direct Financing Leases	*4*	*410,653*	*410,653*	*38,476*
Residential Real Estate	*1*	*277,092*	*277,092*	*187,492*
	8	$ *935,221*	$ *935,221*	$ *286,735*
CONCESSION - Significant Payment Delay				
C&I	*7*	$ *4,562,427*	$ *4,562,427*	$ *813,041*
Direct Financing Leases	*13*	*1,149,493*	*1,149,493*	*125,940*
	20	$ *5,711,920*	$ *5,711,920*	$ *938,981*
CONCESSION - Interest Rate Adjusted Below Market				
CRE - Other	*1*	$ *1,233,740*	$ *1,233,740*	$ -
	1	$ *1,233,740*	$ *1,233,740*	$ -
TOTAL	*29*	$ *7,880,881*	$ *7,880,881*	$ *1,225,716*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *4.* Loans/Leases Receivable (continued)

Of the TDRs reported above, *seven* with a post-modification recorded investment totaling *$279,245* were on nonaccrual as of *December 31, 2017* and *eight* with a post-modification recorded investment totaling *$2,008,424* was on nonaccrual as of *December 31, 2016.*

For the year ended *December 31, 2017,* the Company had *six* TDRs totaling *$251,940* that redefaulted within *12* months subsequent to restructure, where default is defined as delinquency of *90* days or more and/or placement on nonaccrual status. For the year ended *December 31, 2016,* the Company had *no* TDRs that redefaulted within *12* months subsequent to restructure.

Not included in the table above, the Company had *two* TDRs that were restructured and charged off in *2017,* totaling *$65,623.* There were *three* TDRs that were both restructured and charged off in *2016,* totaling *$341,952.*

Loans are made in the normal course of business to directors, executive officers, and their related interests. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other persons. An analysis of the changes in the aggregate committed amount of loans greater than or equal to *$60,000* during the years ended *December 31, 2017, 2016,* and *2015,* is as follows:

	2017	2016	2015
Balance, beginning	$*61,608,976*	$*42,012,313*	$*42,469,111*
Net increase (decrease) due to change in related parties	*11,926,759*	*19,945,960*	*(3,606,418*)
Advances	*13,090,798*	*4,806,616*	*19,040,675*
Repayments	*(20,184,585*)	*(5,155,913*)	*(15,891,055*)
Balance, ending	$*66,441,948*	$*61,608,976*	$*42,012,313*

The Company's loan portfolio includes a geographic concentration in the Midwest. Additionally, the loan portfolio includes a concentration of loans in certain industries as of *December 31, 2017* and *2016* as follows:

	2017		2016	
Industry Name	Balance	Percentage of Total Loans/Leases	Balance	Percentage of Total Loans/Leases
Lessors of Non-Residential Buildings	$*400,622,681*	*14* %	$*359,040,649*	*15* %
Lessors of Residential Buildings	*370,353,561*	*12* %	*166,036,201*	*7* %
Administration of Urban Planning & Community & Rural Development	*83,343,541*	*3* %	*37,097,000*	*2* %
Bank Holding Companies	*66,950,294*	*2* %	*66,069,612*	*3* %
Nonresidential Property Managers	*51,984,722*	*2* %	*76,504,076*	*3* %

Concentrations within the leasing portfolio are monitored by equipment type – *none* of which represent a concentration within the total loans/leases portfolio. Within the leasing portfolio, diversification is spread among construction, manufacturing and the service industries. Geographically, the lease portfolio is diversified across all *50* states. *No* individual state represents a concentration within the total loan/lease portfolio.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Premises and Equipment

The following summarizes the components of premises and equipment as of *December 31, 2017* and *2016:*

	2017	2016
Land	$*13,466,930*	$*12,936,223*
Buildings (useful lives 15 to 50 years)	*53,633,788*	*51,546,499*
Furniture and equipment (useful lives 3 to 10 years)	*31,984,631*	*28,458,946*
Premises and equipment	*99,085,349*	*92,941,668*
Less accumulated depreciation	*36,247,094*	*32,298,160*
Premises and equipment, net	$*62,838,255*	$*60,643,508*

Certain facilities are leased under operating leases. Rental expense was *$348,467, $334,977,* and *$339,839* for the years ended *December 31, 2017, 2016,* and *2015,* respectively.

Future minimum rental commitments under noncancelable leases are as follows as of *December 31, 2017:*

Year ending December 31:	
2018	*363,791*
2019	*355,727*
2020	*259,798*
2021	*159,708*
2022	*91,969*
Thereafter	*62,858*
	$*1,293,851*

During *2016,* the Company entered into a material related party transaction with an entity that is owned and controlled by a CRBT director. That business was chosen as the general contractor for the remodel of the Waterloo branch. The business was the original contractor for the branch and is recognized as a leader in Iowa and the Midwest market for the design and construction of financial services and professional office buildings. Based on the entity's expertise, its experience as the original designer/builder of the branch location and a decline to bid from *two* other contractors, management chose the entity as the general contractor. Management determined that the bids received from the entity were at market rates.

The project total was estimated at *$3.7* million. This was the full contract price, as subcontractors will be utilized to complete the work. It is estimated that the entity received *$2.2* million for its work as the general contractor, including payments for a portion of the actual construction costs as the entity completed a portion of the subcontracting work in addition to being the general contractor. As of *December 31, 2017,* the project was complete and there was *no* outstanding commitment remaining.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *6*. Goodwill and Intangibles

The following table presents the changes in the carrying amount of goodwill as of *December 31, 2017* and *2016:*

	2017	2016
Balance at the beginning of period	$*13,110,913*	$*3,222,688*
Goodwill from acquisition of Guaranty Bank	*15,223,179*	-
Goodwill from acquisition of CSB	-	*9,888,225*
Balance at the end of period	$*28,334,092*	$*13,110,913*

The following table presents the changes in the carrying amount of core deposit intangibles, gross carrying amount, accumulated amortization, and net book value as of *December 31, 2017* and *2016:*

	2017	2016
Balance at the beginning of the period	$*7,381,213*	$*1,471,410*
Core deposit intangible from acquisition of Guaranty Bank	*2,698,301*	-
Core deposit intangible from acquisition of CSB	-	*6,352,653*
Amortization expense	*(1,000,561*)	*(442,850*)
Balance at the end of the period	$*9,078,953*	$*7,381,213*
Gross carrying amount	$*11,046,081*	$*8,347,780*
Accumulated amortization	*(1,967,128*)	*(966,567*)
Net book value	$*9,078,953*	$*7,381,213*

The following table presents the estimated amortization of the core deposit intangible:

Years ending December 31,	Amount
2018	$*1,218,202*
2019	*1,196,331*
2020	*1,169,934*
2021	*1,139,012*
2022	*1,103,565*
Thereafter	*3,251,909*
	$*9,078,953*

See Note *2* to the Consolidated Financial Statements for additional information regarding the acquisitions of CSB and Guaranty Bank and the related goodwill and core deposit intangible.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *7.* Derivatives and Hedging Activities

Below is a summary of the interest rate cap derivatives held by the Company as of *December 31, 2017* and *2016.* An initial premium of *$2.1* million was paid upfront for the *two* caps. The fair value of these instruments will fluctuate with market value changes, as well as amortization of the initial premium to interest expense.

Effective Date	Maturity Date	Balance Sheet Location	Notional Amount	Accounting Treatment	December 31, 2017 Fair Value	December 31, 2016 Fair Value
June 5, 2014	June 5, 2019	Other Assets	$*15,000,000*	Cash Flow Hedging	$*190,085*	$*179,939*
June 5, 2014	June 5, 2021	Other Assets	*15,000,000*	Cash Flow Hedging	*316,615*	*396,588*
			$*30,000,000*		$*506,700*	$*576,527*

Changes in the fair values of derivative financial instruments accounted for as cash flow hedges to the extent they are effective hedges, are recorded as a component of accumulated other comprehensive income. The following is a summary of how AOCI was impacted during the reporting periods:

	Year Ended December 31, 2017	December 31, 2016
Unrealized loss at beginning of period, net of tax	$*(932,156)*	$*(799,421)*
Amount reclassified from accumulated other comprehensive income to noninterest income related to hedge ineffectiveness	-	*(76,797)*
Amount reclassified from accumulated other comprehensive income to noninterest expense related to hedge ineffectiveness	*79,757*	-
Amount reclassified from accumulated other comprehensive income to interest expense related to caplet amortization	*405,134*	*152,087*

Amount of loss recognized in other comprehensive income, net of tax	*(357,762)*	*(208,025)*
Unrealized loss at end of period, net of tax	$*(805,027)*	$*(932,156)*

Changes in the fair value related to the ineffective portion of cash flow hedges, are reported in noninterest income during the period of the change. As shown in the table above, *$79,757* of expense and *$76,797* of income from the change in fair value for the years ending *December 31, 2017* and *2016,* respectively, was due to ineffectiveness.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *8.* Deposits

The aggregate amount of certificates of deposit, each with a minimum denomination of $*250,000,* was *$364,329,340* and *$300,852,485* as of *December 31, 2017* and *2016,* respectively.

As of *December 31, 2017,* the scheduled maturities of certificates of deposit were as follows:

Year ending December 31:	
2018	$*478,334,220*
2019	*86,231,955*
2020	*18,143,039*
2021	*8,223,919*
2022	*5,071,695*
Thereafter	*67,050*
	$*596,071,878*

The Company had a *$35.0* million PUD LOC with the FHLB of Des Moines and a *$10.1* million PUD LOC with the FHLB of Chicago for the purpose of providing additional collateral on public deposits as of *December 31, 2017.* As of *December 31, 2016,* the Company had a *$40.0* million PUD LOC with the FHLB of Des Moines and a *$7.0* million PUD LOC with the FHLB of Chicago. There were *no* amounts outstanding under these letters of credit as of *December 31, 2017* or *2016.*

Note *9.* Short-Term Borrowings

Short-term borrowings as of *December 31, 2017* and *2016* are summarized as follows:

	2017	2016
Overnight repurchase agreements with customers	$*7,003,122*	$*8,131,387*
Federal funds purchased	*6,990,000*	*31,840,000*
	$*13,993,122*	$*39,971,387*

The Company's overnight repurchase agreements with customers are collateralized by investment securities with carrying values as follows:

	2017	2016
U.S. govt. sponsored agency securities	$*2,077,702*	$*630,077*
Residential mortgage-backed and related securities	*18,816,280*	*19,090,261*
Total securities pledged to overnight customer repurchase agreements	*20,893,982*	*19,720,338*
Less: overcollateralized position	*13,890,860*	*11,588,951*
	$*7,003,122*	$*8,131,387*

Inherent in the overnight purchase agreements is a risk that the fair value of the collateral pledged on the agreements could decline below the amount obligated under our customer repurchase agreements. The Company considers this risk minimal. The Company monitors balances daily to ensure that collateral is sufficient to meet obligations. Additionally, the Company maintains an overcollateralized position that is sufficient to cover any minor interest rate movements.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *9.* Short-Term Borrowings (continued)

The securities underlying the agreements as of *December 31, 2017* and *2016* were under the Company's control in safekeeping at *third*-party financial institutions.

Information concerning overnight repurchase agreements with customers is summarized as follows as of *December 31, 2017* and *2016:*

	2017	2016
Average daily balance during the period	$*7,475,824*	$*30,082,866*
Average daily interest rate during the period	*0.08* %	*0.07* %
Maximum month-end balance during the period	$*11,829,201*	$*59,833,229*
Weighted average rate as of end of period	*0.15* %	*0.02* %

Information concerning federal funds purchased is summarized as follows as of *December 31, 2017* and *2016:*

	2017	2016
Average daily balance during the period	$*13,486,239*	$*19,105,595*
Average daily interest rate during the period	*1.31* %	*0.56* %
Maximum month-end balance during the period	$*33,650,000*	$*51,750,000*
Weighted average rate as of end of period	*1.24* %	*0.70* %

Note *10.* FHLB Advances

The subsidiary banks are members of the FHLB of Des Moines or Chicago. Maturity and interest rate information on advances from FHLB as of *December 31, 2017* and *2016* is as follows:

	December 31, 2017			December 31, 2016		
	Amount Due	Weighted Average Interest Rate at Year-End		Amount Due	Weighted Average Interest Rate at Year-End	
Maturity:						
Year ending December 31:						
2017	$-	-		$*112,500,000*	*0.78*	%
2018	*190,400,000*	*1.82*		*25,000,000*	*3.35*	
2020	*1,600,000*	*1.75*		-	-	
Total FHLB advances	$*192,000,000*	*1.82*	%	$*137,500,000*	*1.25*	%

*Of the advances outstanding, a portion have putable options which allow the FHLB, at its discretion, to terminate the advances and require the subsidiary banks to repay at predetermined dates prior to the stated maturity date of the advances.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *10.* FHLB Advances (continued)

Advances are collateralized by loans of $*850,115,910* and *$669,513,037* as of *December 31, 2017* and *2016,* respectively, in aggregate. On pledged loans, the FHLB applies varying collateral maintenance levels from *125%* to *333%* based on the loan type. Advances are collateralized by securities of *$6,690,525* as of *December 31, 2017,* in aggregate. As of *December 31, 2016,* there were *no* securities pledged to advances. The Company continues to pledge loans under blanket liens to provide off balance sheet liquidity.

As of *December 31, 2017* and included with the *2018* maturity grouping above are *$165.4* million of short-term advances from the FHLB. These advances have maturities ranging from *1* day to *1* month. Short-term and overnight advances totaled *$104.5* million as of *December 31, 2016* and had maturities ranging from *1* day to *1* month.

