QCR HOLDINGS INC
Form 10-K
March 05, 2008

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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, 2007.
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 Seventh Street, Suite 204, 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 Capital 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 o No þ

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 o No þ

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 þ No o

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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

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 Capital Market on June 30, 2007, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $72,660,623.

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: As of February 27, 2008, the Registrant had outstanding 4,602,966 shares of common stock, $1.00 par value per share.

Documents incorporated by reference:
Part III of Form 10-K Proxy statement for annual meeting of stockholders to be held in May 2008.

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Part I

Item 1. Business

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

Quad City Bank and Trust Company (Quad City Bank & Trust), which is based in Bettendorf, Iowa and commenced operations in 1994,

Cedar Rapids Bank and Trust Company (Cedar Rapids Bank & Trust), which is based in Cedar Rapids, Iowa and commenced operations in 2001,

Rockford Bank and Trust Company (Rockford Bank & Trust), which is based in Rockford, Illinois and commenced operations in 2005, and

First Wisconsin Bank and Trust Company (First Wisconsin Bank & Trust), which is based in Brookfield, Wisconsin and commenced operations in 2007.

The Company also engages in merchant and cardholder credit card processing through its wholly-owned subsidiary, Quad City Bancard, Inc. (Bancard), based in Moline, Illinois, in direct financing lease contracts through its 80% equity investment in M2 Lease Funds, LLC (M2 Lease Funds), based in Brookfield, Wisconsin, and in real estate holdings through its 57% equity investment in Velie Plantation Holding Company, LLC (Velie Plantation Holding Company), based in Moline, Illinois.

Subsidiary Banks. Quad City Bank & Trust was capitalized on October 13, 1993 and commenced operations on January 7, 1994. Quad City Bank & Trust is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the Federal Deposit Insurance Corporation (the FDIC) to the maximum amount permitted by law. Quad City Bank & Trust provides full service commercial and consumer banking and trust and asset management services in the Quad Cities and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and in Moline, Illinois. At December 31, 2007, Quad City Bank & Trust had total segment assets of $860.7 million. See Financial Statement Note 20 for additional business segment information.

Cedar Rapids Bank & Trust is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. The Company commenced operations in Cedar Rapids in June 2001 operating as a branch of Quad City Bank & Trust. The Cedar Rapids branch operation then began functioning under the Cedar Rapids Bank & Trust charter in September 2001. Cedar Rapids Bank & Trust provides full-service commercial and consumer banking and trust and asset management services to Cedar Rapids, Iowa and adjacent communities through its two facilities, which were both completed in the summer of 2005. The headquarters for Cedar Rapids Bank & Trust is located in downtown Cedar Rapids, and its first branch location is located in northern Cedar Rapids. At December 31, 2007, Cedar Rapids Bank & Trust had total segment assets of $383.9 million. See Financial Statement Note 20 for additional business segment information.

The Company commenced operations in Rockford, Illinois in September 2004 operating as a branch of Quad City Bank & Trust, and that operation began functioning under the Rockford Bank & Trust charter in January 2005. Rockford Bank & Trust is an Illinois-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. It provides full-service commercial and consumer banking to Rockford and adjacent communities through its original office located in downtown Rockford and its branch facility located on Guilford Road at Alpine Road in Rockford, which was completed in 2006. At December 31, 2007, Rockford Bank & Trust had total segment assets of $157.8 million. See Financial Statement Note 20 for additional business segment information.

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On February 20, 2007, the Company purchased its fourth bank charter, First Wisconsin Bank & Trust. The Company commenced operations in the Milwaukee area in April 2006, operating initially as a loan production office/deposit production office of Rockford Bank & Trust, until June 2006, at which time such office became a branch of Rockford Bank & Trust. In October 2006, the Company announced that it had entered into a series of agreements providing for the acquisition of a Wisconsin-chartered bank and the subsequent move of the branch into the purchased charter. First Wisconsin Bank & Trust is a Wisconsin-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. It provides full-service commercial and consumer banking to the Milwaukee, Wisconsin area and adjacent communities through its office located in Brookfield, Wisconsin. At December 31, 2007, First Wisconsin Bank & Trust had total segment assets of $70.7 million. See Financial Statement Note 20 for additional business segment information.

Operating Subsidiaries. Bancard was capitalized in April 1995 as a Delaware corporation that provides merchant and cardholder credit card processing services. Bancard provides credit card processing for merchants and cardholders of the Company s four subsidiary banks and 128 agent banks. During 2007, Bancard processed in excess of 3.8 million merchant transactions with a dollar volume exceeding $387.7 million.

On August 26, 2005, Quad City Bank & Trust acquired 80% of the membership units of M2 Lease Funds. John Engelbrecht, the President and Chief Executive Officer of M2 Lease Funds, retained 20% of the membership units. M2 Lease Funds, which is based in Brookfield, Wisconsin, is engaged in the business of leasing machinery and equipment to commercial and industrial businesses under direct financing lease contracts. Quad City Bank & Trust s acquisition of M2 Lease Funds resulted in goodwill of $3.4 million and minority interest, which at December 31, 2007, was $1.1 million. In accordance with the provisions of FAS Statement 142, goodwill is not being amortized, but is being evaluated annually for impairment. There was no impairment of goodwill in 2007.

Since 1998, the Company has held a 20% equity investment in Velie Plantation Holding Company. In 2006, the Company acquired an additional 37% of the membership units bringing its total investment to 57% in aggregate. Velie Plantation Holding Company is engaged in holding the real estate property known as the Velie Plantation Mansion in Moline, Illinois. Six additional investors in Velie Plantation Holding Company have retained 43% of the membership units. The acquisition of a majority of the membership units resulted in minority interest of $664 thousand at December 31, 2007.

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, 2007 and 2006:

Name	Date Issued	Amount Issued	Interest Rate	Interest Rate as of 12/31/07	Interest Rate as of 12/31/06
QCR Holdings Statutory Trust II	February 2004	$12,372,000	6.93%*	6.93%	6.93%
QCR Holdings Statutory Trust III	February 2004	8,248,000	2.85% over 3-month LIBOR	8.08%	8.31%
QCR Holdings Statutory Trust IV	May 2005	5,155,000	1.80% over 3-month LIBOR	7.04%	7.16%
QCR Holdings Statutory Trust V	February 2006	10,310,000	6.62%**	6.62%	6.62%

* Rate is fixed until March 31, 2011, then becomes variable based on 3-month LIBOR plus 2.85%, reset quarterly.

** Rate is fixed until April 7, 2011, then becomes variable based on 3-month LIBOR plus 1.55%, reset quarterly.

Securities issued by Trust II mature in thirty years, but are callable at par after seven years from issuance. Securities issued by Trust III, Trust IV, and Trust V mature in thirty years, but are callable at par after five years from issuance.

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Other Ownership Interests. The Company invests its capital in stocks of financial institutions and mutual funds, as well as participates in loans with the subsidiary banks. In addition to its wholly-owned and majority-owned subsidiaries, the Company owns a 20% equity position in Nobel Real Estate Investors, LLC (Nobel Real Estate). In July 2007, the Company sold its 20% equity interest in Nobel Electronic Transfer, LLC (Nobel) to TriSource Solutions, LLC (TriSource) in exchange for $500 thousand in cash and a 2.25% equity interest in TriSource, which it continues to own. In June 2005, Cedar Rapids Bank & Trust entered into a joint venture as a 50% owner of Cedar Rapids Mortgage Company, LLC (Cedar Rapids Mortgage Company).

The Company and its subsidiaries collectively employed 350 full-time equivalents at December 31, 2007.

Business. The Company s principal business consists of attracting deposits from the public and investing those deposits in loans 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 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 merchant credit card fees, trust fees, deposit service charge fees, fees from the sale of residential real estate loans and other income. Operating expenses include employee compensation and benefits, occupancy and equipment expense, professional and data processing fees, advertising and marketing expenses, bank service charges, insurance, and other administrative expenses.

The Board of Governors of the Federal Reserve System (the Federal Reserve) is the primary federal regulator of the Company and its subsidiaries. In addition, Quad City Bank & Trust and Cedar Rapids Bank & Trust are regulated by the Iowa Superintendent of Banking (the Iowa Superintendent), Rockford Bank & Trust is regulated by the State of Illinois Department of Financial and Professional Regulation (the Illinois DFPR), and First Wisconsin Bank & Trust is regulated by the State of Wisconsin Department of Financial Institutions (the Wisconsin DFI). The FDIC, as administrator of the Deposit Insurance Fund, has regulatory authority over the subsidiary banks.

Lending. The Company and its subsidiaries provide a broad range of commercial and retail lending and investment services to corporations, partnerships, individuals and government agencies. The subsidiary banks actively market their services to qualified lending customers. Lending officers actively solicit the business of new borrowers entering their market areas as well as long-standing members of the local business community. The subsidiary banks have established lending policies which include a number of underwriting factors to be considered in making a loan, including location, loan-to-value ratio, cash flow, interest rate and the credit history of the borrower.

Quad City Bank & Trust s current legal lending limit is approximately $11.1 million. As of December 31, 2007, commercial loans, including commercial real estate loans, made up approximately 82% of the loan portfolio, while residential mortgages and consumer loans each comprised approximately 9%.

Cedar Rapids Bank & Trust s current legal lending limit is approximately $4.7 million. As of December 31, 2007, commercial loans, including commercial real estate loans, made up approximately 85% of the loan portfolio, while residential mortgages comprised approximately 8% and consumer loans comprised approximately 7%.

Rockford Bank & Trust s current legal lending limit is approximately $3.2 million. As of December 31, 2007, commercial loans, including commercial real estate loans, made up approximately 86% of the loan portfolio, while residential mortgages comprised approximately 8% and consumer loans comprised approximately 6%.

First Wisconsin Bank & Trust s current legal lending limit is approximately $1.9 million. As of December 31, 2007, commercial loans, including commercial real estate loans, made up approximately 84% of the loan portfolio, while residential mortgages comprised approximately 2% and consumer loans comprised approximately 14%.

