

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)

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

Common stock, \$1.00 Par Value The Nasdaq Global Market

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

Preferred Share Purchase Rights

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

Yes No

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

Yes No

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

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

Yes No

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

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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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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(Do not check if a smaller reporting company)

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

Yes No

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 IDFP. 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)
	<i>(dollars in thousands)</i>		
QCBT	\$13,500	\$11,250	\$7,750
CRBT	\$9,500	\$8,000	\$5,500
CSB	\$9,500	\$8,000	