Throughout *2016,* the Company executed several balance sheet restructuring strategies in an effort to reduce reliance on wholesale funding. These strategies will continue to be evaluated in the future. A summary of prepayments of FHLB advances related to these restructurings is summarized in the following table for the year ended *December 31, 2016:*

2016

Date of Restructuring	Amount	Weighted Average Interest Rate		Range of Maturity Dates	Prepayment Fees
First Quarter of 2016	$ *10,000,000*	*3.86*	%	December 2017	$ *524,197*
Third Quarter of 2016	*5,000,000*	*2.84*	%	February 2018	*127,310*
Fourth Quarter of 2016	*15,000,000*	*3.14*	%	September 2017 to November 2017	*357,161*
Total for 2016	$ *30,000,000*	*3.33*	%		$ *1,008,668*

All prepayment fees shown in the table above are included in losses on debt extinguishment in the statements of income.

As of *December 31, 2017* and *2016,* the subsidiary banks held *$11,676,700* and *$9,271,300,* respectively, of FHLB stock, which is included in restricted investment securities on the consolidated balance sheet.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *11.* Other Borrowings and Unused Lines of Credit

Other borrowings as of *December 31, 2017* and *2016* are summarized as follows:

	2017	2016
Wholesale structured repurchase agreements	$*35,000,000*	$*45,000,000*
Term notes	*31,000,000*	*30,000,000*
Revolving line of credit	-	*5,000,000*
	$*66,000,000*	$*80,000,000*

The Company’s wholesale structured repurchase agreements are collateralized by investment securities with carrying values as follows:

	2017	2016
U.S. govt. sponsored agency securities	$*3,474,555*	$*20,798,703*
Residential mortgage-backed and related securities	*61,528,167*	*31,321,028*
Total securities pledged to wholesale customer repurchase agreements	*65,002,722*	*52,119,731*
Less: overcollateralized position	*30,002,722*	*7,119,731*
	$*35,000,000*	$*45,000,000*

Inherent in the wholesale structured repurchase agreements is a risk that the fair value of the collateral pledged on the agreements could decline below the amount obligated under the agreements. The Company considers this risk minimal. The Company maintains an overcollateralized position that is sufficient to cover any minor interest rate movements.

Throughout *2016,* the Company executed several balance sheet restructuring strategies in an effort to reduce reliance on wholesale funding. These strategies will continue to be evaluated in the future. A summary of prepayments of wholesale structured repurchase agreements related to those restructurings is summarized in the following table for the year ended *December 31, 2016:*

2016

Date of Restructuring	Amount	Weighted Average Interest Rate	Range of Maturity Dates	Prepayment Fees
First Quarter of 2016	$ *10,000,000*	*3.97* %	July 2018	$ *759,000*
Third Quarter of 2016	*55,000,000*	*3.27* %	February 2019 to September 2020	*4,010,000*
Total for 2016	$ *65,000,000*	*3.38* %		$ *4,769,000*

All prepayment fees shown in the table above are included in losses on debt extinguishment in the statements of income. There were *no* material modifications of borrowings during *2017* or *2016.*

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *11.* Other Borrowings and Unused Lines of Credit (continued)

Maturity and interest rate information concerning wholesale structured repurchase agreements is summarized as follows:

	December 31, 2017		December 31, 2016	
	Amount Due	Weighted Average Interest Rate at Year-End	Amount Due	Weighted Average Interest Rate at Year-End
Maturity:				
Year ending December 31:				
2017	$ -	-	$ *10,000,000*	*3.00* %
2019	*10,000,000*	*3.44*	*10,000,000*	*3.44*
2020	*25,000,000*	*2.48*	*25,000,000*	*2.48*
Total Wholesale Structured Repurchase Agreements	$ *35,000,000*	*2.76* %	$ *45,000,000*	*2.81* %

The Company has *two* term notes. The *first* is a term note with a maturity date of *December 31, 2021.* The outstanding balance on the term note totals *$24.0* million and *$30.0* million at *December 31, 2017* and *2016,* respectively. Interest on the term note is calculated at the effective LIBOR rate plus *3.00%* per annum (*4.56%* and *3.77%* at *December 31, 2017* and *2016,* respectively). The *second* is a *$7.0* million term note originated in the *third* quarter of *2017* with a maturity date of *December 31, 2021* and interest calculated at the effective LIBOR rate plus *3.00%* per annum (*4.56%* at *December 31, 2017).* The proceeds from this note were used to fund a portion of the cash consideration for the acquisition of Guaranty Bank. The collateral on both borrowings is the original stock certificates and stock powers of all subsidiaries.

The Company has a *$10.0* million revolving line of credit note available for which there is *no* outstanding balance as of *December 31, 2017*. If used, interest on the revolving line of credit is calculated at the effective LIBOR rate plus *2.50%* per annum (*4.06%* at *December 31, 2017).* The collateral on the revolving line of credit is the original stock certificates and stock powers of all subsidiaries.

For the term notes, the Company is required to make quarterly principal payments of *$1,937,500* with maturity information as of *December 31, 2017,* summarized as follows:

	As of December 31, 2017
2018	$*7,750,000*
2019	*7,750,000*
2020	*7,750,000*
2021	*7,750,000*
	$*31,000,000*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *11.* Other Borrowings and Unused Lines of Credit (continued)

Unused lines of credit of the subsidiary banks as of *December 31, 2017* and *2016* are summarized as follows:

	2017	2016
Secured	$*2,967,441*	$*34,409,192*
Unsecured	*372,000,000*	*347,000,000*
	$*374,967,441*	$*381,409,192*

The Company pledges the eligible portion of its municipal securities portfolio and select C&I and CRE loans to the Federal Reserve Bank of Chicago for borrowing at the Discount Window.

Note *12*. Junior Subordinated Debentures

Junior subordinated debentures are summarized as of *December 31, 2017* and *2016* as follows:

	2017	2016
Note Payable to QCR Holdings Capital Trust II	$*10,310,000*	$*10,310,000*
Note Payable to QCR Holdings Capital Trust III	*8,248,000*	*8,248,000*
Note Payable to QCR Holdings Capital Trust V	*10,310,000*	*10,310,000*
Note Payable to Community National Trust II	*3,093,000*	*3,093,000*
Note Payable to Community National Trust III	*3,609,000*	*3,609,000*

Note Payable to Guaranty Bankshares Statutory Trust I*	*4,640,000*	-
Market Value Discount per ASC 805**	*(2,723,513*)	*(2,089,798*)
	$*37,486,487*	$*33,480,202*

* As part of the acquisition of Guaranty Bank, the Company assumed *one* junior subordinated debenture with a fair value of *$3,857,275.*

** Discount on junior subordinated debt acquired in *2013* as part of the purchase of Community National and junior subordinated debt acquired in *2017* as part of the purchase of Guaranty Bank.

A schedule of the Company's non-consolidated subsidiaries formed for the issuance of trust preferred securities, including the amounts outstanding as of *December 31, 2017* and *2016,* is as follows:

Name	Date Issued	Amount Outstanding December 31, 2017	Amount Outstanding December 31, 2016	Interest Rate	Interest Rate as of December 31, 2017	Interest Rate as of December 31, 2016
QCR Holdings Statutory Trust II*	February 2004	$*10,310,000*	$*10,310,000*	2.85% over 3-month LIBOR	*4.54%*	*3.85%*
QCR Holdings Statutory Trust III	February 2004	*8,248,000*	*8,248,000*	2.85% over 3-month LIBOR	*4.54%*	*3.85%*
QCR Holdings Statutory Trust V	February 2006	*10,310,000*	*10,310,000*	1.55% over 3-month LIBOR	*2.91%*	*2.43%*
Community National Statutory Trust II	September 2004	*3,093,000*	*3,093,000*	2.17% over 3-month LIBOR	*3.80%*	*3.17%*
Community National Statutory Trust III	March 2007	*3,609,000*	*3,609,000*	1.75% over 3-month LIBOR	*3.32%*	*2.71%*
Guaranty Bankshares Statutory Trust I	May 2005	*4,640,000*	-	1.75% over 3-month LIBOR	*3.34%*	*N/A*
		$*40,210,000*	$*35,570,000*	Weighted Average Rate	*3.82%*	*3.26%*

*Original amount issued for QCR Holdings Statutory Trust II was *$12,372,000.*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *12*. Junior Subordinated Debentures (continued)

Securities issued by all of the trusts listed above mature *30* years from the date of issuance, but all are currently callable at par at any time. Interest rate reset dates vary by Trust.

During *2015,* the Company acquired and extinguished *$2.1* million of the QCR Holdings Statutory Trust II junior subordinated debentures and recorded a *$300,000* gain on the extinguishment, which is included within the overall net losses on debt extinguishments in the statements of income. The Company was able to acquire the related security at a discount through auction, which resulted in the gain. The interest rate on this debenture floated at LIBOR plus *2.85%* and had a rate of *3.18%* at the time of extinguishment.

In *2016,* the Company extinguished *$5.1* million of the QCR Holdings Capital Trust IV junior subordinated debentures (the full balance outstanding) and recorded a *$1.2* million gain on extinguishment (pre-tax), as the Company was able to acquire the related security at a discount through auction. This gain is included within the overall net losses on debt extinguishments in the statements of income for *2016.* The interest rate on these debentures floated at *3*-month LIBOR plus *1.80%* and had a rate of *2.42%* at the time of extinguishment. QCR Holdings Capital Trust IV was dissolved after the extinguishment.

Note *13.* Federal and State Income Taxes

Federal and state income tax expense was comprised of the following components for the years ended *December 31, 2017, 2016,* and *2015:*

2017	2016	2015

Current	$*10,976,005*	$*11,969,194*	$*5,673,774*
Deferred	*(6,029,555*)	*(3,066,407*)	*(2,004,532*)
	$*4,946,450*	$*8,902,787*	$*3,669,242*

A reconciliation of the expected federal income tax expense to the income tax expense included in the consolidated statements of income was as follows for the years ended *December 31, 2017, 2016,* and *2015:*

	Years Ended December 31,					
	2017		2016		2015	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed "expected" tax expense	$*14,228,535*	*35.0* %	$*12,806,351*	*35.0* %	$*7,208,993*	*35.0* %
Effect of graduated tax rates	-	-	*(250,013*)	*(0.7*)	*(76,973*)	*(0.4*)
Tax exempt income, net	*(5,653,979*)	*(13.9*)	*(4,343,270*)	*(11.9*)	*(3,461,438*)	*(16.8*)
Bank-owned life insurance	*(630,855*)	*(1.5*)	*(619,988*)	*(1.7*)	*(616,737*)	*(3.0*)
State income taxes, net of federal benefit, current year	*1,764,671*	*4.3*	*1,245,524*	*3.4*	*767,557*	*3.7*
Change in unrecognized tax benefits	*(53,699*)	*(0.1*)	*121,008*	*0.3*	*223,668*	*1.1*
New Markets Tax Credits and other credits	*(341,268*)	*(0.8*)	*(180,000*)	*(0.5*)	*(180,000*)	*(0.9*)
Acquisition costs	-	-	*176,050*	*0.5*	-	-
Excess tax benefit on stock options exercised and restricted stock awards vested	*(1,219,483*)	*(3.0*)	-	-	-	-
Re-measurement of deferred tax asset to incorporate newly enacted tax rates	*(2,918,606*)	*(7.2*)	-	-	-	-
Other	*(228,866*)	*(0.6*)	*(52,875*)	*(0.1*)	*(195,828*)	*(0.9*)
	$*4,946,450*	*12.2* %	$*8,902,787*	*24.3* %	$*3,669,242*	*17.8* %

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *13.* Federal and State Income Taxes (continued)

Changes in the unrecognized tax benefits included in other liabilities are as follows for the years ended *December 31, 2017* and *2016:*

	2017	2016
Balance, beginning	$*1,346,967*	$*1,225,959*
Impact of tax positions taken during current year	*333,253*	*319,047*
Gross increase (decrease) related to tax positions of prior years	*(40,584*)	*17,789*
Reduction as a result of a lapse of the applicable statute of limitations	*(346,368*)	*(215,828*)
Balance, ending	$*1,293,268*	$*1,346,967*

Included in the unrecognized tax benefits liability at *December 31, 2017* are potential benefits of approximately *$1,143,000* that, if recognized, would affect the effective tax rate.

The liability for unrecognized tax benefits includes accrued interest for tax positions, which either do *not* meet the more-likely-than-*not* recognition threshold or where the tax benefit is measured at an amount less than the tax benefit claimed or expected to be claimed on an income tax return. At *December 31, 2017* and *2016,* accrued interest on uncertain tax positions was approximately *$150,000* and *$223,000,* respectively. Estimated interest related to the underpayment of income taxes is classified as a component of “income tax expense” in the statements of income.

The Company’s federal income tax returns are open and subject to examination from the *2014* tax return year and later. Various state franchise and income tax returns are generally open from the *2013* and later tax return years based on individual state statutes of limitations.