As part of the loan monitoring activity at the four subsidiary banks, credit administration personnel interact closely with senior bank management. The Company has also instituted a separate loan review function to analyze credits of the subsidiary banks. Management has attempted to identify problem loans at an early stage and to aggressively seek a resolution of these situations.

As noted above, the subsidiary banks are active commercial lenders. The areas of emphasis include loans to wholesalers, manufacturers, building contractors, developers, business services companies 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. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. In addition, the subsidiary banks often take personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years. Some of the subsidiary banks commercial business loans have floating interest rates or reprice within one year. The banks also make commercial real estate loans. Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower.

The subsidiary banks sell the majority of their residential real estate loans in the secondary market. During the year ended December 31, 2007, the subsidiary banks originated $135.0 million of residential real estate loans and sold $103.6 million, or 77%, of these loans. During the year ended December 31, 2006, the subsidiary banks originated $134.3 million of residential real estate loans and sold $84.2 million, or 63%, of these loans. During the year ended December 31, 2005, the subsidiary banks originated $122.1 million of residential real estate loans and sold $99.6 million, or 82%, of these loans. Generally, the subsidiary banks residential mortgage 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 in one to five years, and then retain these loans in their portfolios. The subsidiary banks residential real estate loan portfolios, net of loans held for sale, were approximately $78.0 million at December 31, 2007. Servicing rights are not presently retained on the loans sold in the secondary market.

The consumer lending departments of each bank provide many types of consumer loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines.

Competition. The Company currently operates in the highly competitive Quad City, Cedar Rapids, Rockford, and Milwaukee markets. Competitors include not only other commercial banks, credit unions, thrift institutions, and mutual funds, but also, insurance companies, finance companies, brokerage firms, investment banking companies, and a variety of other financial services and advisory companies. Many of these competitors are not subject to the same regulatory restrictions as the Company. Many of these unregulated competitors compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services. Additionally, the Company competes in markets with a number of much larger financial institutions with substantially greater resources and larger lending limits. These competitive trends are likely to continue and may increase as a result of the continuing reduction on restrictions on the interstate operations of financial institutions. Under the Gramm-Leach-Bliley Act of 1999, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services.

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

See Appendix B for tables and schedules that show selected comparative statistical information relating to the business of the Company required to be presented pursuant to the securities laws, Consistent with the information presented in Form 10-K, results are presented for the fiscal years ended December 31, 2007, 2006, 2005, 2004 and 2003.

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

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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:

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

We operate primarily in the Quad City, Cedar Rapids, Rockford, and Milwaukee markets, and as a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in those areas. We have developed a particularly strong presence in Bettendorf, Cedar Rapids and Davenport, Iowa and Moline and Rockford, Illinois and their surrounding communities. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans to us 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 all of our markets are highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank financial services providers. Many of these competitors are not subject to the same regulatory restrictions as we are. Many of our unregulated competitors compete across geographic boundaries and are able to provide customers with a feasible alternative to traditional banking services. Additionally, if the regulatory trend toward reducing restrictions on the interstate operations of financial institutions continues, we will continue to experience increased competition as a result.

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

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 executive officers, the current management teams, branch managers and loan officers of our operating subsidiaries will continue to be important to the successful implementation of our strategy. It is also critical, as we 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.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth, branching, *de novo* bank formations and/or acquisitions could be materially impaired.

We may experience difficulties in managing our growth and our growth strategy involves risks that may negatively impact our net income.

While we have no current plans, we may expand into additional communities or attempt to strengthen our position in our current markets by undertaking additional *de novo* bank formations or branch openings. Based on our experience, we believe that it generally takes several years for new banking facilities to achieve overall profitability, due to the impact of organizational and overhead expenses and the start-up phase of generating loans and deposits. If we undertake additional branching and *de novo* bank and business formations, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management s time and attention and general disruption to our business.

In addition to branching and *de novo* bank formations, we may acquire banks and related businesses that we believe provide a strategic fit with our business. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve similar risks to those commonly associated with branching and *de novo* bank formations, but may also involve additional risks, including:

- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- exposure to potential asset quality issues of the acquired bank or related business;
- difficulty and expense of integrating the operations and personnel of banks and businesses we acquire; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

Interest rates and other conditions impact our results of operations.

Our profitability is in part a function of the spread between the interest rates earned on investments and loans 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 terms or the mix of adjustable and fixed rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations is presented at Quantitative and Qualitative Disclosures About Market Risk included under Item 7A of Part II of this Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

We must effectively manage our credit risk.
There are risks inherent in making any loan, including risks inherent in dealing with individual 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. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.
The majority of our subsidiary banks loan/lease portfolios are invested in commercial loans/leases, and we focus on lending to small to medium-sized businesses. The size of the loans/leases we can offer to commercial customers is less than the size of the loans/leases that our competitors with larger lending limits can offer. This may limit our ability to establish relationships with the area s largest businesses. As a result, we may assume greater lending risks than financial institutions that have a lesser concentration of such loans/leases and tend to make loans/leases to larger businesses. Collateral for these loans/leases generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. In addition to commercial loans/leases and commercial real estate loans, our subsidiary banks are also active in residential mortgage and consumer lending.
Commercial and industrial loans/leases make up a large portion of our loan/lease portfolio.
Commercial and industrial loans/leases were $435.4 million, or approximately 39% of our total loan/lease portfolio, as of December 31, 2007. Our commercial loans/leases 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 and equipment. Credit support provided by the borrower for most of these loans/leases and the probability of repayment is based on the liquidation value of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans/leases may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.
Our loan/lease portfolio has a significant concentration of commercial real estate loans, which involve risks specific to real estate value.
Commercial real estate lending comprises a significant portion of our lending business. Specifically, commercial real estate loans were $499.5 million, or approximately 45% of our total loan/lease portfolio, as of December 31, 2007. Our commercial real estate loans increased by approximately 43% from their levels at December 31, 2006. The market value of real estate 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. Although a significant portion of such loans are secured by real estate as a secondary form of collateral, 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.
If the problems that have occurred in residential real estate and mortgage markets throughout much of the United States were to spread to the commercial real estate market, particularly within one or more of our markets, the value of collateral securing our commercial real estate loans could decline. 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. We generally have not experienced a downturn in credit performance by our commercial real estate loan customers, but in light of the uncertainty that exists in the economy and credit markets nationally, there can be no guarantee that we will not experience any deterioration in such performance.

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

We established our allowance for loan/lease losses in consultation with management of our subsidiaries and maintain it at a level considered adequate by management to absorb loan/lease losses that are inherent in the portfolio. The amount of future loan/lease losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2007, our allowance for loan/lease losses as a percentage of total gross loans/leases was 1.09% and as a percentage of total non-performing loans/leases was approximately 161%. Although management believes that the allowance for loan/lease losses is 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 for loan/lease losses will prove sufficient to cover actual loan/lease losses in the future. Loan/lease losses in excess of our reserves may adversely affect our business, financial condition and results of operations. Additional information regarding our allowance for loan/lease losses and the methodology we use to determine an appropriate level of reserves is located in the Management s Discussion and Analysis section included under Item 7 of Part II of this Form 10-K.

Our Bancard operation faces other risks.

Bancard, our credit card processing subsidiary, is subject to certain risks, which could have a negative impact on its operations. These risks primarily are competition, credit risks and the possibility that merchants willingness to accept credit cards will decline. Many of Bancard s competitors have greater financial, technological, marketing and personnel resources than Bancard and there can be no assurance that Bancard will be able to compete effectively with such entities.

Bancard is also subject to credit risks. When a billing dispute arises between a cardholder and a merchant, and if the dispute is not resolved in favor of the merchant, the transaction is charged back to the merchant. If Bancard is unable to collect such chargeback from the merchant s account, and if the merchant refuses or is unable to reimburse Bancard for the chargeback due to bankruptcy or other reasons, Bancard bears the loss for the amount of the refund paid to the cardholder. Bancard, in general, handles processing for smaller merchants, which may present greater risk of loss. Although Bancard maintains a reserve against these losses, there is no assurance that it will be adequate.

Additionally, VISA and MasterCard have the ability to increase the interchange rates charged to merchants for credit card transactions. There can be no assurance that merchants will continue to accept credit cards as payment if they feel rates are too high. Bancard is also subject to an approval process by the VISA and MasterCard credit card associations. In the event Bancard fails to comply with these standards, Bancard s designation as a certified processor could be suspended or terminated. There can be no assurance that VISA or MasterCard will maintain Bancard s registrations or that the current VISA or MasterCard rules allowing Bancard to provide transaction processing services will remain in effect.

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

The financial services industry is undergoing 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 enables us to reduce costs. 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 and expand our market areas. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

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

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

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

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

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

Government regulation can result in limitations on our operations.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the FDIC, the Iowa Superintendent, the Illinois DFPR, and the Wisconsin DFI. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of stockholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business and profitability. Increased regulation could increase our cost of compliance and adversely affect profitability. For example, new legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

In addition, there have been a number of legislative and regulatory proposals that have arisen in the wake of the recent troubles in the credit markets in the United State that would have an impact on the operation of bank holding companies and their bank and non-bank subsidiaries. It is impossible to predict whether or in what form these proposals may be adopted in the future and, if adopted, what their effect will be on us.

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

As of December 31, 2007, we had $36.1 million of junior subordinated debentures held by four business trusts that we control. Interest payments on the debentures, which totaled $2.6 million for 2007, must be paid before we pay dividends on our capital stock, including our common stock. We have the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if we elect to defer interest payments, all deferred interest must be paid before we may pay dividends on our capital stock. As of December 31, 2007, the Company had 568 shares of non-cumulative perpetual preferred stock issued and outstanding. Although the preferred shares will accrue no dividends, dividends will be payable on the preferred shares if declared, but no dividends may be declared on the Company s common stock unless and until dividends have been declared on the outstanding shares. Deferral, of either interest payments on the debentures or preferred dividends on the preferred shares, could cause a subsequent decline in the market price of our common stock because the Company would not be able to pay dividends on its common stock.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price stockholders paid for them.

Although our common shares are listed for quotation on The Nasdaq Capital Market, the trading in our common shares has substantially less liquidity than many other companies listed on Nasdaq. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that the volume of trading in our common shares will increase in the future.