The net deferred tax assets consisted of the following as of *December 31, 2017* and *2016:*

	2017	2016
Deferred tax assets:		
Alternative minimum tax credits	$*6,513,502*	$*6,513,502*
New markets tax credits	*2,164,727*	*1,797,587*
Net unrealized losses on securities available for sale and derivative instruments	*498,860*	*1,470,759*
Compensation	*6,282,603*	*8,737,976*
Loan/lease losses	*8,029,714*	*10,479,227*
Net operating loss carryforwards, federal and state	*959,627*	*1,879,746*
Other	*34,962*	*247,594*
	24,483,995	*31,126,391*
Deferred tax liabilities:		
Premises and equipment	*2,400,397*	*4,899,107*
Equipment financing leases	*15,367,705*	*22,050,540*
Acquisition fair value adjustments	*1,864,599*	*1,336,338*
Investment accretion	*30,656*	*46,581*
Deferred loan origination fees, net	*115,153*	*261,915*
Other	*430,125*	*456,219*
	20,208,635	*29,050,700*
Net deferred tax assets	$*4,275,360*	$*2,075,691*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *13.* Federal and State Income Taxes (continued)

At *December 31, 2017,* the Company had *$4.6* million of federal tax net operating loss carryforwards which are set to expire in varying amounts between *2029* and *2033.* At *December 31, 2017,* the Company had *$2.1* million of state tax net operating loss carryforwards which are set to expire in varying amounts between *2023* and *2028.* All of the federal tax net operating loss carryforwards and the state tax net operating loss carryforwards were acquired from Community National and CNB.

The change in deferred income taxes was reflected in the consolidated financial statements as follows for the years ended *December 31, 2017, 2016,* and *2015:*

	2017	2016	2015
Provision for income taxes	$*(6,029,555)*	$*(3,066,407)*	$*(2,004,532)*
Net deferred tax asset acquired	-	*(3,310,553)*	-
Net deferred tax asset resulting from market value adjustments of acquisitions	*243,195*	*5,110,015*	-
Re-measurement of deferred tax asset to incorporate newly enacted tax rates	*2,918,606*	-	-
Statement of stockholders' equity- Other comprehensive income (loss)	*668,085*	*(202,691*)	*(81,524*)
	$*(2,199,669)*	$*(1,469,636)*	$*(2,086,056)*

The Tax Act was enacted on *December 22, 2017* and reduces the federal corporate tax rate from *35%* to *21%.* As a result, the Company revalued the deferred tax assets and liabilities to reflect the lower federal corporate tax rate, which resulted in the Company recognizing a benefit of *$2.9* million in the *fourth* quarter of *2017.* Additionally, while the Tax Act eliminated the corporate alternative minimum tax, it did preserve the alternative minimum tax credit and the usability. At this time, the Company projects full utilization of those credits. Other relevant changes that resulted from tax reform are *not* expected to have a material impact on the Company’s financial results.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *14.* Employee Benefit Plans

The Company has a profit sharing plan which includes a provision designed to qualify under Section *401*(k) of the Internal Revenue Code of *1986,* as amended, to allow for participant contributions. All employees are eligible to participate in the plan. The Company matches *100%* of the *first 3%* of employee contributions, and *50%* of the next *3%* of employee contributions, up to a maximum amount of *4.5%* of an employee's compensation. Additionally, at its discretion, the Company *may* make additional contributions to the plan which are allocated to the accounts of participants in the plan based on relative compensation. Company contributions for the years ended *December 31, 2017, 2016,* and *2015* were as follows:

	2017	2016	2015
Matching contribution	$*1,663,198*	$*1,365,111*	$*1,314,276*
	$*1,663,198*	$*1,365,111*	$*1,314,276*

The Company has entered into nonqualified supplemental executive retirement plans (SERPs) with certain executive officers. The SERPs allow certain executives to accumulate retirement benefits beyond those provided by the qualified plans. During the years ended *December 31, 2017, 2016,* and *2015,* the Company expensed *$400,784, $322,575,* and *$297,826,* respectively, related to these plans. As of *December 31, 2017* and *2016,* the liability related to the SERPs, included in other liabilities, was *$4,330,313* and *$4,093,355,* respectively. Payments to former executives in the amounts of *$163,826, $163,825* and *$163,824* were made in *2017, 2016* and *2015,* respectively.

The Company has entered into deferred compensation agreements with certain executive officers. Under the provisions of the agreements, the officers *may* defer compensation and the Company matches the deferral up to certain maximums. The Company's matching contribution varies by officer and is a maximum of between *$8,000* and *$25,000* annually. Interest on the deferred amounts is earned at The Wall Street Journal's prime rate subject to a minimum of *4%* and a maximum of *12%* with such limits differing by officer. The Company has also entered into deferred compensation agreements with certain other officers. Under the provisions of the agreements the officers *may* defer compensation and the Company matches the deferral up to certain maximums. The Company's matching contribution differs by officer and is a maximum between *4%* and *10%* of the officer's compensation. Interest on the deferred

amounts is earned at The Wall Street Journal’s prime rate plus *one* percentage point, and has a minimum of *4%* and shall *not* exceed *8%.* Upon retirement, the officer will receive the deferral balance in *180* equal monthly installments. As of *December 31, 2017* and *2016,* the liability related to the agreements totaled *$12,346,935* and *$10,455,183,* respectively.

Changes in the deferred compensation agreements, included in other liabilities, are as follows for the years ended *December 31, 2017, 2016,* and *2015:*

	2017	2016	2015
Balance, beginning	$*10,455,183*	$*8,875,025*	$*7,503,692*
Employee deferrals	*932,921*	*794,168*	*693,656*
Company match and interest	*1,024,933*	*848,831*	*726,001*
Cash payments made	*(66,102*)	*(62,841*)	*(48,324*)
Balance, ending	$*12,346,935*	$*10,455,183*	$*8,875,025*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *15.* Stock-Based Compensation

The Company's Board of Directors adopted in *January 2008,* and the stockholders approved in *May 2008,* the QCR Holdings, Inc. *2008* Equity Incentive Plan (*"2008* Equity Incentive Plan"). The Company's Board of Directors adopted in *February 2010,* and the stockholders approved in *May 2010,* the QCR Holdings, Inc. *2010* Equity Incentive Plan (*"2010* Equity Incentive Plan"). The Company's Board of Directors adopted in *February 2013,* and the stockholders approved in *May 2013,* the QCR Holdings, Inc. *2013* Equity Incentive Plan (*"2013* Equity Incentive Plan"). The Company's Board of Directors adopted in *February 2016,* and the stockholders approved in *May 2016,* the QCR Holdings, Inc. *2016* Equity Incentive Plan (*"2016* Equity Incentive Plan"). Up to *250,000, 350,000, 350,000,* and *400,000* shares of common stock, respectively, *may* be issued to employees and directors of the Company and its subsidiaries pursuant to equity incentive awards granted under these plans.

The *2008* Equity Incentive Plan, the *2010* Equity Incentive Plan, the *2013* Equity Incentive Plan, and the *2016* Equity Incentive Plan (collectively, the "Stock Option Plans") are administered by the Compensation Committee of the Board of Directors (the "Committee"). As of *December 31, 2017,* there were *351,205* remaining shares of common stock available for grant under the Stock Option Plans; however, such additional shares *may* be issued only under the *2016* Equity Incentive Plan.

The number and exercise price of options granted under the stock option plans are determined by the Committee at the time the option is granted. In *no* event can the exercise price be less than the value of the common stock at the date of the grant for stock options. All options have a *10*-year life and will vest and become exercisable from *3*-to-*7* years after the date of the grant.

Stock-based compensation expense was reflected in the consolidated financial statements as follows for the years ended *December 31, 2017, 2016,* and *2015.*

	2017	2016	2015

Stock options	$*554,435*	$*424,904*	$*393,114*
Restricted stock awards	*552,907*	*460,853*	*492,410*
Stock purchase plan	*79,694*	*61,417*	*55,945*
	$*1,187,036*	$*947,174*	$*941,469*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *15.* Stock-Based Compensation (continued)

Stock options:

A summary of the stock option plans as of *December 31, 2017, 2016,* and *2015* and changes during the years then ended is presented below:

	December 31, 2017		2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	*587,961*	$ *14.83*	*623,176*	$ *13.88*	*661,771*	$ *13.89*
Granted	*43,250*	*43.86*	*76,749*	*22.92*	*73,403*	*17.63*
Exercised	*(114,100)*	*15.12*	*(111,423)*	*14.97*	*(79,638)*	*14.70*
Forfeited	*(3,557)*	*26.74*	*(541)*	*18.36*	*(32,360)*	*20.69*
Outstanding, ending	*513,554*	*17.13*	*587,961*	*14.83*	*623,176*	*13.88*
Exercisable, ending	*354,269*		*385,372*		*405,832*	
Weighted average fair value per option granted	$*14.75*		$*7.31*		$*5.11*	

A further summary of options outstanding as of *December 31, 2017* is presented below:

Options Outstanding

Range of Exercise Prices		Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable Number Exercisable	Weighted Average Exercise Price
$7.99	*to $8.93*	*27,850*	*3.06*	$ *8.09*	*27,850*	$ *8.09*
$9.00	*to $9.30*	*148,755*	*2.77*	*9.22*	*147,955*	*9.22*
$15.00	*to $16.85*	*90,668*	*4.59*	*15.63*	*79,369*	*15.64*
$17.10	*to $18.00*	*132,816*	*6.57*	*17.31*	*81,521*	*17.26*
$21.71	*to $31.53*	*70,215*	*8.08*	*22.63*	*16,273*	*22.64*
$42.65	*to $48.50*	*43,250*	*9.20*	*43.86*	*1,301*	*42.75*
		513,554			*354,269*	

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *15.* Stock-Based Compensation (continued)

Restricted stock awards:

A summary of changes in the Company's nonvested restricted stock awards as of *December 31, 2017, 2016* and *2015* is presented below:

	December 31,		
	2017	2016	2015
Outstanding, beginning	$*39,438*	$*45,046*	$*49,833*
Granted	*28,289*	*22,382*	*28,846*
Released	*(21,338*)	*(27,490*)	*(33,633*)
Forfeited	-	*(500*)	-
Outstanding, ending	$*46,389*	$*39,438*	$*45,046*
Weighted average fair value per share granted	$*44.44*	$*22.64*	$*17.80*

The total grant-date fair value of restricted stock awards that were released during the years ended *December 31, 2017, 2016* and *2015* was *$925,735, $632,255* and *$598,341,* respectively.

Stock purchase plan:

The Company's Board of Directors and its stockholders adopted in *October 2002* the QCR Holdings, Inc. Employee Stock Purchase Plan (the "Purchase Plan"). On *May 2, 2012,* the Company's stockholders approved a complete amendment and restatement of the Purchase Plan. As of *January 1, 2017,* there were *187,921* shares of common stock available for issuance under the Purchase Plan. For each *six*-month offering period, the Board of Directors will

determine how many of the total number of available shares will be offered. The purchase price is the lesser of *90%* of the fair market value at the date of the grant or the investment date. The investment date, as established by the Board of Directors, is the date common stock is purchased after the end of each calendar quarter during an offering period. The maximum dollar amount any *one* participant can elect to contribute in an offering period is *$10,000.* Additionally, the maximum percentage that any *one* participant can elect to contribute is *10%* of his or her compensation for the year ended *December 31, 2017.* The maximum percentage that any *one* participant could elect to contribute was *8%* of his or her compensation for the years ended *December 31, 2016,* and *2015.* Information for the stock purchase plan for the years ended *December 31, 2017, 2016,* and *2015* is presented below:

	2017	2016	2015
Shares granted	*12,414*	*18,711*	*23,408*
Shares purchased	*13,318*	*20,192*	*24,033*
Weighted average fair value per share granted	$*6.42*	$*3.28*	$*2.39*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *16.* Regulatory Capital Requirements and Restrictions on Dividends

The Company (on a consolidated basis) and the subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and subsidiary banks' financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the subsidiary banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiary banks to maintain minimum amounts and ratios (set forth in the following table) of total common equity Tier *1* and Tier *1* capital to risk-weighted assets and of Tier *1* capital to average assets, each as defined by regulation. Management believes, as of *December 31, 2017* and *2016,* that the Company and the subsidiary banks met all capital adequacy requirements to which they are subject.

Under the regulatory framework for prompt corrective action, to be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier *1* risk-based, Tier *1* leverage and common equity Tier *1* ratios as set forth in the following tables. The Company and the subsidiary banks' actual capital amounts and ratios as of *December 31, 2017* and *2016* are also presented in the following table (dollars in thousands). As of *December 31, 2017* and *2016,* the subsidiary banks met the requirements to be "well capitalized".

	Actual	For Capital Adequacy Purposes	For Capital Adequacy Purposes With Capital Conservation Buffer*	To Be Well Capitalized Under *Prompt Corrective Action Provisions*

	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:								
Company:								
Total risk-based capital	$383,282	11.15%	$275,090	≥ 8.00%	$318,073	≥ 9.250%	$343,862	≥ 10.00%
Tier 1 risk-based capital	348,530	10.14%	206,317	≥ 6.00	249,300	≥ 7.250	275,090	≥ 8.00
Tier 1 leverage	348,530	8.98 %	155,256	≥ 4.00	155,256	≥ 4.000	194,070	≥ 5.00
Common equity Tier 1	313,012	9.10 %	154,738	≥ 4.50	197,721	≥ 5.750	223,510	≥ 6.50
Quad City Bank & Trust:								
Total risk-based capital	$160,112	12.35%	$103,711	≥ 8.00%	$119,916	≥ 9.250%	$129,639	≥ 10.00%
Tier 1 risk-based capital	147,472	11.38%	77,783	≥ 6.00	93,988	≥ 7.250	103,711	≥ 8.00
Tier 1 leverage	147,472	9.52 %	61,985	≥ 4.00	61,985	≥ 4.000	77,481	≥ 5.00
Common equity Tier 1	147,472	11.38%	58,337	≥ 4.50	74,542	≥ 5.750	84,265	≥ 6.50
Cedar Rapids Bank & Trust:								
Total risk-based capital	$138,492	11.88%	$93,272	≥ 8.00%	$107,846	≥ 9.250%	$116,590	≥ 10.00%
Tier 1 risk-based capital	126,601	10.86%	69,954	≥ 6.00	84,528	≥ 7.250	93,272	≥ 8.00
Tier 1 leverage	126,601	11.68%	43,348	≥ 4.00	43,348	≥ 4.000	54,185	≥ 5.00
Common equity Tier 1	126,601	10.86%	52,465	≥ 4.50	67,039	≥ 5.750	75,783	≥ 6.50
Community State Bank:								
Total risk-based capital	$66,271	11.71%	$45,293	≥ 8.00%	$52,370	≥ 9.250%	$56,616	≥ 10.00%
Tier 1 risk-based capital	61,941	10.94%	33,970	≥ 6.00	41,047	≥ 7.250	45,293	≥ 8.00
Tier 1 leverage	61,941	9.77 %	25,354	≥ 4.00	25,354	≥ 4.000	31,693	≥ 5.00
Common equity Tier 1	61,941	10.94%	25,477	≥ 4.50	32,554	≥ 5.750	36,801	≥ 6.50
Rockford Bank & Trust:								
Total risk-based capital	$45,684	11.28%	$32,413	≥ 8.00%	$37,477	≥ 9.250%	$40,516	≥ 10.00%
Tier 1 risk-based capital	40,615	10.02%	24,310	≥ 6.00	29,374	≥ 7.250	32,413	≥ 8.00
Tier 1 leverage	40,615	8.94 %	18,177	≥ 4.00	18,177	≥ 4.000	22,721	≥ 5.00
Common equity Tier 1	40,615	10.02%	18,232	≥ 4.50	23,297	≥ 5.750	26,335	≥ 6.50

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Notes to Consolidated Financial Statements

Note *16.* Regulatory Capital Requirements and Restrictions on Dividends (continued)

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes *With Capital Conservation Buffer**		To Be Well Capitalized Under *Prompt Corrective Action Provisions*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:								
Company:								
Total risk-based capital	$*327,440*	*11.56%*	$*226,587*	≥ *8.00%*	$*244,289*	≥ *8.625%*	$*283,233*	≥ *10.00%*
Tier 1 risk-based capital	*296,366*	*10.46%*	*169,940*	≥ *6.00*	*187,642*	≥ *6.625*	*226,587*	≥ *8.00*
Tier 1 leverage	*296,366*	*9.10 %*	*130,229*	≥ *4.00*	*130,229*	≥ *4.000*	*162,787*	≥ *5.00*
Common equity Tier 1	*266,419*	*9.41 %*	*127,455*	≥ *4.50*	*145,157*	≥ *5.125*	*184,102*	≥ *6.50*
Quad City Bank & Trust:								
Total risk-based capital	$*142,990*	*12.27%*	$*93,212*	≥ *8.00%*	$*100,494*	≥ *8.625%*	$*116,515*	≥ *10.00%*
Tier 1 risk-based capital	*129,524*	*11.12%*	*69,909*	≥ *6.00*	*77,191*	≥ *6.625*	*93,212*	≥ *8.00*
Tier 1 leverage	*129,524*	*9.18 %*	*56,445*	≥ *4.00*	*56,445*	≥ *4.000*	*70,556*	≥ *5.00*
Common equity Tier 1	*129,524*	*11.12%*	*52,432*	≥ *4.50*	*59,714*	≥ *5.125*	*75,735*	≥ *6.50*
Cedar Rapids Bank & Trust:								
Total risk-based capital	$*106,791*	*12.82%*	$*66,623*	≥ *8.00%*	$*71,828*	≥ *8.625%*	$*83,279*	≥ *10.00%*
Tier 1 risk-based capital	*96,369*	*11.57%*	*49,968*	≥ *6.00*	*55,173*	≥ *6.625*	*66,623*	≥ *8.00*
Tier 1 leverage	*96,369*	*10.69%*	*36,061*	≥ *4.00*	*36,061*	≥ *4.000*	*45,076*	≥ *5.00*
Common equity Tier 1	*96,369*	*11.57%*	*37,476*	≥ *4.50*	*42,681*	≥ *5.125*	*54,132*	≥ *6.50*
Community State Bank:								
Total risk-based capital	$*68,216*	*13.81%*	$*39,521*	≥ *8.00%*	$*42,609*	≥ *8.625%*	$*49,402*	≥ *10.00%*
Tier 1 risk-based capital	*66,746*	*13.51%*	*29,641*	≥ *6.00*	*32,729*	≥ *6.625*	*39,522*	≥ *8.00*
Tier 1 leverage	*66,746*	*11.75%*	*22,726*	≥ *4.00*	*22,726*	≥ *4.000*	*28,408*	≥ *5.00*
Common equity Tier 1	*66,746*	*13.51%*	*22,231*	≥ *4.50*	*25,319*	≥ *5.125*	*32,111*	≥ *6.50*
Rockford Bank & Trust:								
Total risk-based capital	$*42,007*	*12.26%*	$*27,410*	≥ *8.00%*	$*29,551*	≥ *8.625%*	$*34,262*	≥ *10.00%*
Tier 1 risk-based capital	*37,716*	*11.01%*	*20,558*	≥ *6.00*	*22,699*	≥ *6.625*	*27,410*	≥ *8.00*
Tier 1 leverage	*37,716*	*9.57 %*	*15,772*	≥ *4.00*	*15,772*	≥ *4.000*	*19,716*	≥ *5.00*
Common equity Tier 1	*37,716*	*11.01%*	*15,418*	≥ *4.50*	*17,559*	≥ *5.125*	*22,270*	≥ *6.50*

*The minimums under Basel III phase in higher by *.625%* (the capital conservation buffer) for all ratios other than Tier *1* leverage annually until *2019.*

The fully phased-in minimums are *10.5%* (Total risk-based capital), *8.5%* (Tier *1* risk-based capital), and *7.0%* (Common equity Tier *1*).

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. Notwithstanding the availability of funds for dividends, however, the Federal Reserve *may* prohibit the payment of any dividends by the subsidiary banks if the Federal Reserve determines such payment would constitute an unsafe or unsound practice.

The Company also has certain contractual restrictions on its ability to pay dividends. The Company has issued junior subordinated debentures in *four* private placements and assumed *two* issues of junior subordinated debentures in connection with the Community National acquisition. Under the terms of the debentures, the Company *may* be prohibited, under certain circumstances, from paying dividends on shares of its common stock. These circumstances did *not* exist at *December 31, 2017* or *2016.*

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *16.* Regulatory Capital Requirements and Restrictions on Dividends (continued)

The Company filed a universal shelf registration statement on Form S-*3* with the SEC on *October 27, 2016,* as amended on *January 11, 2017.* Declared effective by the SEC on *January 31, 2017,* the registration statement allows the Company to offer and sell various types of securities, including common stock, preferred stock, debt securities and/or warrants, from time to time up to an aggregate amount of *$100* million. The Company utilized *$30.1* million of its previous *$100* million shelf registration filing through the offer and sale of its common stock in the *second* quarter of *2016* to help fund the acquisition of CSB (see Note *2* to the Consolidated Financial Statements). This Form S-*3* filing replenishes the amount available to the previous level of *$100* million. The specific terms and prices of any securities offered pursuant to the registration statement will be determined at the time of any future offering and described in a separate prospectus supplement, which would be filed with the SEC at the time of the particular offering, if any.

Note *17.* Earnings per Share

The following information was used in the computation of basic and diluted EPS for the years ended *December 31, 2017, 2016,* and *2015:*

	2017	2016	2015
Net income attributable to QCR Holdings, Inc. common stockholders	$*35,706,507*	$*27,686,787*	$*16,927,881*
EPS attributable to QCR Holdings, Inc. common stockholders			
Basic	$*2.68*	$*2.20*	$*1.64*
Diluted	$*2.61*	$*2.17*	$*1.61*
Weighted average common shares outstanding*	*13,325,128*	*12,570,767*	*10,345,286*

Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan**	*355,344*	*195,236*	*154,555*
Weighted average common and common equivalent shares outstanding	*13,680,472*	*12,766,003*	*10,499,841*

* The increase in weighted average common shares outstanding from *2015* to *2016* was primarily due to the common stock issuance that occurred in conjunction with the CSB acquisition.

**Excludes anti-dilutive shares of *49,919, 17,739,* and *36,572* at *December 31,2017, 2016* and *2015,* respectively.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *18.* Commitments and Contingencies

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

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

Standby letters of credit are conditional commitments issued by the subsidiary banks to guarantee the performance of a customer to a *third* party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of *one* year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The subsidiary banks hold collateral, as described above, supporting those commitments if deemed necessary. In the event the customer does *not* perform in accordance with the terms of the agreement with the *third* party, the subsidiary banks would be required to fund the commitments. The maximum potential amount of future payments the subsidiary banks could be required to make is represented by the contractual amount. If the commitment is funded, the subsidiary banks would be entitled to seek recovery from the customer. At *December 31, 2017* and *2016, no* amounts had been recorded as liabilities for the subsidiary banks’ potential obligations under these guarantees.

As of *December 31, 2017* and *2016,* commitments to extend credit aggregated *$791,550,060* and *$666,778,085,* respectively. As of *December 31, 2017* and *2016,* standby letters of credit aggregated *$17,283,025* and *$15,697,469,* respectively. Management does *not* expect that all of these commitments will be funded.

The Company has also executed contracts for the sale of mortgage loans in the secondary market in the amount of $*645,001* and *$1,135,500* as of *December 31, 2017* and *2016,* respectively. These amounts are included in loans held for sale at the respective balance sheet dates.

Residential mortgage loans sold to investors in the secondary market are sold with varying recourse provisions. Essentially, all loan sales agreements require the repurchase of a mortgage loan by the seller in situations such as breach of representation, warranty, or covenant, untimely document delivery, false or misleading statements, failure to obtain certain certificates of insurance, unmarketability, etc. Certain loan sales agreements contain repurchase requirements based on payment-related defects that are defined in terms of the number of days/months since the purchase, the sequence number of the payment, and/or the number of days of payment delinquency. Based on the specific terms stated in the agreements of investors purchasing residential mortgage loans from the Company's subsidiary banks, the Company had *$300,000* and *$916,900* of sold residential mortgage loans with recourse provisions still in effect at *December 31, 2017* and *2016,* respectively. The subsidiary banks did *not* repurchase any loans from secondary market investors under the terms of loans sales agreements during the years ended *December 31, 2017, 2016,* and *2015.* In the opinion of management, the risk of recourse and the subsequent requirement of loan repurchase to the subsidiary banks is *not* significant, and accordingly *no* liabilities have been established related to such.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *18.* Commitments and Contingencies (continued)

Aside from cash on-hand and in-vault, the majority of the Company's cash is maintained at upstream correspondent banks. The total amount of cash on deposit, certificates of deposit, and federal funds sold exceeded federal insured limits by approximately *$42.9* million and *$48.5* million as of *December 31, 2017* and *2016,* respectively. In the opinion of management, *no* material risk of loss exists due to the financial condition of the upstream correspondent banks.

In an arrangement with Goldman Sachs, CRBT offers a cash management program for select customers. Based on a predetermined minimum balance, which must be maintained in the account, excess funds are automatically swept daily to an institutional money market fund administered by Goldman Sachs. At *December 31, 2017* and *2016,* the Company had *$136,032,073* and *$117,985,224,* respectively of customer funds invested in this cash management program. In the opinion of management, *no* material risk of loss exists due to the financial condition of Goldman Sachs.