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 for its subsidiary banks:

Facility Address	Facility Square Footage	Facility Owned or Leased
Quad City Bank & Trust		
2118 Middle Road in Bettendorf, IA	6,700	Owned
4500 Brady Street in Davenport, IA	36,000	Owned
3551 7th Street in Moline, IL	30,000	Owned *
5515 Utica Ridge Road in Davenport, IA	6,000	Leased
1700 Division Street in Davenport, IA	12,000	Owned
Cedar Rapids Bank & Trust		
400 1st Avenue NE, Suite 100 in Cedar Rapids, IA	36,000	Owned
5400 Council Street in Cedar Rapids, IA	5,900	Owned
Rockford Bank & Trust		
127 North Wyman Street in Rockford, IL	7,800	Leased
4571 Guilford Road in Rockford, IL	20,000	Owned
First Wisconsin Bank & Trust		
175 North Patrick Boulevard in Brookfield, WI	2,100	Leased

* The building is owned by Velie Plantation Holding Company, in which the Company has a 57% interest.

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

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

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to the stockholders of the Company for a vote during the fourth quarter of the fiscal year ended December 31, 2007.

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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 Capital Market under the symbol QCRH . The stock began trading on October 6, 1993. As of December 31, 2007, there were 4,597,744 shares of common stock outstanding held by approximately 2,600 holders of record. The following table sets forth the high and low sales prices of the common stock, as reported by The Nasdaq Capital Market, for the periods indicated.

	2007 sales price		2006 sales price		2005 sales price	
	High	Low	High	Low	High	Low
First quarter	$17.900	$15.280	$19.660	$17.440	$22.000	$20.000
Second quarter	17.750	15.150	19.950	16.250	22.060	19.830
Third quarter	16.430	13.760	18.169	16.210	22.750	20.500
Fourth quarter	16.000	14.250	18.860	16.772	20.500	17.920

Dividends. On April 26, 2007, the Company declared a cash dividend of $0.04 per share, or $183 thousand, which was paid on July 6, 2007, to stockholders of record as of June 22, 2007. On October 25, 2007, the Company declared a cash dividend of $0.04 per share, or $184 thousand, which was paid on January 7, 2008, to stockholders of record as of December 21, 2007. In the future, it is the Company s intention to continue to consider the payment of dividends on a semi-annual basis. The Company anticipates an ongoing need to retain much of its operating income to help provide the capital for continued growth, but believes that operating results have reached a level that can sustain dividends to stockholders as well.

The Company is heavily dependent on dividend payments from its subsidiary banks to make dividend payments on the Company s preferred and common stock. Under applicable state laws, the banks are restricted as to the maximum amount of dividends that they may pay on their common stock. Iowa, Illinois and Wisconsin law provide that state-chartered banks in those states may not pay dividends in excess of their undivided profits. Before declaring its first dividend, Rockford Bank & Trust, as a *de novo* institution, is required by Illinois law to carry at least one-tenth of its net profits since the issuance of its charter to its surplus until its surplus is equal to its capital. In addition, First Wisconsin Bank & Trust may not pay dividends until after the year 2009 and only then if two consecutive satisfactory composite CAMELS ratings have been obtained, unless the prior approval of the Federal Reserve Bank of Chicago is obtained.

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

The Company also has certain contractual restrictions on its ability to pay dividends. The Company has issued junior subordinated debentures in four private placements. Under the terms of the debentures, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. During the fourth quarters of 2006 and 2007, the Company issued shares of non-cumulative perpetual preferred stock. Also, under the terms of this preferred stock, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. None of these circumstances currently exist.

Purchase of Equity Securities by the Company. The Company did not repurchase any of its common stock during the fourth quarter of 2007.

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Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2002, a comparison of cumulative total returns for QCR Holdings, Inc., the Nasdaq Composite Index and the SNL Bank NASDAQ Index prepared by SNL Securities, Charlottesville, Virginia. The graph was prepared at the Company s request by SNL Securities.

			Period Ending			
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
QCR Holdings, Inc.	$100.00	$166.47	$188.04	$177.10	$159.48	$129.35
NASDAQ Composite Index	$100.00	$150.01	$162.89	$165.13	$180.85	$198.60
SNL Bank NASDAQ Index	$100.00	$129.08	$147.94	$143.43	$161.02	$126.42

Item 6. Selected Financial Data

The following Selected Consolidated 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.

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SELECTED CONSOLIDATED FINANCIAL DATA
(dollars in thousands, except per share data)

	Years Ended December 31, 2007	2006	2005	2004	2003
Statement of Income Data:					
Interest income	$ 85,725	$ 68,803	$ 48,688	$ 38,017	$ 33,378
Interest expense	49,356	38,907	21,281	13,325	11,950
Net interest income	36,369	29,896	27,407	24,692	21,428
Provision for loan/lease losses	2,864	3,284	877	1,372	3,405
Non-interest income	14,093	11,983	10,073	8,682	11,168
Non-interest expenses	39,037	34,669	29,433	24,281	21,035
Pre-tax net income	8,561	3,926	7,170	7,721	8,156
Income tax expense	2,396	858	2,282	2,504	2,695
Minority interest in income of consolidated subsidiaries	388	266	78		
Net income	5,777	2,802	4,810	5,217	5,461
Per Common Share Data:					
Net income-basic	$ 1.03	$ 0.57	$ 1.06	$ 1.23	$ 1.31
Net income-diluted	1.02	0.57	1.04	1.20	1.28
Cash dividends declared	0.08	0.08	0.08	0.08	0.07
Dividend payout ratio	7.77%	14.04%	7.55%	6.50	% 5.34%
Balance Sheet:					
Total assets	$ 1,476,564	$ 1,271,675	$ 1,042,614	$ 870,084	$ 710,040
Securities	235,905	194,774	182,365	149,561	128,843
Loans/leases	1,106,900	960,747	756,254	648,351	522,471
Allowance for estimated losses on loans/leases	12,024	10,612	8,884	9,262	8,643
Deposits	929,427	875,447	698,504	588,016	511,652
Stockholders equity:					
Preferred	20,158	12,884			
Common	65,908	57,999	54,467	50,774	41,823
Key Ratios:					
Return on average assets	0.43%	0.24%	0.51%	0.65	% 0.83%
Return on average common equity	9.31	5.02	9.14	11.89	13.93
Return on average total equity	7.70	4.85	9.14	11.89	13.93
Net interest margin (TEY) (1)	2.97	2.87	3.25	3.41	3.55
Efficiency ratio (2)	77.36	82.78	78.53	72.75	64.53
Nonperforming assets to total assets	0.51	0.58	0.36	1.23	0.70
Allowance for estimated losses on loans/leases to total loans/leases	1.09	1.10	1.17	1.43	1.65
Net charge-offs to average loans/leases	0.14	0.18	0.25	0.13	0.34
	5.55	5.01	5.63	5.49	5.94

Average total stockholders equity to average assets

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

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

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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 twelve-month periods ending December 31, 2007, 2006, and 2005, and our financial condition at December 31, 2007 and 2006. This discussion should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and the accompanying notes thereto included or incorporated by reference elsewhere in this document.

Overview

The Company was formed in February 1993 for the purpose of organizing Quad City Bank & Trust. Over the past fifteen years, the Company has grown to include three additional banking subsidiaries and a number of nonbanking subsidiaries. As of December 31, 2007, the Company had $1.48 billion in consolidated assets.

The Company reported earnings of $5.8 million, or $1.03 basic earnings per share, for 2007, compared to $2.8 million, or $0.57 basic earnings per share, for 2006, and $4.8 million, or $1.06 basic earnings per share, for 2005. During 2007, the Company experienced steady and profitable growth including a combined increase in net interest income and other non-interest income of $8.6 million, or 20%, as compared to 2006. The largest contributor to this significant improvement in earnings was an increase in net interest income of $6.5 million, or 22%, from the previous year. Additionally, non-interest income increased $2.1 million, or 18%, which was largely attributable to increases in trust fees, deposit service charges, and investment advisory fees. Additionally, the Company more effectively managed expenses as evidenced by an improvement in the efficiency ratio from 82.78% in 2006 to 77.36% in 2007.

The Company s results of operations are dependent primarily on net interest income, which is the difference between interest income, principally from loans and investment securities, and interest expense, principally on customer deposits and borrowings. Changes in net interest income result from changes in volume, net interest spread and net interest margin. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin refers to the net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

As noted above, net interest income increased $6.5 million, or 22%, to $36.4 million for 2007, from $29.9 million for 2006. For 2007, average earning assets increased by $183.1 million, or 17%, and average interest-bearing liabilities increased by $164.9 million, or 17%, when compared with average balances for 2006. A comparison of yields, spreads and margins from 2007 to 2006 shows the following:

- The average yield on interest-earning assets increased 40 basis points to 6.95%.
- The average cost of interest-bearing liabilities increased 34 basis points to 4.38%.
- The net interest spread improved 6 basis points from 2.51% to 2.57%.
- The net interest margin improved 10 basis points from 2.87% to 2.97%.

The Company s management closely monitors and manages net interest margin. From a profitability standpoint, an important challenge for the Company s subsidiary banks is the improvement of their net interest margins. Management continually addresses this issue with the use of alternative funding sources and pricing strategies.

The Company s operating results are also affected by sources of non-interest income, including merchant credit card fees, trust fees, deposit service charge fees, gains from the sales of residential real estate loans and other income. The Company s operating results are also affected by economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. The majority of the subsidiary banks loan portfolios are invested in commercial loans. Deposits from commercial customers represent a significant funding source, as well.

Trust department income continues to be a significant contributor to non-interest income. During 2007, trust department fees contributed $3.7 million. During 2006, trust department fees totaled $3.0 million. Trust department fees contributed $2.8 million to our non-interest income during 2005. Income is generated primarily from fees charged based on assets under administration for corporate and personal trusts and for custodial services. Assets under administration at December 31, 2007 increased $296.5 million during the year to $1.19 billion, resulting primarily from

the development of existing relationships and the addition of new trust relationships. Assets under administration at December 31, 2006 were $894.1 million, which was an increase of $82.9 million from December 31, 2005, when assets totaled $811.2 million.

The Company s operating results were also affected by non-interest expenses, which include employee compensation and benefits, occupancy and equipment expense, and other administrative expenses. The Company has continued to add facilities and employees to accommodate both our historical growth and anticipated future growth. As such, overhead expenses have had a significant impact on earnings. This trend is likely to continue as the Company and our four banks continue to add the facilities and resources necessary to attract and serve additional customers.

Critical Accounting Policy

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan/lease losses. The Company s allowance for loan/lease loss methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for loan/lease loss that management believes is appropriate at each reporting date. Quantitative factors include the Company s historical loss experience, delinquency and charge-off trends, collateral values, governmental guarantees, payment status, changes in nonperforming loans/leases, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company s markets, including economic conditions throughout the Midwest, and in particular, the economic health of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan/lease portfolio, it enhances its methodology accordingly. Management may report a materially different amount for the provision for loan/lease losses in the statement of operations to change the allowance for loan/lease losses if its assessment of the above factors were different. The discussion regarding the Company s allowance for loan/lease losses should be read in conjunction with the Company s financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management s Discussion and Analysis section entitled Financial Condition Allowance for Loan/Lease Losses. Although management believes the levels of the allowance as of December 31, 2007, 2006, and 2005 were 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.

Results of Operations

2007 compared with 2006

Overview. Net income for 2007 was $5.8 million compared to net income of $2.8 million for 2006 for an increase of $3.0 million, or 107%. Basic earnings per share for 2007 were $1.03 compared to $0.57 for 2006. The increase in net income was comprised of an increase in net interest income after provision for loan losses of $6.9 million in combination with an increase in aggregate non-interest income of $2.1 million, offset by an increase in non-interest expenses of $4.4 million. The primary factor which contributed to the improvement in net income from 2006 to 2007 was the increase in net interest margin from 2.87% to 2.97% coupled with the growth in average earning assets and liabilities of 17%.

Interest income. Interest income grew $16.9 million from $68.8 million for 2006 to $85.7 million for 2007. The 25% increase in interest income was attributable to greater average outstanding balances in interest-earning assets, principally loans receivable, in combination with an improved aggregate asset yield. The average yield on interest earning assets for 2007 was 6.95% compared to 6.55% for 2006.

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Interest expense. Interest expense increased by $10.5 million, from $38.9 million for 2006 to $49.4 million for 2007. The 27% increase in interest expense was primarily attributable to an aggregate increase in interest rates, in combination with greater average outstanding balances in interest-bearing liabilities, primarily customer deposits. The average cost on interest bearing liabilities was 4.38% for 2007 compared to 4.04% for 2006.

Provision for loan/lease losses. The provision for loan/lease losses is established based on a number of factors, including the Company s historical loss experience, delinquencies and charge-off trends, the local and national economy and the risk associated with the loans/leases in the portfolio as described in more detail in the Critical Accounting Policy section. The Company had an allowance for estimated losses on loans/leases of approximately 1.09% of total gross loans/leases at December 31, 2007, compared to approximately 1.10% of total gross loans at December 31, 2006, and 1.17% at December 31, 2005. The provision for loan/lease losses decreased slightly to $2.9 million for 2007, compared to $3.3 million for 2006. During both periods, management made monthly provisions for loan/lease losses based upon a number of factors; principally the increase in loans/leases and a detailed analysis of the loan/lease portfolio. In 2007, the Company experienced $146.2 million of growth within the loan/lease portfolio which was the largest contributor to the $2.9 million of provision expense. During 2007, there were transfers totaling $496 thousand of loans to other real estate owned. For 2007, commercial and commercial real estate loans/leases had total charge-offs of $1.4 million, and there were $327 thousand of commercial recoveries. Consumer loan charge-offs and recoveries totaled $469 thousand and $92 thousand, respectively, for 2007. For 2007, credit cards accounted for 89% of the consumer loan net charge-offs. Residential real estate loans had $174 thousand of charge-offs and $173 thousand of recoveries during 2007. Net charge-offs to average loans/leases improved from 0.18% for 2006 to 0.14% for 2007. The ability to grow profitably is, in part, dependent upon the ability to maintain asset quality. Management continually focuses its efforts at the subsidiary banks to attempt to improve the overall quality of the Company s loan/lease portfolio.

Non-interest income. The following table sets forth the various categories of non-interest income for the years ended December 31, 2007 and 2006.

<u>Non-interest Income</u>

	Years ended December 31,		
	2007	2006	% change
Credit card fees, net of processing costs	$ 1,731,992	$ 1,947,984	(11.1)%
Trust department fees	3,743,120	3,049,440	22.7%
Deposit service fees	2,711,040	1,928,246	40.6%
Gains on sales of loans, net	1,219,800	991,536	23.0%
Securities losses, net	0	(142,866)	NA
Gains on sales of foreclosed assets	1,007	664,223	(99.8)%
Gains on sales of other assets	435,791	0	NA
Earnings on bank-owned life insurance	892,395	759,100	17.6%
Investment advisory and management fees	1,575,887	1,216,350	29.6%
Other	1,781,944	1,569,092	13.6%
Total non-interest income	$ 14,092,976	$ 11,983,105	17.6%

Analysis concerning changes in non-interest income for 2007, when compared to 2006, is as follows:

Bancard s credit card fees, net of processing costs, decreased $216 thousand. The majority of this decrease was due to an increase in net charge-offs of $223 thousand from 2006 while its fees remained the same.

Trust department fees increased $694 thousand. This was the result of the continued development of existing trust relationships and the addition of new trust customers throughout the past twelve months. Total trust assets under administration were $1.19 billion at December 31, 2007 compared to $894.1 million at December 31, 2006.

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Deposit service fees increased $783 thousand. This increase was primarily a result of an increase in NSF (non-sufficient funds or overdraft) charges related to demand deposit accounts at the Company s subsidiary banks.

Gains on sales of residential mortgage loans, net, increased $228 thousand. Loans originated for sale during 2007 were $104.0 million and during 2006 were $87.7 million. Proceeds on the sales of loans during 2007 and 2006 were $104.9 million and $85.2 million, respectively.

During 2007, the Company did not have any sales of securities. In March 2006, the Company recognized an impairment loss of $143 thousand on a mortgage-backed mutual fund investment held in Quad City Bank & Trust s securities portfolio, and in April, incurred an additional loss of $71 thousand on the subsequent sale of that security. In July 2006, the losses were partially offset when the Company recognized a gain of $71 thousand on the partial redemption of class B common stock of Mastercard Incorporated held by Quad City Bank & Trust, as a member bank of Mastercard International Incorporated.

In 2007, the Company sold a foreclosed asset for a gain of $1 thousand. During 2006, a foreclosed asset, determined by litigation to be property of Quad City Bank & Trust, was sold at auction for a net gain of $650 thousand. During 2006, the Company realized an additional net gain of $14 thousand on the sale of three other foreclosed assets at Quad City Bank & Trust.

On July 11, 2007, the Company announced the sale of its 20% interest in Nobel to TriSource Solutions, LLC (TriSource). The consideration received by the Company in the sale was $500 thousand in cash and a 2.25% ownership in TriSource, resulting in a net gain on sale of investment of $436 thousand.

Earnings on the cash surrender value of life insurance increased $133 thousand. During the year ended December 31, 2007, the subsidiary banks purchased additional bank-owned life insurance (BOLI) on key executives, increasing the level of insurance by $10.0 million.

Investment advisory and management fees increased $360 thousand. This increase was due to both the continued development of existing customers and the addition of new customers with a resulting growth in the number and value of accounts during the year ended December 31, 2007.

Other non-interest income increased $213 thousand. Other non-interest income consisted primarily of income from affiliated companies, earnings on other assets, Visa check card fees, and ATM fees.

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Non-interest expenses. The following table sets forth the various categories of non-interest expenses for the years ended December 31, 2007 and 2006.

Non-interest Expenses

	Years ended December 31, 2007	Years ended December 31, 2006	% change
Salaries and employee benefits	$ 24,086,588	$ 21,262,541	13.3%
Professional and data processing fees	3,877,117	3,192,326	21.5%
Advertising and marketing	1,356,420	1,367,545	(0.8)%
Occupancy and equipment expense	5,008,821	4,762,827	5.2%
Stationery and supplies	612,603	670,915	(8.7)%
Postage and telephone	1,020,503	961,394	6.1%
Bank service charges	579,923	583,687	(0.6)%
FDIC and other insurance	1,020,629	612,058	66.8%
Loss on disposals/sales of fixed assets	223,308	36,305	515.1%
Other	1,251,147	1,219,386	2.6%
Total non-interest expenses	$ 39,037,059	$ 34,668,984	12.6%

Analysis concerning changes in non-interest expenses for 2007, when compared to 2006, is as follows:

Salaries and benefits increased $2.8 million. The increase was primarily due to an increase in the number of full-time equivalent employees from 331 to 350 from year-to-year. Of the 19 new full-time equivalent employees, 13 were attributable to the Company s continued expansion in its newest markets, Rockford and Milwaukee.

Professional and data processing fees increased $685 thousand. The primary contributors to the year-to-year increase were legal, consulting, and data processing fees incurred at the subsidiary banks.

Occupancy and equipment expense increased $246 thousand. The increase was the result of costs associated with additional furniture, fixtures and equipment, such as depreciation and repairs as well as increases in maintenance, utilities, and property taxes across the Company s existing properties.

FDIC and other insurance expense increased $409 thousand from the prior year. The large majority of this increase was the result of the FDIC s new premium pricing system and the assessment methodology for deposit insurance coverage now being applied to the subsidiary banks.

Loss on disposals/sales of fixed assets increased $187 thousand. During the first quarter of 2007, Quad City Bank & Trust contributed two vacant lots to a developer to allow for the development of upscale retail space adjacent to its Five Points facility, which resulted in an aggregate write-off of $239 thousand.