Note *19.* Quarterly Results of Operations (Unaudited)

	Year Ended December 31, 2017			
	March 2017	June 2017	September 2017	December 2017
Total interest income	$*31,345,099*	$*32,453,268*	$*33,840,865*	$*37,878,086*
Total interest expense	*3,676,216*	*4,406,571*	*5,284,517*	*6,084,733*
Net interest income	*27,668,883*	*28,046,697*	*28,556,348*	*31,793,353*
Provision for loan/lease losses	*2,105,109*	*2,022,993*	*2,086,436*	*2,255,381*
Noninterest income	*7,283,754*	*6,782,518*	*6,701,303*	*9,714,717*
Noninterest expense	*21,273,117*	*21,404,629*	*23,395,747*	*31,351,204*
Income before taxes	*11,574,411*	*11,401,593*	*9,775,468*	*7,901,485*
Federal and state income tax expense (benefit)	*2,389,446*	*2,635,576*	*1,921,533*	*(2,000,105*)

Net income	$*9,184,965*	$*8,766,017*	$*7,853,935*	$*9,901,590*
EPS:				
Basic	$*0.70*	$*0.67*	$*0.60*	$*0.72*
Diluted	$*0.68*	$*0.65*	$*0.58*	$*0.70*

	Year Ended December 31, 2016			
	March 2016	June 2016	September 2016	December 2016
Total interest income	$*23,502,059*	$*23,913,284*	$*26,816,735*	$*32,235,657*
Total interest expense	*2,904,537*	*2,904,471*	*3,185,958*	*2,955,992*
Net interest income	*20,597,522*	*21,008,813*	*23,630,777*	*29,279,665*
Provision for loan/lease losses	*2,072,985*	*1,197,850*	*1,607,986*	*2,599,345*
Noninterest income	*6,822,473*	*6,762,401*	*10,423,401*	*7,028,600*
Noninterest expense	*16,954,498*	*17,743,753*	*24,480,483*	*22,307,178*
Income before taxes	*8,392,512*	*8,829,611*	*7,965,709*	*11,401,742*
Federal and state income tax expense	*2,019,023*	*2,153,144*	*1,858,208*	*2,872,412*
Net income	$*6,373,489*	$*6,676,467*	$*6,107,501*	$*8,529,330*
EPS:				
Basic	$*0.54*	$*0.54*	$*0.47*	$*0.65*
Diluted	$*0.53*	$*0.53*	$*0.46*	$*0.64*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *20.* Parent Company Only Financial Statements

The following is condensed financial information of QCR Holdings, Inc. (parent company only):

Condensed Balance Sheets
December 31, 2017 and 2016

Assets	2017	2016
Cash and due from banks	$*4,325,582*	$*6,929,755*
Interest-bearing deposits at financial institutions	*601*	*651*
Securities available for sale, at fair value	*1,690,726*	*1,545,565*
Loans/leases receivable, held for investment	*1,710,000*	-
Investment in bank subsidiaries	*410,105,525*	*345,866,288*
Investment in nonbank subsidiaries	*2,956,337*	*1,154,642*
Premises and equipment, net	*4,947,572*	*5,104,677*
Other assets	*11,630,304*	*15,245,521*
Total assets	$*437,366,647*	$*375,847,099*
Liabilities and Stockholders' Equity		
Liabilities:		
Other borrowings	$*31,000,000*	$*35,000,000*
Junior subordinated debentures	*37,486,487*	*33,480,202*
Other liabilities	*15,593,031*	*21,326,098*
Total liabilities	*84,079,518*	*89,806,300*
Stockholders' Equity:		
Common stock	*13,918,168*	*13,106,845*
Additional paid-in capital	*189,077,550*	*156,776,642*
Retained earnings	*151,962,661*	*118,616,901*
Accumulated other comprehensive loss	*(1,671,250*)	*(2,459,589*)
Total stockholders' equity	*353,287,129*	*286,040,799*
Total liabilities and stockholders' equity	$*437,366,647*	$*375,847,099*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *20.* Parent Company Only Financial Statements (continued)

Condensed Statements of Income
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Total interest income	$*12,802*	$*74,489*	$*69,774*
Equity in net income of bank subsidiaries	*45,103,593*	*33,467,712*	*22,059,086*
Equity in net income of nonbank subsidiaries	*75,344*	*32,674*	*32,823*
Securities gains	*6,312*	*37,596*	*262,800*
Other	*2,700*	*(2,933*)	*(4,436*)
Total income	*45,200,751*	*33,609,538*	*22,420,047*
Interest expense	*2,658,414*	*1,735,769*	*1,679,909*
Salaries and employee benefits	*5,021,998*	*4,607,887*	*4,847,507*
Professional fees	*1,344,721*	*949,442*	*1,121,094*
Acquisition costs	*1,068,918*	*1,400,004*	-
Post-acquisition compensation, transition and integration costs	*3,151,384*	*313,598*	-
Gains on debt extinguishment	-	*(1,200,000*)	*(300,000*)
Other	*1,134,139*	*988,057*	*949,041*
Total expenses	*14,379,574*	*8,794,757*	*8,297,551*
Income before income tax benefit	*30,821,177*	*24,814,781*	*14,122,496*
Income tax benefit	*4,885,330*	*2,872,006*	*2,805,385*
Net income	$*35,706,507*	$*27,686,787*	$*16,927,881*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 20. Parent Company Only Financial Statements (continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Cash Flows from Operating Activities:			
Net income	$35,706,507	$27,686,787	$16,927,881
Adjustments to reconcile net income to net cash provided by operating activities:			
Earnings of bank subsidiaries	(45,103,593)	(33,467,712)	(22,059,086)
Earnings of nonbank subsidiaries	(75,344)	(32,674)	(32,823)
Distributions from bank subsidiaries	21,000,000	26,000,000	9,700,000
Distributions from nonbank subsidiaries	38,734	32,860	32,695
Accretion of acquisition fair value adjustments	149,010	136,150	137,317
Depreciation	225,947	222,256	174,757
Stock-based compensation expense	1,187,036	947,174	941,469
Securities gains, net	(6,312)	(37,596)	(262,801)
Gains on debt extinguishment	-	(1,200,000)	(300,000)
Decrease (increase) in other assets	(968,808)	(2,346,253)	(5,929,110)
(Decrease) increase in other liabilities	(6,918,921)	5,105,251	5,502,390
Net cash provided by operating activities	5,234,256	23,046,243	4,832,689
Cash Flows from Investing Activities:			
Net increase in interest-bearing deposits at financial institutions	50	50	189,426
Activity in securities portfolio:			
Purchases	-	(3,873,060)	(1,764,137)
Calls, maturities and redemptions	6,312	3,800,000	1,772,719
Sales	31,713	132,738	489,828
Capital infusion, bank subsidiaries	-	-	(45,600,000)
Net cash paid for acquisitions	(3,368,909)	(80,000,000)	-
Purchase of premises and equipment	(68,842)	(824,498)	(1,517,157)
Net cash (used in) provided by investing activities	(3,399,676)	(80,764,770)	(46,429,321)
Cash Flows from Financing Activities:			
Activity in other borrowings:			

Proceeds from other borrowings	*7,000,000*	*35,000,000*	-
Calls, maturities and scheduled principal payments	*(11,000,000)*	-	*(2,350,000)*
Prepayments	-	-	*(19,395,116)*
Retirement of junior subordinated debentures	-	*(3,955,000)*	*(1,762,000)*
Payment of cash dividends on common and preferred stock	*(2,494,260)*	*(1,981,541)*	*(782,054)*
Net proceeds from common stock offering, 3,680,000 shares issued	-	-	*63,484,123*
Net proceeds from common stock offering, 1,215,000 shares issued	-	*29,828,916*	-
Proceeds from issuance of common stock, net	*2,055,507*	*2,105,774*	*1,552,673*
Net cash provided by (used in) financing activities	*(4,438,753)*	*60,998,149*	*40,747,626*
Net increase (decrease) in cash and due from banks	*(2,604,173)*	*3,279,622*	*(849,006)*
Cash and due from banks:			
Beginning	*6,929,755*	*3,650,133*	*4,499,139*
Ending	$*4,325,582*	$*6,929,755*	$*3,650,133*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *21.* Fair Value

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

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

Assets measured at fair value on a recurring basis comprised the following at *December 31, 2017* and *2016:*

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2017:				
Securities available for sale:				

U.S. govt. sponsored agency securities	$*38,096,534*	$-	$*38,096,534*	$ -
Residential mortgage-backed securities	*163,301,304*	-	*163,301,304*	-
Municipal securities	*66,625,496*	-	*66,625,496*	-
Other securities	*4,884,573*	*1,028*	*4,883,545*	-
Interest rate caps	*506,700*	-	*506,700*	-
Interest rate swaps - assets	*4,397,238*	-	*4,397,238*	
Total assets measured at fair value	$*277,811,845*	$*1,028*	$*277,810,817*	$ -
Interest rate swaps - liabilities	$*4,397,238*	$-	$*4,397,238*	$ -
Total liabilities measured at fair value	$*4,397,238*	$-	$*4,397,238*	$ -
December 31, 2016:				
Securities available for sale:				
U.S. govt. sponsored agency securities	$*46,083,607*	$-	$*46,083,607*	$ -
Residential mortgage-backed securities	*147,702,127*	-	*147,702,127*	-
Municipal securities	*52,604,426*	-	*52,604,426*	-
Other securities	*4,722,979*	*1,361*	*4,721,618*	-
Interest rate caps	*576,527*	-	*576,527*	-
Interest rate swaps - assets	*2,338,281*	-	*2,338,281*	
Total assets measured at fair value	$*254,027,947*	$*1,361*	$*254,026,586*	$ -
Interest rate swaps - liabilities	$*2,338,281*	$-	$*2,338,281*	$ -
Total liabilities measured at fair value	$*2,338,281*	$-	$*2,338,281*	$ -

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *21.* Fair Value (continued)

There were *no* transfers of assets or liabilities between Levels *1, 2,* and *3* of the fair value hierarchy during the years ended *December 31, 2017* or *2016.*

A small portion of the securities available for sale portfolio consists of common stock issued by various unrelated bank holding companies and mutual funds. The fair values used by the Company are obtained from an independent pricing service, which represent quoted market prices for the identical securities (Level *1* inputs).

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

Interest rate caps are used for the purpose of hedging interest rate risk. See Note *7* to the Consolidated Financial Statements for the details of these instruments. The fair values are determined by pricing models that consider observable market data for derivative instruments with similar structures (Level *2* inputs).

Interest rate swaps are executed for select commercial customers. The interest rate swaps are further described in Note *1* to the Consolidated Financial Statements. The fair values are determined by comparing the contractual rate on the swap with the then-current market rate for the remaining term of the transaction (Level *2* inputs).

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

Assets measured at fair value on a non-recurring basis comprised the following at *December 31, 2017* and *2016:*

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2017:				
Impaired loans/leases	$ *8,972,337*	$ -	$ -	$ *8,972,337*
Other real estate owned	*14,642,973*	-	-	*14,642,973*
	$ *23,615,310*	$ -	$ -	$ *23,615,310*
December 31, 2016:				
Impaired loans/leases	$ *12,823,121*	$ -	$ -	$ *12,823,121*
Other real estate owned	*5,964,952*	-	-	*5,964,952*
	$ *18,788,073*	$ -	$ -	$ *18,788,073*

Impaired loans/leases are evaluated and valued at the time the loan/lease is identified as impaired, at the lower of cost or fair value, and are classified as a Level *3* in the fair value hierarchy. Fair value is measured based on the value of the collateral securing these loans/leases. Collateral *may* be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values *may* be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *21.* Fair Value (continued)

Other real estate owned in the table above consists of property acquired through foreclosures and settlements of loans. Property acquired is carried at the estimated fair value of the property, less disposal costs, and is classified as a Level *3* in the fair value hierarchy. The estimated fair value of the property is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values are discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the property.

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized Level *3* inputs to determine fair value:

	Quantitative Information about Level Fair Value Measurements				
	December 31, 2017 Fair Value	**December 31, 2016 Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
Impaired loans/leases	$ *8,972,337*	$ *12,823,121*	Appraisal of collateral	Appraisal adjustments	*-10.00%* *to* -50.00%
Other real estate owned	*14,642,973*	*5,964,952*	Appraisal of collateral	Appraisal adjustments	*0.00%* *to* -35.00%

For impaired loans/leases and other real estate owned, the Company records carrying value at fair value less disposal or selling costs. The amounts reported in the tables above are fair values before the adjustment for disposal or selling costs.

There have been *no* changes in valuation techniques used for any assets measured at fair value during the years ended *December 31, 2017* or *2016.*

The following table presents the carrying values and estimated fair values of financial assets and liabilities carried on the Company's consolidated balance sheet, including those financial assets and liabilities that are *not* measured and reported at fair value on a recurring basis or non-recurring basis:

	Fair Value Hierarchy Level	As of December 31, 2017		As of December 31, 2016	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	$*75,721,663*	$*75,721,663*	$*70,569,993*	$*70,569,993*
Federal funds sold	Level 2	*30,197,000*	*30,197,000*	*22,257,000*	*22,257,000*
Interest-bearing deposits at financial institutions	Level 2	*55,765,012*	*55,765,012*	*63,948,925*	*63,948,925*
Investment securities:					
HTM	Level 2	*379,474,205*	*379,749,804*	*322,909,056*	*320,414,899*
AFS	See Previous Table	*272,907,907*	*272,907,907*	*251,113,139*	*251,113,139*
Loans/leases receivable, net	Level 3	*8,307,719*	*8,972,337*	*11,873,260*	*12,823,121*
Loans/leases receivable, net	Level 2	*2,921,821,953*	*2,892,963,000*	*2,362,856,277*	*2,344,462,740*
Interest rate caps	Level 2	*506,700*	*506,700*	*576,527*	*576,527*
Interest rate swaps - assets	Level 2	*4,397,238*	*4,397,238*	*2,338,281*	*2,338,281*
Deposits:					
Nonmaturity deposits	Level 2	*2,670,583,178*	*2,670,583,178*	*2,188,683,349*	*2,188,683,349*
Time deposits	Level 2	*596,071,878*	*591,772,000*	*480,577,924*	*479,605,000*
Short-term borrowings	Level 2	*13,993,122*	*13,993,122*	*39,971,387*	*39,971,387*
FHLB advances	Level 2	*192,000,000*	*192,115,000*	*137,500,000*	*138,338,000*
Other borrowings	Level 2	*66,000,000*	*66,520,000*	*80,000,000*	*81,282,000*
Junior subordinated debentures	Level 2	*37,486,487*	*29,253,624*	*33,480,202*	*24,881,494*
Interest rate swaps - liabilities	Level 2	*4,397,238*	*4,397,238*	*2,338,281*	*2,338,281*

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note *21.* Fair Value (continued)

The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. For certain financial assets and liabilities, carrying value approximates fair value due to the nature of the financial instrument. These instruments include: cash and due from banks, federal funds sold, interest-bearing deposits at financial institutions, non-maturity deposits, and short-term borrowings. The Company used the following methods and assumptions in estimating the fair value of the following instruments:

Securities held to maturity: The fair values are estimated using pricing models that consider certain observable market data and some observable inputs, such as rate and term.