Income tax expense. The provision for income taxes was $2.4 million for the year ended December 31, 2007 compared to $858 thousand for the year ended December 31, 2006 for an increase of $1.5 million, or 179%. The increase was the result of an increase in income before income taxes of $4.6 million, or 118%, for 2007 when compared to 2006. Primarily due to an increase in the proportionate share of taxable income to total income from year to year, the Company experienced an increase in the effective tax rate from 21.8% for 2006 to 28.0% for 2007. The Company s adoption of FIN 48 resulted in no effect to the provision of income taxes for 2007.

2006 compared with 2005

Overview. Net income for 2006 was $2.8 million compared to net income of $4.8 million for 2005 for a decrease of $2.0 million, or 42%. Basic earnings per share for 2006 were $0.57 compared to $1.06 for 2005. The decrease in net income was comprised of an increase in net interest income after provision for loan losses of $81 thousand in combination with an increase in aggregate non-interest income of $1.9 million and a decrease in federal and state income taxes of $1.4 million, offset by an increase in non-interest expenses of $5.2 million. Several factors contributed to the decline in net income from 2005 to 2006. Primary factors included a $2.4 million, or 274%, increase in the provision for loan/lease losses, an increase in salaries and employee benefits of 29%, or $4.8 million, and $2.0 million of pretax operating costs associated with the start-up of the new banking operation in Milwaukee.

Interest income. Interest income grew from $48.7 million for 2005 to $68.8 million for 2006. The 41% increase in interest income was attributable to greater average outstanding balances in interest-earning assets, principally loans receivable, in combination with an improved aggregate asset yield. The average yield on interest earning assets for 2006 was 6.55% compared to 5.75% for 2005.

Interest expense. Interest expense increased by $17.6 million, from $21.3 million for 2005 to $38.9 million for 2006. The 83% increase in interest expense was primarily attributable to an aggregate increase in interest rates, in combination with greater average outstanding balances in interest-bearing liabilities, primarily customer deposits. The average cost on interest bearing liabilities was 4.04% for 2006 compared to 2.79% for 2005.

Provision for loan/lease losses. The provision for loan/lease losses is established based on a number of factors, including the local and national economy and the risk associated with the loans/leases in the portfolio. The Company had an allowance for estimated losses on loans/leases of approximately 1.10% of total gross loans/leases at December 31, 2006, compared to approximately 1.17% of total gross loans at December 31, 2005.. The provision for loan/lease losses increased significantly to $3.3 million for 2006, compared to $877 thousand for 2005. During both periods, management made monthly provisions for loan/lease losses based upon a number of factors; principally the increase in loans/leases and a detailed analysis of the loan/lease portfolio. In 2006, along with more than $204 million of growth within the loan/lease portfolio, the Company experienced the write-off of a single credit relationship for $992 thousand. During 2006, the net growth in the loan/lease portfolio generated a provision expense of $2.3 million, and 31%, or $1.0 million of provision expense, was the result of adjustments to the allowance for estimated losses on loans/leases based on write-offs, payoffs, or restructures of credits within the Company s portfolio. During 2005, the successful resolution of several large credits primarily in Quad City Bank & Trust s loan/lease portfolio, through foreclosure, payoff, or restructuring, resulted in reductions to both provision expense and the level of allowance for loan/lease losses. During 2006, there were transfers totaling $130 thousand of loans to other real estate owned. For 2006, commercial loans/leases had total charge-offs of $1.4 million, of which $992 thousand, or 70%, resulted from a single customer relationship at Rockford Bank & Trust, and there were $262 thousand of commercial recoveries. Consumer loan charge-offs and recoveries totaled $460 thousand and $50 thousand, respectively, for 2006. For 2006, credit cards accounted for 27% of the consumer loan net charge-offs. Real estate loans had $45 thousand of charge-offs and $52 thousand of recovery activity during 2006. The ability to grow profitably is, in part, dependent upon the ability to maintain asset quality. Management continually focuses its efforts at the subsidiary banks to attempt to improve the overall quality of the Company s loan/lease portfolio.

Non-interest income. The following table sets forth the various categories of non-interest income for the years ended December 31, 2006 and 2005.

Non-interest Income

	Years ended December 31, 2006	Years ended December 31, 2005	% change
Credit card fees, net of processing costs	$ 1,947,984	$ 1,782,452	9.3%
Trust department fees	3,049,440	2,818,832	8.2%
Deposit service fees	1,928,246	1,582,530	21.9%
Gains on sales of loans, net	991,536	1,254,242	(21.0)%
Securities gains/(losses), net	(142,866)	50	NA
Gains on sales of foreclosed assets	664,223	42,380	1467.3%
Earnings on bank-owned life insurance	759,100	656,005	15.7%
Investment advisory and management fees	1,216,350	691,800	75.8%
Other	1,569,092	1,244,212	26.1%
Total non-interest income	$ 11,983,105	$ 10,072,503	19.0%

Analysis concerning changes in non-interest income for 2006, when compared to 2005, is as follows:

Bancard s credit card fees, net of processing costs, improved by $166 thousand. Increases during 2006 in Bancard s cardholder processing operation provided essentially all of the improvement in credit card fees, net of processing costs. The year-to-year increase in local and agent bank merchant processing volumes and the subsequent increase in merchant processing fee income during 2006 was offset by aggregate reversals during 2005 of $134 thousand of specific allocations to the allowance for local merchant chargeback losses, and $118 thousand in recoveries during 2005 of prior period expenses.

Trust department fees increased $231 thousand. This was the result of the continued development of existing trust relationships and the addition of new trust customers throughout 2006. Total trust assets under administration were $894.1 million at December 31, 2006 compared to $811.2 million at December 31, 2005.

Deposit service fees increased $346 thousand. This increase was primarily a result of an increase in service fees collected on the demand deposit accounts in a unique program at Cedar Rapids Bank & Trust. The twelve-month average balance of the Company s consolidated demand deposits at December 31, 2006 increased $85.6 million from December 31, 2005. Service charges and NSF (non-sufficient funds or overdraft) charges related to the Company s demand deposit accounts were the main components of deposit service fees.

Gains on sales of loans, net, decreased $263 thousand. Loans originated for sale during 2006 were $87.7 million and during 2005 were $98.7 million. Proceeds on the sales of loans during 2006 and 2005 were $85.2 million and $100.8 million, respectively.

In March 2006, the Company recognized an impairment loss of $143 thousand on a mortgage-backed mutual fund investment held in Quad City Bank & Trust s securities portfolio, and in April, incurred an additional loss of $71 thousand on the subsequent sale of that security. In July 2006, the losses were partially offset when the Company recognized a gain of $71 thousand on the partial redemption of class B common stock of Mastercard Incorporated held by Quad City Bank & Trust, as a member bank of Mastercard International Incorporated.

During 2006, a foreclosed asset, determined by litigation to be property of Quad City Bank & Trust, was sold at auction for a net gain of $650 thousand. During 2006, the Company realized an additional net gain of $14 thousand on the sale of three other foreclosed assets at Quad City Bank & Trust.

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Earnings on the cash surrender value of life insurance increased $103 thousand. At December 31, 2006, levels of bank-owned life insurance (BOLI) on key executives at the subsidiary banks was $13.9 million at Quad City Bank & Trust, $4.2 million at Cedar Rapids Bank & Trust, and $825 thousand at Rockford Bank & Trust.

Investment advisory and management fees increased $525 thousand. Beginning January 1, 2006, the investment representatives at Quad City Bank & Trust, who had previously been employees of LPL Financial Services, were brought on as staff of the bank. As a result of this organizational change, fees are now reported gross rather than net of representative commissions, as in previous years. Approximately 70% of the year-to-year increase was due to this change. The balance of the increase was due to the increased volume of investment services provided by representatives of LPL Financial Services at the subsidiary banks, primarily at Quad City Bank & Trust.

Other non-interest income increased $325 thousand. During 2006, M2 Lease Funds had $93 thousand in gains on the disposal of leased assets, which contributed to other non-interest income. M2 Lease Funds was acquired during the third quarter of 2005. Other non-interest income in each period consisted primarily of income from affiliated companies, earnings on other assets, Visa check card fees, and ATM fees.

Non-interest expenses. The following table sets forth the various categories of non-interest expenses for the years ended December 31, 2006 and 2005.

Non-interest Expenses

	Years ended December 31,		
	2006	2005	% change
Salaries and employee benefits	$ 21,262,541	$ 16,458,860	29.2%
Professional and data processing fees	3,192,326	2,865,064	11.4%
Advertising and marketing	1,367,545	1,221,039	12.0%
Occupancy and equipment expense	4,762,827	4,316,443	10.3%
Stationery and supplies	670,915	645,985	3.9%
Postage and telephone	961,394	842,779	14.1%
Bank service charges	583,687	516,537	13.0%
Insurance	612,058	594,282	3.0%
Loss on disposals/sales of fixed assets	36,305	332,283	(89.1)%
Other	1,219,386	1,639,876	(25.6)%
Total non-interest expenses	$ 34,668,984	$ 29,433,148	17.8%

Analysis concerning changes in non-interest expenses for 2006, when compared to 2005, is as follows:

Salaries and benefits increased $4.8 million. The increase was primarily due to an increase in the average number of employees from 286 full time equivalents (FTEs) to 329 from year-to-year, as a result of the Company s continued expansion. Also, the Company experienced increases in the expense for several employee compensation programs, such as the SERPs, the deferred compensation program and stock-based compensation programs during 2006, primarily related to a combination of the application of the provisions of SFAS 123R and a senior officer s planned retirement in 2009. As the result of a previously described organizational change at Quad City Bank & Trust, commissions for investment representatives, previously net from fees, are now included as a portion of salaries and benefits expense. The Company s application of the provisions of SFAS 123R is described in detail in Note 1, Nature of Business and Significant Accounting Policies.

Professional and data processing fees increased $327 thousand. The primary contributors to the year-to-year increase were legal, consulting, and data processing fees incurred at the subsidiary banks.

Advertising and marketing expense increased $147 thousand. Cedar Rapids Bank & Trust and Rockford Bank & Trust, as the primary contributors, accounted for 84% of the increase.

Occupancy and equipment expense increased $446 thousand. The increase was a reflection of the Company s investment during 2005 in five new subsidiary bank facilities, in combination with the related costs associated with additional furniture, fixtures and equipment, such as depreciation, maintenance, utilities, and property taxes. However, the year-to-year increase in occupancy and equipment expense was offset by a $344 thousand intercompany elimination of rental income earned by Velie Plantation Holding Company, which had not been a consolidated subsidiary of the Company at December 31, 2005.

Loss on disposals/sales of fixed assets decreased $296 thousand. During the third quarter of 2005, in conjunction with Cedar Rapids Bank & Trust s move into their new main office facility, the Company took a one-time $332 thousand write-off of tenant improvements which had been made to the GreatAmerica Building, which had initially served as that subsidiary s main office.

Other non-interest expense decreased $420 thousand. During 2005, Quad City Bank & Trust incurred $303 thousand of write-downs on the property value of other real estate owned (OREO) and $114 thousand of other expense incurred on OREO property. Also, during the third quarter of 2006, the subsidiary banks re-allocated $236 thousand of accrued non-interest expense into specific accrual categories, such as legal expense and marketing expense.

Income tax expense. The provision for income taxes was $858 thousand for the year ended December 31, 2006 compared to $2.3 million for the year ended December 31, 2005 for a decrease of $1.4 million, or 62%. The decrease was the result of a decrease in income before income taxes of $3.2 million, or 46%, for 2006 when compared to 2005. Primarily due to an increase in the proportionate share of tax-exempt income to total income from year to year, the Company experienced a decrease in the effective tax rate from 31.8% for 2005 to 21.8% for 2006.

Financial Condition

Total assets of the Company increased by $204.9 million, or 16%, to $1.48 billion at December 31, 2007 from $1.27 billion at December 31, 2006. Total assets of the Company increased by $229.1 million, or 22%, to $1.27 billion at December 31, 2006 from $1.04 billion at December 31, 2005. This growth primarily resulted from an increase in the securities and loans/leases portfolio funded by deposits received from customers and by proceeds from Federal Home Loan Bank advances and other borrowings.

Investments. Securities increased by $41.1 million, or 21%, to $235.9 million at December 31, 2007 from $194.8 million at December 31, 2006. The net increase was the result of a number of transactions in the securities portfolio. The Company purchased additional securities, classified as available for sale, in the amount of $129.1 million, and there was an increase in unrealized gains on securities available for sale, before applicable income tax of $4.5 million. These increases were partially offset by paydowns of $562 thousand that were received on mortgage-backed securities, proceeds from calls, maturities and redemptions of $92.0 million, and the amortization of premiums, net of the accretion of discounts, of $93 thousand.

Securities increased by $12.4 million, or 7%, to $194.8 million at December 31, 2006 from $182.4 million at December 31, 2005. The net increase was the result of a number of transactions in the securities portfolio. The Company purchased additional securities, classified as available for sale, in the amount of $79.8 million, and there was an increase in unrealized gains on securities available for sale, before applicable income tax of $923 thousand. These increases were partially offset by paydowns of $706 thousand that were received on mortgage-backed securities, proceeds from calls and maturities of $62.4 million, proceeds from sales of $4.8 million, net losses of $143 thousand, and the amortization of premiums, net of the accretion of discounts, of $252 thousand.

As of December 31, 2007, there existed no security in the investment portfolio (other than U.S. Government and U.S. Government agency securities) that exceeded 10% of stockholders equity at that date.

Loans/leases. Total gross loans/leases receivable increased by $146.2 million, or 15%, to $1.11 billion at December 31, 2007 from $960.7 million at December 31, 2006. The increase was the result of the origination or purchase of $591.6 million of commercial business, consumer and real estate loans/leases, less loans transferred to other real estate owned (OREO) of $496 thousand, loan/lease charge-offs, net of recoveries, of $1.5 million and loan/lease repayments or sales of loans of $443.4 million.

At December 31, 2007, no one customer accounted for more than 10% of revenues or loans.

Total gross loans/leases receivable increased by $204.5 million, or 27%, to $960.7 million at December 31, 2006 from $756.3 million at December 31, 2005. The increase was the result of the origination or purchase of $515.7 million of commercial business, consumer and real estate loans/leases, less loans transferred to other real estate owned (OREO) of $130 thousand, loan/lease charge-offs, net of recoveries, of $1.6 million and loan/lease repayments or sales of loans of $309.5 million.

Allowance for Loan/Lease Losses. The allowance for estimated losses on loans/leases was $12.0 million at December 31, 2007 compared to $10.6 million at December 31, 2006, for an increase of $1.4 million, or 13%. The allowance for estimated losses on loans/leases was $10.6 million at December 31, 2006 compared to $8.9 million at December 31, 2005, for an increase of $1.7 million, or 19%. The adequacy of the allowance for estimated losses on loans/leases was determined by management based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, past loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions and other factors that, in management s judgment, deserved evaluation in estimating loan/lease losses. To ensure that an adequate allowance was maintained, provisions were made based on the increase in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed monthly with specific detailed reviews completed on all credits risk-rated less than fair quality and carrying aggregate exposure in excess of $250 thousand. The adequacy of the allowance for estimated losses on loans/leases was monitored by the credit administration staff, and reported to management and the board of directors.

Net charge-offs for the years ended December 31, 2007, 2006, and 2005, were $1.5 million, $1.6 million, and $1.7 million, respectively. One measure of the adequacy of the allowance for estimated losses on loans/leases is the ratio of the allowance to the total loan/lease portfolio. Provisions were made monthly to ensure that an adequate level was maintained. The allowance for estimated losses on loans/leases as a percentage of total gross loans/leases was 1.09% at December 31, 2007, 1.10% at December 31, 2006, and 1.17% at December 31, 2005.

Although management believes that the allowance for estimated losses on loans/leases at December 31, 2007 was at a level adequate to absorb probable losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. 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 is focusing efforts at its subsidiary banks in an attempt to improve the overall quality of the Company s loan/lease portfolio. Future events could at any time adversely affect cash flows for both commercial and individual borrowers, as a result of which, the Company could experience increases in problem assets, delinquencies and losses on loans/leases, and require further increases in the provision.

Nonperforming Assets. 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. Well secured is defined as 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.

Nonaccrual loans/leases were $6.5 million at December 31, 2007 which represented a slight decrease of $50 thousand when compared to December 31, 2006. Nonaccrual loans/leases comprised of $5.3 million of commercial and commercial real estate loans/leases, $878 thousand of real estate loans, and $276 thousand of consumer loans. Of the

$5.3 million of commercial and commercial real estate nonaccrual loans/leases, $4.2 million was a result of two large lending relationships (one at Quad City Bank & Trust, and the other at Rockford Bank & Trust). Nonaccrual loans at December 31, 2007 represented less than 1% of the Company s held for investment loan portfolio. At December 31, 2007, 48% of the Company s nonaccrual loans/leases were held in Quad City Bank & Trust s portfolio, 33% were held in Rockford Bank & Trust s portfolio, 17% were held in Cedar Rapids Bank & Trust s portfolio, and 2% were held in M2 Lease Funds portfolio.

Nonaccrual loans/leases were $6.5 million at December 31, 2006 compared to $2.6 million at December 31, 2005, for an increase of $3.9 million, or 154%. The increase in nonaccrual loans/leases was comprised of increases in commercial loans of $3.8 million and real estate loans of $160 thousand, and a decrease in consumer loans of $30 thousand. Nonaccrual commercial loans totaled $5.5 million, of which $4.0 million was due to a single large lending relationship at Quad City Bank & Trust. Nonaccrual loans at December 31, 2006 represented less than 1% of the Company s held for investment loan portfolio. At December 31, 2006, 82% of the Company s nonaccrual loans/leases were held in Quad City Bank & Trust s portfolio, 13% were held in M2 Lease Funds portfolio, and 5% were held in Cedar Rapids Bank & Trust s portfolio.

As of December 31, 2007, 2006, and 2005, past due loans of 30 days or more and still accruing amounted to $12.3 million, $8.2 million, and $8.7 million, respectively. Past due loans as a percentage of gross loans receivable were 1.1% at December 31, 2007, 0.9% at December 31, 2006, and 1.2 % at December 31, 2005.

Other Assets. Premises and equipment decreased by $256 thousand, or 1%, to $32.3 million at December 31, 2007 from $32.5 million at December 31, 2006. This slight decrease was a result of Company purchases of additional furniture, fixtures and equipment of $2.0 million offset by $2.3 million of depreciation expense. Additional information regarding the composition of this account and related accumulated depreciation is described in Note 5 to the consolidated financial statements.

Premises and equipment increased by $6.9 million, or 27%, to $32.5 million at December 31, 2006 from $25.6 million at December 31, 2005. This increase resulted primarily from $4.0 million in construction costs incurred for Rockford Bank & Trust s first branch facility, which opened in November 2006, in combination with a $4.0 million real estate acquisition, resulting from a majority ownership in Velie Plantation Holding Company at December 31, 2006. Additionally, there were Company purchases of additional furniture, fixtures and equipment of $1.3 million offset by $2.4 million of depreciation expense. Additional information regarding the composition of this account and related accumulated depreciation is described in Note 5 to the consolidated financial statements.

On August 26, 2005, Quad City Bank & Trust acquired 80% of the membership units of M2 Lease Funds. The purchase price of $5.0 million resulted in $3.2 million in goodwill. In accordance with the provisions of FAS statement 142, goodwill is not being amortized, but is evaluated annually for impairment.

Accrued interest receivable on loans, securities, and interest-bearing deposits at financial institutions increased by $804 thousand, or 11%, to $8.0 million at December 31, 2007 from $7.2 million at December 31, 2006. Accrued interest receivable on loans, securities, and interest-bearing deposits at financial institutions increased by $2.4 million, or 48%, to $7.2 million at December 31, 2006 from $4.8 million at December 31, 2005. Increases were due to a combination of greater average outstanding balances in interest-bearing assets, as well as increased average yields on interest-bearing assets.