Loans/leases receivable: The fair values for all types of loans/leases are estimated using discounted cash flow analyses, using interest rates currently being offered for loans/leases with similar terms to borrowers with similar credit quality. The fair value of loans held for sale is based on quoted market prices of similar loans sold in the secondary market.

Deposits: The fair values disclosed for demand deposits equal their carrying amounts, which represent the amount payable on demand. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregate expected monthly maturities on time deposits.

FHLB advances and junior subordinated debentures: The fair value of these instruments is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Other borrowings: The fair value for the wholesale repurchase agreements and fixed rate other borrowings is estimated using rates currently available for debt with similar terms and remaining maturities. The fair value for variable rate other borrowings is equal to its carrying value.

Commitments to extend credit: The fair value of these commitments is *not* material.

Note *22.* Business Segment Information

Selected financial and descriptive information is required to be disclosed for reportable operating segments, applying a "management perspective" as the basis for identifying reportable segments. The management perspective is determined by the view that management takes of the segments within the Company when making operating decisions, allocating resources, and measuring performance. The segments of the Company have been defined by the structure of the Company's internal organization, focusing on the financial information that the Company's operating decision-makers routinely use to make decisions about operating matters.

The Company's primary segment, Commercial Banking, is geographically divided by markets into the secondary segments which are the *four* subsidiary banks wholly-owned by the Company: QCBT, CRBT, CSB and RB&T. Each of these secondary segments offer similar products and services, but are managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

The Company's Wealth Management segment represents trust and asset management and investment management and advisory services offered at the Company's *three* subsidiary banks in aggregate. This segment generates income primarily from fees charged based on assets under administration for corporate and personal trusts, custodial services, and investments managed. *No* assets of the subsidiary banks have been allocated to the Wealth Management segment.

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QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 22. Business Segment Information (continued)

The Company’s All Other segment includes the corporate operations of the parent and operations of all other consolidated subsidiaries and/or defined operating segments that fall below the segment reporting thresholds.

Selected financial information on the Company's business segments, with all intercompany accounts and transactions eliminated, is presented as follows as of and for the years ended *December 31, 2017, 2016,* and *2015:*

	Commercial Banking							
	QCBT	CRBT	Guaranty Bank*	CSB	RB&T	Wealth Management	All other	Inter Elim
Twelve Months Ended December 31, 2017								
Total revenue	$ *58,055,715*	$ *45,367,035*	$ *1,806,078*	$ *31,944,152*	$ *18,035,971*	$ *11,057,519*	$ *232,660*	$ *(49*
Net interest income	*46,407,078*	*31,042,302*	*1,551,356*	*27,020,674*	*12,707,651*	-	*(2,663,780*)	-
Provision for loan/lease losses	*3,908,919*	*1,050,000*	-	*2,783,000*	*728,000*	-	-	-
Net income	*22,095,055*	*10,712,174*	*346,835*	*7,047,671*	*2,660,364*	*2,241,494*	*(9,397,086*)	-
Goodwill	*3,222,688*	*15,223,179*	-	*9,888,225*	-	-	-	-
Core deposit intangible	-	*3,693,592*	-	*5,385,361*	-	-	-	-

Total assets	*1,541,777,558*	*1,307,376,687*	-	*670,516,373*	*461,650,765*	-	*28,267,478*	*(26*
Twelve Months Ended December 31, 2016								
Total revenue	$*59,442,052*	$*37,242,901*	$-	$*11,406,291*	$*16,043,894*	$*9,156,948*	$*109,563*	$*4,1*
Net interest income	*45,081,080*	*29,205,047*	-	*10,004,729*	*11,887,201*	-	*(1,661,280*)	-
Provision for loan/lease losses	*4,168,166*	*950,000*	-	*1,460,000*	*900,000*	-	-	-
Net income	*14,116,751*	*12,317,545*	-	*2,132,252*	*3,235,711*	*1,665,453*	*(5,780,925*)	-
Goodwill	*3,222,688*	-	-	*9,888,225*	-	-	-	-
Core deposit intangible	-	*1,271,897*	-	*6,109,316*	-	-	-	-
Total assets	*1,395,785,241*	*913,055,738*	-	*600,075,798*	*391,154,780*	-	*34,998,902*	*(33*
Twelve Months Ended December 31, 2015								
Total revenue	$*52,914,705*	$*37,593,652*	$-	$-	$*14,816,300*	$*9,103,173*	$*363,432*	$*(42*
Net interest income	*40,416,563*	*26,635,659*	-	-	*10,854,637*	-	*(1,610,135*)	-
Provision for loan/lease losses	*4,367,234*	*1,750,000*	-	-	*753,666*	-	-	-
Net income	*10,333,111*	*7,695,867*	-	-	*2,402,522*	*1,627,586*	*(5,131,205*)	-
Goodwill	*3,222,688*	-	-	-	-	-	-	-
Core deposit intangible	-	*1,471,409*	-	-	-	-	-	-
Total assets	*1,336,571,694*	*866,872,406*	-	-	*367,471,639*	-	*27,605,704*	*(5,*

* Represents financial results for Guaranty Bank for the period from *October 1, 2017* through *December 2, 2017,* when Guaranty Bank was merged into CRBT.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d – 15(e) promulgated under the Exchange Act) as of December 31, 2017. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports filed and submitted under the Exchange Act was: (1) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures; and (2) recorded, processed, summarized and reported as and when required.

Management's Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting includes controls and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company's management has excluded Guaranty Bank from its assessment of internal control over financial reporting as of December 31, 2017, because Guaranty Bank was acquired by the Company in the fourth quarter of 2017.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. Management's assessment is based on the criteria established in the *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and was designed to provide reasonable assurance that the Company maintained effective internal control over financial reporting as of December 31, 2017. Based on this assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2017.

RSM US LLP, the Company's independent registered public accounting firm has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2017, which is included on the following pages of this Form 10-K.

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited QCR Holdings, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of QCR Holdings, Inc. and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017 and our report dated March 9, 2018 expressed an unqualified opinion.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Guaranty Bank and Trust from its assessment of internal control over financial reporting as of December 31, 2017, because it was acquired by the Company in a purchase business combination in the fourth quarter of 2017. We have also excluded this entity from our audit of internal control over financial reporting. Guaranty Bank and Trust operated as a wholly-owned subsidiary of QCR Holdings, Inc. from October 1, 2017 (the date of acquisition) until it was merged into Cedar Rapids Bank & Trust on December 2, 2017. Guaranty Bank and Trust's total assets represented approximately 7% of QCR Holdings, Inc.'s related consolidated assets as of the date of the merger.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities

laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Davenport, Iowa

March 9, 2018

Changes in Internal Control Over Financial Reporting. There have been no significant changes to the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is set forth under the captions "Proposal 1: Election of Directors," "Corporate Governance and the Board of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 2018 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is set forth under the captions "Executive Compensation" and "Director Compensation" in the Company's 2018 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is set forth under the caption "Security Ownership of Certain Beneficial Owners" in the Company's 2018 Proxy Statement and is incorporated herein by reference.

The table below sets forth the following information as of December 31, 2017 for (i) all compensation plans previously approved by the Company's stockholders and (ii) all compensation plans not previously approved by the Company's stockholders:

(a) The number of securities to be issued upon the exercise of outstanding options, warrants, and rights;
(b) The weighted-average exercise price of such outstanding options, warrants, and rights; and
(c) Other than securities to be issued upon the exercise of such outstanding options, warrants, and rights, the number of securities remaining available for future issuance under the plans.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by stockholders	516,223	$17.24	526,712	(1)
Equity compensation plans not approved by stockholders	-	-	-	
Total	516,223	$17.24	526,712	(1)

(1) Includes 175,507 shares available under the QCR Holdings, Inc. Employee Stock Purchase Plan.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is set forth under the captions "Corporate Governance and the Board of Directors" and "Transactions with Management and Directors" in the Company's 2018 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is set forth under the caption "Proposal 3: Ratification of Selection of Independent Registered Public Accounting Firm" in the Company's 2018 Proxy Statement and is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

These documents are listed in the Index to Consolidated Financial Statements under Item 8.

(a) 2. Financial Statement Schedules

Financial statement schedules are omitted, as they are not required or are not applicable, or the required information is shown in the consolidated financial statements and the accompanying notes thereto.

(a) 3. Exhibits

The following exhibits are either filed as a part of this Annual Report on Form 10-K or are incorporated herein by reference:

Exhibit Number	Exhibit Description
2.1*	Purchase and Assumption Agreement between QCR Holdings, Inc. and Guaranty Bankshares, Ltd., dated as of June 8, 2017 (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed with the SEC on June 8, 2017.
3.1	Certificate of Incorporation of QCR Holdings, Inc., as amended (incorporated by reference to Exhibit 3.1 of the Registrant’s Quarterly Report on Form 10-Q/A Amendment No. 1 for the period ended September 30, 2011).
3.2	Bylaws of QCR Holdings, Inc. (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed November 20, 2015).
4.1	Amended and Restated Rights Agreement between QCR Holdings, Inc. and Quad City Bank and Trust Company dated May 8, 2013 (incorporated by reference to Exhibit 4.1 of Registrant’s Form 8-K filed May 8, 2013).
4.2	First Amendment to Amended and Restated Rights Agreement between QCR Holdings, Inc. and Quad City Bank and Trust Company dated February 11, 2016 (incorporated by reference to Exhibit 4.1 of Registrant’s Form 8-K filed on February 18, 2016).
4.3	Certain instruments defining the rights of holders of long-term debt of the Company, none of which authorize a total amount of indebtedness in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis, have not been filed as exhibits. The Company hereby agrees to furnish a copy of any of these agreements to the Securities and Exchange Commission upon request.

10.1+	Employment Agreement between QCR Holdings, Inc., Quad City Bank and Trust Company and Douglas M. Hultquist dated January 1, 2004 (incorporated by reference to Exhibit 10.2 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
10.2+	Employment Agreement between Cedar Rapids Bank and Trust Company and Larry J. Helling dated January 1, 2004 (incorporated by reference to Exhibit 10.6 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
10.3+	Employment Agreement between QCR Holdings, Inc. and Todd A. Gipple dated January 1, 2004 (incorporated by reference to Exhibit 10.11 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
10.4	Dividend Reinvestment Plan of QCR Holdings, Inc. (incorporated by reference to Exhibit 99.1 of Registrant's Form S-3D, File No. 333-102699 dated January 24, 2003).
10.5	Second Amended and Restated Operating Agreement between Quad City Bank and Trust Company and John Engelbrecht dated August 26, 2005 (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.6+	First Amendment to the Employment Agreement among QCR Holdings, Inc., Quad City Bank and Trust Company and Douglas M. Hultquist dated December 27, 2008 (incorporated by reference to Exhibit 10.19 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.7+	First Amendment to the Employment Agreement between Cedar Rapids Bank and Trust Company and Larry J. Helling dated December 30, 2008 (incorporated by reference to Exhibit 10.20 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.8+	First Amendment to the Employment Agreement between QCR Holdings, Inc. and Todd A. Gipple dated December 30, 2008 (incorporated by reference to Exhibit 10.21 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.9+	Executive Deferred Compensation Plan of QCR Holdings, Inc. (incorporated by reference to Exhibit 10.22 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.10+	Amended and Restated Executive Deferred Compensation Plan Participation Agreement among QCR Holdings, Inc., Quad City Bank and Trust Company and Douglas M. Hultquist dated December 19, 2013 (incorporated by reference to exhibit 10.11 to the Registrant's Annual Report on Form10-K for the year ended December 31, 2014).
10.11+	Amended and Restated Executive Deferred Compensation Plan Participation Agreement between Cedar Rapids Bank and Trust Company and Larry J. Helling dated December 19, 2013 (incorporated by reference to exhibit 10.12 to the Registrant's Annual Report on Form10-K for the year ended December 31, 2014).
10.12+	Amended and Restated Executive Deferred Compensation Plan Participation Agreement between QCR Holdings, Inc. and Todd A. Gipple dated December 19, 2013 (incorporated by reference to exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.13+	

	Non-Qualified Supplemental Executive Retirement Plan Joinder Agreement among QCR Holdings, Inc., Quad City Bank and Trust Company and Douglas M. Hultquist dated December 31, 2008 (incorporated by reference to Exhibit 10.28 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.14+	First Amendment to the Non-Qualified Supplemental Executive Retirement Plan Joinder Agreement among QCR Holdings, Inc., Quad City Bank and Trust Company and Douglas M. Hultquist dated December 29, 2015 (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K dated December 31, 2015).
10.15+	Non-Qualified Supplemental Executive Retirement Plan Joinder Agreement between Cedar Rapids Bank and Trust Company and Larry J. Helling dated December 31, 2008 (incorporated by reference to Exhibit 10.29 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).