Bank-owned life insurance (BOLI) increased by $10.0 million from $18.9 million at December 31, 2006 to $28.9 million at December 31, 2007. BOLI increased by $1.5 million from $17.4 million at December 31, 2005 to $18.9 million at December 31, 2006. Banks may generally buy BOLI as a financing or cost recovery vehicle for pre-and post-retirement employee benefits. During 2007, the subsidiary banks purchased additional BOLI in the amount of $9.1 million. These purchases combined with existing BOLI, resulted in each subsidiary bank holding investments in BOLI policies near the regulatory maximum of 25% of capital. As the owners and beneficiaries of these holdings, the banks monitor the associated risks, including diversification, lending-limit, concentration, interest rate risk, credit risk, and liquidity. Quarterly financial information on the insurance carriers is provided to the Company by its compensation-consulting firm. Benefit expense associated with the supplemental retirement benefits and deferred compensation arrangements was $595 thousand and $324 thousand, respectively, for 2007. Earnings on BOLI totaled

$892 thousand for 2007. Benefit expense associated with both the supplemental retirement benefits and deferred compensation arrangements was $533 thousand and $269 thousand, respectively, for 2006. Earnings on BOLI totaled $759 thousand for 2006.

Deposits. Deposits increased by $54.0 million, or 6%, to $929.4 million at December 31, 2007 from $875.4 million at December 31, 2006. The increase resulted from a $54.5 million net increase in non-interest bearing, NOW, money market and savings accounts combined with a $17.3 million net increase in interest-bearing certificates of deposit offset by a net decrease in brokered certificates of deposit of $17.8 million.

Deposits increased by $176.9 million, or 25%, to $875.4 million at December 31, 2006 from $698.5 million at December 31, 2005. The increase resulted from a $67.7 million net increase in non-interest bearing, NOW, money market and savings accounts combined with a $73.8 million net increase in interest-bearing certificates of deposit, and a net increase in brokered certificates of deposit of $35.4 million.

Short-term Borrowings. Short-term borrowings increased by $71.5 million, or 64%, from $111.7 million as of December 31, 2006 to $183.2 million as of December 31, 2007. Short-term borrowings increased by $4.2 million, or 4%, from $107.5 million as of December 31, 2005 to $111.7 million as of December 31, 2006. The subsidiary banks offer short-term repurchase agreements to some of their major customers. Also, the subsidiary banks purchase Federal funds for short-term funding needs from the Federal Reserve Bank, or from their correspondent banks. Short-term borrowings were comprised of customer repurchase agreements of $93.3 million, $62.3 million, and $54.7 million at December 31, 2007, 2006, and 2005, respectively, as well as Federal funds purchased from correspondent banks of $89.9 million at December 31, 2007, $49.4 million at December 31, 2006, and $52.8 million at December 31, 2005.

FHLB Advances and Other Borrowings. FHLB advances increased $16.9 million, or 11%, from $151.9 million as of December 31, 2006 to $168.8 million as of December 31, 2007. FHLB advances increased $21.9 million, or 17%, from $130.0 million as of December 31, 2005 to $151.9 million as of December 31, 2006. As of December 31, 2007, the subsidiary banks held $9.7 million of FHLB stock in aggregate. 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 utilized FHLB advances for loan matching as a hedge against the possibility of rising interest rates or when these advances provided a less costly source of funds than customer deposits.

Other borrowings increased significantly by $43.9 million from $3.8 million at December 31, 2006 to $47.7 million at December 31, 2007. The majority of the increase was a result of the Company entering into fixed rate structured wholesale repurchase agreement transactions in the amount of $40 million. These borrowings have five-year terms with various put options, and are collateralized by U.S. government agency bonds. Quad City Bank & Trust carries $30 million of the liability, and Cedar Rapids Bank & Trust carries $10 million of the liability, as the result of these transactions. Additional information regarding these transactions is described in Note 9 to the consolidated financial statements. The remaining increase was a result of activity on the line of credit at an upstream correspondent bank. Draws occurred throughout the year for the initial capitalization of First Wisconsin Bank & Trust, capital maintenance purposes at each of the subsidiaries, and for general corporate purposes. During the fourth quarter of 2007, with proceeds from the issuance of $7.5 million of non-cumulative perpetual preferred stock, the Company reduced the balance on the line of credit by $5.0 million.

Other borrowings decreased $7.0 million, or 65%, from $10.8 million at December 31, 2005 to $3.8 million at December 31, 2006. In February 2006, with proceeds from the issuance of the trust preferred securities of Trust V, the Company made a payment to reduce the balance on a line of credit at an upstream correspondent bank by $10.0 million. In March 2006, the Company drew an advance of $8.5 million, primarily to provide $3.0 million of additional capital to Quad City Bank & Trust and $4.5 million of additional capital to Cedar Rapids Bank & Trust for capital maintenance purposes at each of these subsidiaries. During the third quarter of 2006, the Company drew additional advances totaling $6.0 million, primarily to provide $3.2 million of additional capital to Quad City Bank & Trust and $1.5 million of additional capital to Rockford Bank & Trust for capital maintenance purposes at each of these subsidiaries. During the fourth quarter of 2006, with proceeds from the issuance $12.9 million of non-cumulative perpetual preferred stock, the Company reduced the balance on the line of credit by $12.5 million. In December 2006, the Company drew an additional $1.0 million for general corporate purposes.

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Junior subordinated debentures remained at $36.1 million at December 31, 2007 as at December 31, 2006. Additional information regarding the composition of this account is described in Note 10 to the consolidated financial statements. Junior subordinated debentures increased $10.3 million, or 40%, from $25.8 million at December 31, 2005 to $36.1 million at December 31, 2006. On February 4, 2006, the Company issued $10,000,000 of fixed/floating rate capital securities through a newly formed subsidiary, Trust V Trust V is a 100% owned non-consolidated subsidiary of the Company. Trust V used the proceeds from the sale of the trust preferred securities, along with the funds from its equity, to purchase junior subordinated debentures of the Company in the amount of $10.3 million.

Stockholders Equity. In the fourth quarter of 2007, the Company issued 300 shares of Series C Non-Cumulative Perpetual Preferred Stock at $25 thousand per share for a total of $7.5 million with a stated rate of 9.50%. The Preferred Shares will accrue no dividends, and dividends will be payable on the Preferred Shares only if declared. The capital raised was used to pay down the balance on the Company s line of credit. Similarly, in the fourth quarter of 2006, the Company issued 268 shares of Series B Non-Cumulative Perpetual Preferred Stock at $50 thousand per share for a total of $12.9 million with a stated rate of 8.00%. The Preferred Shares will accrue no dividends, and dividends will be payable on the Preferred Shares only if declared. The capital raised was used to pay down the balance on the Company s line of credit.

Common stock of $4.6 million as of December 31, 2007 increased by $37 thousand, or less than 1%, from December 31, 2006. The slight increase was the net result of stock issued from the net exercise of stock options and stock purchased under the employee stock purchase plan. Common stock of $4.5 million as of December 31, 2005 increased by $29 thousand, or less than 1%, to $4.6 million at December 31, 2006. The slight increase was the net result of stock issued from the net exercise of stock options and stock purchased under the employee stock purchase plan.

Additional paid-in capital increased to $42.3 million as of December 31, 2007 from $34.3 million as of December 31, 2006. The increase of $8.0 million, or 23%, resulted primarily from $7.2 million in proceeds received in excess of the $1.00 per share par value for the 300 shares of Preferred Stock issued. Additional paid-in capital increased to $34.3 million as of December 31, 2006 from $20.8 million at December 31, 2005. The increase of $13.5 million, or 65%, resulted primarily from $12.9 million in proceeds received in excess of the $1.00 per share par value for the 268 shares of Preferred Stock issued.

Retained earnings increased $4.3 million, or 13%, to $36.3 million at December 31, 2007 from $32.0 million at December 31, 2006. The increase reflected net income for the fiscal year reduced by a combination of $367 thousand in common dividends declared during 2007 and $1.0 million in preferred dividends declared during 2007. A cash dividend of $0.04 was paid in July 2007. And, in October 2007, the Company declared a cash dividend of $0.04 per share payable on January 7, 2008 to stockholders of record on December 21, 2007. The preferred dividends were declared and paid quarterly on the Series B Preferred Stock. Retained earnings increased by $2.3 million, or 8%, to $32.0 million at December 31, 2006 from $29.7 million at December 31, 2005. The increase reflected net income for the fiscal year reduced by a combination of $364 thousand in common dividends declared during 2006 and $164 thousand in preferred dividends declared in December 2006. A cash dividend of $0.04 was paid in July 2006. On October 26, 2006, the board of directors declared a cash dividend of $0.04 per share payable on January 5, 2007, to stockholders of record on December 22, 2006.

Accumulated other comprehensive income was $2.8 million as of December 31, 2007 compared to $28 thousand as of December 31, 2006. The increase was attributable to the increase during the period ion the fair value of the securities identified as available for sale, primarily as a result of declining interest rates in the latter half of 2007. Accumulated other comprehensive income was $28 thousand as of December 31, 2006 compared to a loss of $567 thousand as of December 31, 2005. The increase was attributable to the increase during the period in the fair value of the securities identified as available for sale, primarily as a result of a relatively modest decrease in market interest rates during 2006.

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. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which totaled $52.9 million at December 31, 2007, $47.0 million at December 31, 2006, and $44.7 million at December 31, 2005. The subsidiary banks have a variety of sources of short-term liquidity available to them, including federal funds purchased from correspondent banks, sales of securities available for sale, FHLB advances, brokered certificates of deposits, lines of credit and loan participations or sales. The Company also generates liquidity from the regular principal payments and prepayments made on its portfolio of loans and mortgage-backed securities.