10.16+	Non-Qualified Supplemental Executive Retirement Plan Joinder Agreement between QCR Holdings, Inc. and Todd A. Gipple dated December 31, 2008 (incorporated by reference to Exhibit 10.30 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.17+	Non-Qualified Supplemental Executive Retirement Plan Joinder Agreement among QCR Holdings, Inc., Quad City Bank and Trust Company and Michael A. Bauer dated December 31, 2008 (incorporated by reference to Exhibit 10.31 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
10.18+	QCR Holdings, Inc. Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A dated March 21, 2012).
10.19	Amendment No. 1 to the Second Amended and Restated Operating Agreement between Quad City Bank and Trust Company and John Engelbrecht, dated August 26, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).
10.20+	QCR Holdings, Inc. 2013 Equity Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A dated March 20, 2013).
10.21+	Form of Participation Agreement under the QCR Holdings, Inc. Executive Deferred Compensation Plan (incorporated by reference to exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.22+	Employment Agreement between Quad City Bank and Trust Company and John Anderson dated October 30, 2009 (incorporated by reference to exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.23+	First Amendment to the Employment Agreement between Quad City Bank and Trust Company and John Anderson dated December 18, 2012 (incorporated by reference to exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.24+	Employment Agreement between Rockford Bank and Trust Company and Thomas Budd dated December 30, 2008 (incorporated by reference to exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.25+	First Amendment to the Employment Agreement between Rockford Bank and Trust Company and Thomas Budd dated December 30, 2008 (incorporated by reference to exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.26+	Employment Agreement between QCR Holdings, Inc. and Cathie Whiteside dated August 27, 2007 (incorporated by reference to exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.27+	First Amendment to the Employment Agreement between QCR Holdings, Inc. and Cathie Whiteside dated December 28, 2008 (incorporated by reference to exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
10.28+	

	QCR Holdings, Inc. 2016 Equity Incentive Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 1, 2016).
10.29	Form of Securities Purchase Agreement between QCR Holdings, Inc. and certain investors dated May 20, 2016 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 23, 2016).
10.30+	QCR Holdings, Inc., Non-Qualified Supplemental Executive Retirement Plan, as amended and restated December 22, 2016 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 28, 2016).
10.31+	Non-Qualified Supplemental Executive Retirement Plan Joinder Agreement between Quad City Bank and Trust Company and John H. Anderson dated December 22, 2016 (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on December 28, 2016).

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10.32+	Form of QCR Holdings, Inc. 2016 Equity Incentive Plan Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 4.5 of the Registrant's Form S-8 filed on October 27, 2016 (File No. 333-214282)).
10.33+	Form of QCR Holdings, Inc. 2016 Equity Incentive Plan Restricted Stock Award Agreement (incorporated by reference to Exhibit 4.6 of the Registrant's Form S-8 filed on October 27, 2016 (File No. 333-214282)).
10.34+	Form of QCR Holdings, Inc. 2016 Equity Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 4.7 of the Registrant's Form S-8 filed on October 27, 2016 (File No. 333-214282)).
21.1	Subsidiaries of QCR Holdings, Inc. (exhibit is being filed herewith).
23.1	Consent of Independent Registered Pubic Accounting Firm - RSM US LLP (exhibit is being filed herewith).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) (exhibit is being filed herewith).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) (exhibit is being filed herewith).
32.1	Certification of Chief Executivve Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (exhibit is being filed herewith).
32.2	Certification of Chief Finanical Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (exhibit is being filed herewith).
101	Interactive Data File Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at December 31, 2017 and December 31, 2016; (ii) Consolidated Statements of Income for the years ended December 31, 2017, December 31, 2016 and December 31, 2015; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017, December 31, 2016, and December 31, 2015; (iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2017, December 31, 2016 and December 31, 2015; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2017, December 31, 2016 and December 31, 2015; and (vi) Notes to Consolidated Financial Statements.

* The Company has omitted schedules and similar attachments to the subject agreement pursuant to Item 601(b) of Regulation S-K. The Company will furnish a copy of any omitted schedule or similar attachment to the SEC upon request.

\+ Management contract of compensatory plan or arrangement.

Item 16. Form 10-K Summary

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	QCR HOLDINGS, INC.
Dated: March 12, 2018	By: /s/ Douglas M. Hultquist Douglas M. Hultquist President and Chief Executive Officer
Dated: March 12, 2018	By: /s/ Todd A. Gipple Todd A. Gipple Executive Vice President, Chief Operating Officer and Chief Financial Officer
Dated: March 12, 2018	By: /s/ Elizabeth A. Grabin Elizabeth A. Grabin First Vice President, Director of Financial Reporting Principal Accounting Officer)

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Patrick S. Baird Patrick S. Baird	Chair of the Board of Directors	March 12, 2018
/s/ Douglas M. Hultquist Douglas M. Hultquist	President, Chief Executive Officer and Director	March 12, 2018
/s/ John Paul E. Besong John Paul E. Besong	Director	March 12, 2018
/s/ Todd A. Gipple Todd A. Gipple	Executive Vice President, Chief Operating Officer, Chief Financial Officer and Director	March 12, 2018
/s/ Larry J. Helling Larry J. Helling	Director	March 12, 2018
/s/ Mark C. Kilmer Mark C. Kilmer	Director	March 12, 2018
/s/ Linda K. Neuman Linda K. Neuman	Director	March 12, 2018
/s/ Michael L. Peterson Michael L. Peterson	Director	March 12, 2018
/s/ George T. Ralph III George T. Ralph III	Director	March 12, 2018
/s/ Donna J. Sorensen, J.D. Donna J. Sorensen, J.D.	Director	March 12, 2018
/s/ Marie Z. Ziegler Marie Z. Ziegler	Vice-Chair of the Board of Directors	March 12, 2018

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Appendix A

SUPERVISION AND REGULATION

General

FDIC-insured institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Iowa Superintendent, the IDFPR, the Federal Reserve, the FDIC and the CFPB. Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, securities laws administered by the SEC and state securities authorities, and anti-money laundering laws enforced by the Treasury have an impact on the business of the Company. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company's operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's business, the kinds and amounts of investments the Company and the Banks may make, reserve requirements, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with the Company's and the Banks' insiders and affiliates and the Company's payment of dividends. In reaction to the global financial crisis and particularly following the passage of the Dodd Frank Act, the Company experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and caused the Company's compliance and risk management processes, and the costs thereof, to increase. After the 2016 federal elections, momentum to decrease the regulatory burden on community banks gathered strength. Although these deregulatory trends continue to receive much discussion among the banking industry, lawmakers and the bank regulatory agencies, little substantive progress has yet been made. The true impact of proposed reforms remains difficult to predict with any certainty.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability

and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and its subsidiary banks, beginning with a discussion of the continuing regulatory emphasis on the Company's capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

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Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company's earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banks and bank holding companies, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. These standards represent regulatory capital requirements that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of capital divided by total assets. As discussed below, bank capital measures have become more sophisticated over the years and have focused more on the quality of capital and the risk of assets. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are being excluded from capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than $15 billion, the Company is able to maintain its trust preferred proceeds as capital but the Company has to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

The Basel International Capital Accords. The risk-based capital guidelines for U.S. banks since 1989 were based upon the 1988 capital accord known as "Basel I" adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accord recognized that bank assets for the purpose of the capital ratio calculations needed to be risk weighted (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations. Basel I had a very simple formula for assigning risk weights to bank assets from 0% to 100% based on four categories. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as "Basel II," for large or "core" international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more) known as "advanced approaches" banks. The primary focus of Basel II was on the calculation of risk weights based on complex models developed by each advanced approaches bank. Because most banks were not subject to Basel II, the U.S. bank regulators worked to improve the risk sensitivity of Basel I standards without imposing the complexities of Basel II. This "standardized approach" increased the number of risk-weight categories and recognized risks well above the original 100% risk weighting. It is institutionalized by the Dodd-Frank Act for all banking organizations, even for the

advanced approaches banks, as a floor.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

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***The Basel III Rule*.** In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the "Basel III Rule"). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than "small bank holding companies" (generally holding companies with consolidated assets of less than $1 billion that do not have securities registered with the SEC).

The Basel III Rule required higher capital levels, increased the required quality of capital, and required more detailed categories of risk-weighting of riskier, more opaque assets. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). A number of instruments that qualified as Tier 1 Capital under Basel I do not qualify, or their qualifications will change. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital under Basel I, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution's Common Equity Tier 1 Capital.

The Basel III Rule required **minimum** capital ratios as of January 1, 2015, as follows:

A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;

An increase in the minimum required amount of Tier 1 Capital from 4% to 6% of risk-weighted assets;

A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and

A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer being phased in over three years beginning in 2016 (as of January 1, 2018, it had phased in to 1.875%). The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital.

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Banking organizations (except for large, internationally active banking organizations) became subject to the new rules on January 1, 2015. However, there are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules discussed below. The phase-in periods commenced on January 1, 2016 and extend until January 2019.

***Well-Capitalized Requirements*.** The ratios described above are minimum standards in order for banking organizations to be considered "adequately capitalized." Bank regulatory agencies uniformly encourage banks to hold more capital and be "well-capitalized" and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the FDIC and Federal Reserve, in order to be well-capitalized, a banking organization must maintain:

A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;

A ratio of Tier 1 Capital to total risk-weighted assets of 8% or more (6% under Basel I);

A ratio of Total Capital to total risk-weighted assets of 10% or more (the same as Basel I); and

A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2017: (i) none of the Banks were subject to a directive from the Iowa Superintendent, the IDFPR, the Federal Reserve or the FDIC, as applicable, to increase its capital and (ii) the Banks were well-capitalized, as defined by FDIC regulations. As of December 31, 2017, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action. An FDIC-insured institution's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

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Regulation and Supervision of the Company

General. The Company, as the sole stockholder of the Banks, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation supervision and enforcement by, the Federal Reserve under the BHCA. The Company is legally obligated to act as a source of financial strength to the Banks and to commit resources to support the Banks in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "Regulatory Emphasis on Capital" above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be

complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. The Company has elected to operate as a financial holding company.

In order to maintain our status as a financial holding company, the Company and the Banks must be well-capitalized, well-managed, and the Banks must have a least a satisfactory CRA rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, the Company has a period of time in which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the Company it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company's subsidiary bank has not received a satisfactory CRA rating, that company will not be able to commence any new financial activities or acquire a company that engages in such activities.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements. For a discussion of capital requirements, see "—Regulatory Emphasis on Capital" above.

Dividend Payments. 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. As a Delaware corporation, the Company is subject to the limitations of the DGCL, which allow the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "—Regulatory Emphasis on Capital" above.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to stockholders if: (i) the company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "—Regulatory Emphasis on Capital" above.

Incentive Compensation. There have been a number of developments in recent years focused on incentive compensation plans sponsored by bank holding companies and banks, reflecting recognition by the bank regulatory agencies and Congress that flawed incentive compensation practices in the financial industry were one of many factors contributing to the global financial crisis. Layered on top of that are the abuses in the headlines dealing with product cross-selling incentive plans. The result is interagency guidance on sound incentive compensation practices and proposed rulemaking by the agencies required under Section 956 of the Dodd-Frank Act.

The interagency guidance recognized three core principles. Effective incentive plans should: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Much of the guidance addresses large banking organizations and, because of the size and complexity of their operations, the regulators expect those organizations to maintain systematic and formalized policies, procedures, and systems for ensuring that the incentive compensation arrangements for all executive and non-executive employees covered by this guidance are identified and reviewed, and appropriately balance risks and rewards. Smaller banking organizations like the Company that use incentive compensation arrangements are expected to be less extensive, formalized, and detailed than those of the larger banks.

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Section 956 of the Dodd-Frank Act required the banking agencies, the National Credit Union Administration, the SEC and the Federal Housing Finance Agency to jointly prescribe regulations that prohibit types of incentive-based compensation that encourages inappropriate risk taking and to disclose certain information regarding such plans. On June 10, 2016, the agencies released an updated proposed rule for comment. Section 956 will only apply to banking organizations with assets of greater than $1 billion. The Company has consolidated assets greater than $1 billion and less than $50 billion and the Company is considered a Level 3 banking organization under the proposed rules. The proposed rules contain mostly general principles and reporting requirements for Level 3 institutions so there are no specific prescriptions or limits, deferral requirements or claw-back mandates. Risk management and controls are required, as is board or committee level approval and oversight. Management expects to review its incentive plans in light of the proposed rulemaking and guidance and implement policies and procedures that mitigate unreasonable risk. As of December 31, 2017, these rules remain in proposed form.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Exchange Act. Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

***Corporate Governance*.** The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Supervision and Regulation of the Banks

General. The Company owns four subsidiary banks: QCBT, CRBT and CSB are chartered under Iowa law (collectively, the "Iowa Banks") and RB&T is chartered under Illinois law. The deposit accounts of the Banks are insured by the FDIC's DIF to the maximum extent provided under federal law and FDIC regulations, currently $250,000 per insured depositor category. All four of the Company's subsidiary banks are members of the Federal Reserve System ("member banks").

As Iowa-chartered, FDIC-insured banks, the Iowa Banks are subject to the examination, supervision, reporting and enforcement requirements of the Iowa Superintendent, as the chartering authority for Iowa banks. As an Illinois-chartered, FDIC-insured bank, RB&T is subject to the examination, supervision, reporting and enforcement requirements of the IDFPR, as the chartering authority for Illinois banks. All four of the Company’s subsidiary banks are also subject to the examination, reporting and enforcement requirements of the Federal Reserve, as the primary federal regulator of member banks. In addition, the FDIC, as administrator of the DIF, has regulatory authority over the Banks.

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Deposit Insurance. As FDIC-insured institutions, the Banks are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. For institutions like the Banks that are not considered large and highly complex banking organizations, assessments are now based on examination ratings and financial ratios. The total base assessment rates currently range from 1.5 basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking. The assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF are calculated is based on its average consolidated total assets less its average tangible equity. This method shifts the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

The reserve ratio is the DIF balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions when the reserve ratio exceeds certain thresholds. The reserve ratio reached 1.28% on September 30, 2017. If the reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC will impose a shortfall assessment on March 31, 2019 on insured depository institutions with total consolidated assets of $10 billion or more. The FDIC will provide assessment credits to insured depository institutions, like the Banks, with total consolidated assets of less than $10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

FICO Assessments. In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay FICO assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO's outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2017 was 54 cents per $100 dollars of assessable deposits.

Supervisory Assessments. Each of the Banks is required to pay supervisory assessments to its respective state banking regulator to fund the operations of that agency. The amount of the assessment payable by each Bank is calculated on the basis of that Bank's total assets. During the year ended December 31, 2017, the Iowa Banks paid supervisory assessments to the Iowa Superintendent totaling $263,614 and RB&T paid supervisory assessments to the IDFPR totaling $60,265.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—Regulatory Emphasis on Capital" above.

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Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the LCR, is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the NSFR, is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the federal bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil, and in 2016 proposed implementation of the NSFR. While these tests apply only to the largest banking organizations in the country, certain elements are expected to filter down to all FDIC-insured institutions. The Company continues to review the Company's liquidity risk management policies in light of the LCR and NSFR.

Liability of Commonly Controlled Institutions. Under federal law, institutions insured by the FDIC may be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of commonly controlled FDIC-insured depository institutions or any assistance provided by the FDIC to commonly controlled FDIC-insured depository institutions in danger of default. Because the Company controls each of the Banks, the Banks are commonly-controlled for purposes of these provisions of federal law.

Dividend Payments. The primary source of funds for the Company is dividends from the Banks. In general, the Banks may only pay dividends either out of their historical net income after any required transfers to surplus or reserves have been made or out of their retained earnings. The Federal Reserve Act also imposes limitations on the amount of dividends that may be paid by state member banks, such as the Banks. Without prior Federal Reserve approval, a state member bank may not pay dividends in any calendar year that, in the aggregate, exceed the bank's calendar year-to-date net income plus the bank's retained net income for the two preceding calendar years.

The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and an FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, each of the Banks exceeded its minimum capital requirements under applicable guidelines as of December 31, 2017. Notwithstanding the availability of funds for dividends, however, the Federal Reserve, the FDIC, the IDFPR or the Iowa Superintendent, as applicable, may prohibit the payment of dividends by one of the Banks if it determines such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule,

institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "—Regulatory Emphasis on Capital" above.

State Bank Investments and Activities. The Banks are permitted to make investments and engage in activities directly or through subsidiaries as authorized by Illinois or Iowa law, as applicable. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Banks.

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Insider Transactions. The Banks are subject to certain restrictions imposed by federal law on "covered transactions" between each Bank and its "affiliates." The Company is an affiliate of the Banks for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by any of the Banks. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by each Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal stockholders of the Company and to "related interests" of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Banks, or a principal stockholder of the Company, may obtain credit from banks with which any of the Banks maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the FDIC-insured institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the FDIC-insured institution's rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential

that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk and cybersecurity are critical sources of operational risk that FDIC-insured institutions are expected to address in the current environment. Each Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

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Branching Authority. The Iowa Banks have the authority under Iowa law to establish branches anywhere in the State of Iowa, subject to receipt of all required regulatory approvals. In 1997, the Company formed a de novo Illinois bank that was merged into QCBT, resulting in QCBT establishing a branch office in Illinois. Under Illinois law, QCBT may continue to establish offices in Illinois to the same extent permitted for an Illinois bank (subject to certain conditions, including certain regulatory notice requirements). Similarly, RB&T has the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or acquire individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2018: the first $16 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating more than $16 million to $122.3 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $122.3 million, the reserve requirement is 3% up to $122.3 million plus 10% of the aggregate amount of total transaction accounts in excess of $122.3 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Federal Home Loan Bank System. The Banks are each a member of the FHLB, which serves as a central credit facility for its members. The FHLB is funded primarily from proceeds from the sale of obligations of the FHLB system. It makes loans to member banks in the form of FHLB advances. All advances from the FHLB are required to be fully collateralized as determined by the FHLB.

Community Reinvestment Act Requirements. The Community Reinvestment Act requires the Banks to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess each Bank’s record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Bank’s effectiveness in meeting its Community Reinvestment Act requirements.

Anti-Money Laundering. The USA Patriot Act is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The USA Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and

law enforcement authorities.

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Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk. As of December 31, 2017, QCBT, CRBT and RB&T were in compliance with the 300% guideline for commercial real estate loans. Although CSB's loan portfolio has historically been real estate dominated and its real estate portfolio levels exceed these policy limits, it has established a Credit Risk Committee to routinely monitor its real estate portfolio.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Banks, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Banks, continue to be examined by their applicable bank regulators. The Company does not expect the CFPB's rules to have a significant impact on its operations, except for higher compliance costs.

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Appendix B

Guide 3 Information

The following tables and schedules show selected comparative financial information required by the SEC Securities Act Guide 3, regarding the business of the Company for the periods shown.

I. Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential

A. and B. Consolidated Average Balance Sheets and Analysis of Net Interest Earnings

The information requested is disclosed in the MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

C. Analysis of Changes of Interest Income/Interest Expense

The information requested is disclosed in the MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

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II. Investment Portfolio

A. Investment Securities

The following tables present the amortized cost and fair value of investment securities as of December 31, 2017, 2016, and 2015

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(dollars in thousands)			
December 31, 2017				
Securities held to maturity:				
Municipal securities	$378,424	$ 2,764	$ (2,488)	$378,700
Other bonds	1,050	-	-	1,050
Totals	$379,474	$ 2,764	$ (2,488)	$379,750
Securities available for sale:				
U.S. gov't.sponsored agency securities	$38,409	$ 37	$ (349)	$38,097
Residential mortgage-backed and related securities	165,460	155	(2,313)	163,301
Municipal securities	66,176	660	(211)	66,625
Other securities	4,014	897	(27)	4,885
Totals	$274,059	$ 1,749	$ (2,900)	$272,908
December 31, 2016				
Securities held to maturity:				
Municipal securities	$321,859	$ 2,201	$ (4,695)	$319,365
Other bonds	1,050	-	-	1,050
Totals	$322,909	$ 2,201	$ (4,695)	$320,415
Securities available for sale:				
U.S. gov't.sponsored agency securities	$46,281	$ 133	$ (331)	$46,083
Residential mortgage-backed and related securities	150,465	175	(2,938)	147,702
Municipal securities	52,817	426	(638)	52,605
Other securities	4,046	704	(27)	4,723
Totals	$253,609	$ 1,438	$ (3,934)	$251,113

December 31, 2015

Securities held to maturity:				
Municipal securities	$252,624	$ 3,190	$ (1,173)	$254,641
Other bonds	1,050	-	-	1,050
Totals	$253,674	$ 3,190	$ (1,173)	$255,691
Securities available for sale:				
U.S. gov't.sponsored agency securities	$216,282	$ 105	$ (2,850)	$213,537
Residential mortgage-backed and related securities	81,442	511	(1,283)	80,670
Municipal securities	26,765	873	(59)	27,579
Other securities	1,108	541	-	1,649
Totals	$325,597	$ 2,030	$ (4,192)	$323,435

NOTE: Stock of the Federal Home Loan Bank and Federal Reserve Bank are NOT included in the above. The Company carries these investments within restricted investment securities on the consolidated balance sheets. Following is a summary of the carrying value of all of the Company's restricted investment securities as of December 31, 2017, 2016, and 2015:

	As of December 31,		
	2017	2016	2015
	(dollars in thousands)		
Federal Home Loan Bank	$11,697	$9,271	$9,136
Federal Reserve Bank	8,032	5,672	5,646
Other	54	54	54
Totals	$19,783	$14,997	$14,836

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B. Investment Securities, Maturities, and Yields

The following table presents the maturity of securities held on December 31, 2017 and the weighted average stated coupon rates by range of maturity:

	Amortized Cost (dollars in thousands)	Weighted Average Yield	
U.S. gov't.sponsored agency securities:			
Within 1 year	$50	7.93	%
After 1 but within 5 years	13,337	2.01	%
After 5 but within 10 years	1,490	2.91	%
After 10 years	23,532	2.12	%
Total	$38,409	2.12	%
Residential mortgage-backed and related securities:			
After 1 but within 5 years	$8,718	1.97	%
After 5 but within 10 years	73,552	2.47	%
After 10 years	83,190	2.35	%
Total	$165,460	2.38	%
Municipal securities:			
Within 1 year	$4,853	2.89	%
After 1 but within 5 years	33,937	2.75	%
After 5 but within 10 years	94,267	3.07	%
After 10 years	311,543	3.40	%
Total	$444,600	3.27	%
Other bonds:			
After 1 but within 5 years	$550	2.92	%
After 5 but within 10 years	500	4.39	%
Total	$1,050	3.62	%
Other securities with no maturity or stated face rate	$4,014		

NOTE: Yields above are NOT computed on a tax equivalent basis.

C. As of December 31, 2017, there were no securities with aggregate book value and market value purchased from a single issuer (as defined by Section 2(4) of the Securities Act of 1933) that exceeded 10% of stockholders' equity.

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III. Loan/Lease Portfolio

A. Types of Loans/Leases

The information requested is disclosed in MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

B. Maturities and Sensitivities of Loans/Leases to Changes in Interest Rates

The information requested is disclosed in MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

C. Risk Elements

1. Nonaccrual, Past Due and Restructured Loans/Leases

The gross interest income that would have been recorded if nonaccrual loans/leases and performing troubled debt restructurings had been current in accordance with their original terms was $682,027 and $351 respectively, for the year ended December 31, 2017. The amount of interest collected on nonaccrual loans/leases and performing troubled debt restructurings that was included in interest income was none and $435,034, respectively, for the year ended December 31, 2017.

The remaining information requested is disclosed in MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

2. Potential Problem Loans/Leases.

To management's best knowledge, there are no such significant loans/leases that have not been disclosed in the table presented in the MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

3. Foreign Outstandings. None.

4. Loan/Lease Concentrations.

As of December 31, 2017, there were two concentrations of loans/leases exceeding 10% of total loans/leases, which is not otherwise disclosed in Item III. A. Those concentrations are Lessors of Non-Residential Buildings & Dwellings at 14% and Lessors of Residential Buildings & Dwellings at 12%.

D. Other Interest-Bearing Assets

As of December 31, 2017, there are no interest-bearing assets required to be disclosed in this Appendix.

IV. Summary of Loan/Lease Loss Experience

A. Analysis of the Allowance for Estimated Losses on Loans/Leases

The information requested is disclosed in MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

B. Allocation of the Allowance for Estimated Losses on Loans/Leases

The information requested is disclosed in MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

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V. Deposits.

The average amount of and average rate paid for the categories of deposits for the years ended December 31, 2017, 2016, and 2015 are included in the consolidated average balance sheets and can be found in the MD&A section of the Company's Form 10-K for the fiscal year ended December 31, 2017.

The Company has no deposits by foreign depositors in domestic offices as of December 31, 2017.

Included in interest bearing deposits at December 31, 2017, were certificates of deposit totaling $282,652,000 that were $100,000 or greater. Maturities of these certificates were as follows:

	December 31, 2017 (dollars in thousands)
One to three months	$ 98,067
Three to six months	41,678
Six to twelve months	66,182
Over twelve months	76,725
Total certificates of deposit greater than or equal to $100,000	$ 282,652

VI. Return on Equity and Assets.

The following tables present the return on assets and equity and the equity to assets ratio of the Company:

	Years ended December 31,		
	2017	**2016**	**2015**

	(dollars in thousands)					
Average total assets	$3,519,848		$2,846,699		$2,549,921	
Average equity	310,210		262,075		192,489	
Net income	35,707		27,687		16,928	
Return on average assets	1.01	%	0.97	%	0.66	%
Return on average common equity	11.51	%	10.56	%	8.79	%
Return on average total equity	11.51	%	10.56	%	8.79	%
Dividend payout ratio	7.46	%	7.27	%	4.88	%
Average equity to average assets ratio	8.81	%	9.21	%	7.55	%

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VII. Short Term Borrowings.

The following tables present the information requested on short-term borrowings of the Company:

Short-term borrowings as of December 31, 2017, 2016, and 2015 are summarized as follows:

	2017	2016 (dollars in thousands)	2015
Overnight repurchase agreements with customers	$7,003	$ 8,131	$73,873
Federal funds purchased	6,990	31,840	70,790
	$13,993	$ 39,971	$144,663

Information concerning overnight repurchase agreements with customers is summarized as follows:

	2017	2016 (dollars in thousands)	2015
Average daily balance during the period	$7,476	$ 30,083	$121,186
Average daily interest rate during the period	0.08 %	0.07 %	0.11 %
Maximum month-end balance during the period	$11,829	$ 59,833	$159,407
Weighted average rate as of end of period	0.15 %	0.18 %	0.11 %
Securities underlying the agreements as of end of period:			
Carrying value	$20,894	$ 19,720	$95,389
Fair value	20,894	19,720	95,389

Information concerning federal funds purchased is summarized as follows:

	2017	2016 (dollars in thousands)	2015
Average daily balance during the period	$13,486	$ 19,106	$32,826
Average daily interest rate during the period	1.31 %	0.56 %	0.41 %
Maximum month-end balance during the period	$33,650	$ 51,750	$126,220
Weighted average rate as of end of period	1.24 %	0.70 %	0.57 %