The liquidity of the Company is comprised of three primary classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. Net cash provided by operating activities, comprised primarily of net income and net proceeds on the sale of loans, was $10.1 million for 2007 compared to net cash provided by operating activities, comprised predominately of the increase in other liabilities, of $7.2 million for 2006. Net cash provided by operating activities, comprised predominately of the increase in other liabilities, was $7.2 million for 2006 compared to net cash provided by operating activities, primarily net income and net proceeds on the sale of loans, of $9.6 million for 2005. Net cash used in investing activities, consisting principally of loan funding and the purchase of securities, was $204.1 million for 2007 and $222.9 million for 2006, comprised predominately of loan originations and the purchase of securities. Net cash used in investing activities, consisting principally of loan funding and the purchase of securities, was $222.9 million for 2006 and $127.7 million for 2005, comprised predominately of loan originations and the purchase of securities. Net cash provided by financing activities, consisting primarily of deposit growth and proceeds from borrowings, was $192.8 million for 2007 compared to $219.2 million, comprised predominately of growth in deposits and proceeds from Federal Home Loan Bank advances for 2006. Net cash provided by financing activities, consisting primarily of deposit growth and proceeds from Federal Home Loan Bank advances, was $219.2 million for 2006 compared to $135.7 million, comprised predominately of growth in deposits and proceeds from Federal Home Loan Bank advances for 2005.

At December 31, 2007, the subsidiary banks had fourteen lines of credit totaling $132.5 million, of which $11.0 million was secured and $121.5 million was unsecured. At December 31, 2007, the subsidiary banks used $41.0 million of these available lines. At December 31, 2007, the Company had a $25.0 million unsecured revolving credit note with a maturity date of April 4, 2008. At December 31, 2007, the note carried a balance outstanding of $7.0 million. Interest is payable monthly at the Federal Funds rate plus 1.25% per annum, as defined in the credit agreement. As of December 31, 2007, the interest rate on the note was 5.40%.

At December 31, 2006, the subsidiary banks had fourteen lines of credit totaling $104.5 million, of which $13.0 million was secured and $91.5 million was unsecured. At December 31, 2006, the subsidiary banks were not drawn on any of these available lines. At December 31, 2006, the Company had a $15.0 million unsecured revolving credit note with a maturity date of April 6, 2007.

In recent years, the Company has secured additional capital through various resources including approximately $36.1 million through the issuance of trust preferred securities and $20.4 million through the issuance of non-cumulative perpetual preferred stock. See Financial Statement Notes 10 and 1, for information on the issuance of trust preferred securities, and preferred stock respectively.

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, 2007 and 2006, no amounts had been recorded as liabilities for the banks potential obligations under these guarantees.

As of December 31, 2007 and 2006, commitments to extend credit aggregated $479.1 million and $459.3 million, respectively. As of December 31, 2007 and 2006, standby letters of credit aggregated $15.2 million and $18.6 million, respectively. Management does not expect that all of these commitments will be funded.

The Company had also executed contracts for the sale of mortgage loans in the secondary market in the amount of $6.5 million and $6.2 million as of December 31, 2007 and 2006, respectively. These amounts were 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 or 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 $45.0 million and $39.7 million of sold residential mortgage loans with recourse provisions still in effect at December 31, 2007 and December 31, 2006, 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, 2007, 2006 or 2005. In the opinion of management, the risk of recourse to the subsidiary banks is not significant, and accordingly no liabilities have been established related to such.

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 $14.0 million and $7.0 million as of December 31, 2007 and 2006, 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 and Company, certain subsidiary banks offer 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 distributed by Goldman Sachs. At December 31, 2007 and December 31, 2006, the Company had $47.1 million and $23.5 million, respectively, of customer funds invested in this cash management program.

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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, 2007, 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 and Financial Statement Note Reference	Total	Payments Due by Period (in thousands) One year Or less	1-3 years	4-5 years	After 5 years
Deposits without a stated maturity	$ 512,846	$ 512,846	$	$	$
Certificates of deposits (6)	416,581	327,840	65,601	23,140	
Short-term borrowings (7)	183,196	183,196			
Federal Home Loan Bank advances (8)	168,815	15,100	22,300	50,750	80,665
Other borrowings (9)	47,690	7,690			40,000
Junior subordinated debentures (10)	36,085				36,085
Rental commitments (5)	4,507	694	1,411	1,109	1,293
Operating contracts	3,121	1,787	1,326	8	
Total contractual cash obligations	$1,372,841	$1,049,153	$90,638	$75,007	$158,043

Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The Company had no purchase obligations at December 31, 2007. The Company s operating contract obligations represent short and long-term lease payments for data processing equipment and services, software, and other equipment and professional services.

Impact of Inflation and Changing Prices

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

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Impact of New Accounting Standards

In September 2006, FASB issued Statement of Financial Accounting Standard No. 157 (SFAS No. 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that SFAS No. 157 may have on its consolidated financial statements.

In February of 2007, FASB issued Statement of Financial Accounting Standard No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities , which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available for eligible items that exist on the date that a company adopts SFAS No. 159 or when an entity first recognizes a financial asset or financial liability. The decision to elect the fair value option for an eligible item is irrevocable. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company s first fiscal year after November 15, 2007. The statement offered early adoption provisions that the Company elected not to exercise. The Company is in the process of evaluating the impact that SFAS No. 159 may have on its consolidated financial statements.

In December 2007, FASB Issued Statement No. 141 (revised 2007), Business Combinations. Statement No. 141R fundamentally changes the manner in which the entity will account for a business combination. This statement is effective for fiscal years beginning on or after December 15, 2008 and is predominantly prospective. The Company is currently evaluating the impact of the adoption of Statement No. 141R.

In December 2007, FASB issued Statement No. 160, Noncontrolling Interest in Consolidated Financial Statements. Statement No. 160 changes the measurement, recognition and presentation of minority interests in consolidated subsidiaries (now referred to as noncontrolling interests). This statement is effective for fiscal years beginning on or after December 15, 2008 and is prospective for the change related to measurement and recognition and retrospective for the changes related to presentation. The Company is currently evaluating the impact of the adoption of Statement No. 160.

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, s project, appear, plan, intend, estimate, may, will, would, could, should likely, or other similar Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events. The Company s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors that could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the Risk Factors section included under Item 1A. of Part I of this Form 10-K. In addition to the risk factors described in that section, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to, the following:

- The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.

- The costs, effects and outcomes of existing or future litigation.

Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board.

The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

In an attempt to manage its 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. 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 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 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 over a one year horizon, assuming no balance sheet growth and a 200 basis point upward and a 200 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date. The model assumes a parallel and pro rata shift in interest rates over a twelve-month period. Application of the simulation model analysis at December 31, 2007 demonstrated a 2.10% decrease in interest income with a 200 basis point increase in interest rates, and a 2.50% increase in interest income with a 200 basis point decrease in interest rates. Both simulations are within the board-established policy limits of a 10% decline in value.

Interest rate risk is the most significant market risk affecting the Company. For that reason, the Company engages the assistance of a national consulting firm and their 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.
Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of QCR Holdings, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QCR Holdings, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QCR Holdings, Inc. and subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 4, 2008 expressed an unqualified opinion on the effectiveness of QCR Holdings, Inc. and subsidiaries internal control over financial reporting.

/s/ McGladrey & Pullen, LLP

Davenport, Iowa

March 4, 2008

McGladrey & Pullen, LLP is a member firm of RSM International
an affiliation of separate and independent legal entities.

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QCR Holdings, Inc.
and Subsidiaries
Consolidated Balance Sheets
December 31, 2007 and 2006

	2007	2006
Assets		
Cash and due from banks	$ 41,195,890	$ 42,502,770
Federal funds sold	6,620,000	2,320,000
Interest-bearing deposits at financial institutions	5,096,048	2,130,096
Securities held to maturity, at amortized cost	350,000	350,000
Securities available for sale, at fair value (Note 3)	235,554,653	194,423,893
	235,904,653	194,773,893
Loans receivable, held for sale (Note 4)	6,507,583	6,186,632
Loans/leases receivable, held for investment (Note 4)	1,100,392,324	954,560,692
	1,106,899,907	960,747,324
Less allowance for estimated losses on loans/leases (Note 4)	(12,023,637)	(10,612,082)
	1,094,876,270	950,135,242
Premises and equipment, net (Note 5)	32,268,686	32,524,840
Goodwill	3,222,688	3,222,688
Intangible asset	887,542	
Accrued interest receivable	7,964,557	7,160,298
Bank-owned life insurance	28,888,938	18,877,526
Other assets	19,639,070	18,027,603
Total assets	$1,476,564,342	$1,271,674,956
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 165,286,011	$ 124,184,486
Interest-bearing	764,141,207	751,262,781
Total deposits (Note 6)	929,427,218	875,447,267
Short-term borrowings (Note 7)	183,195,840	111,683,951
Federal Home Loan Bank advances (Note 8)	168,815,006	151,858,749
Other borrowings (Note 9)	47,690,122	3,761,636
Junior subordinated debentures (Note 10)	36,085,000	36,085,000

Other liabilities	**23,564,681**	**20,592,953**
Total liabilities	**1,388,777,867**	**1,199,429,556**
Minority interest in consolidated subsidiaries	**1,720,683**	**1,362,820**
Commitments and Contingencies (Note 16)		
Stockholders Equity (Note 14):		
Preferred stock, $1 par value, shares authorized 250,000 December 2007 - 568 shares issued and outstanding December 2006 - 268 shares issued and outstanding	**568**	**268**
Common stock, $1 par value; shares authorized 10,000,000 December 2007 - 4,597,744 shares issued and outstanding December 2006 - 4,560,629 shares issued and outstanding	**4,597,744**	**4,560,629**
Additional paid-in capital	**42,317,374**	**34,293,511**
Retained earnings	**36,338,566**	**32,000,213**
Accumulated other comprehensive income	**2,811,540**	**27,959**
Total stockholders equity	**86,065,792**	**70,882,580**
Total liabilities and stockholders equity	**$1,476,564,342**	**$1,271,674,956**

See Notes to Consolidated Financial Statements.

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QCR Holdings, Inc.
and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2007, 2006, and 2005

	2007	2006	2005
Interest and dividend income:			
Loans/leases, including fees	$74,679,005	$60,098,090	$42,427,118
Securities:			
Taxable	9,411,975	6,995,972	5,345,980
Nontaxable	1,039,623	914,128	579,817
Interest-bearing deposits at financial institutions	346,382	319,491	129,460
Federal funds sold	248,055	475,345	205,893
Total interest and dividend income	85,725,040	68,803,026	48,688,268
Interest expense:			
Deposits	32,299,290	27,064,755	12,842,421
Short-term borrowings	5,361,783	3,169,069	2,181,997
Federal Home Loan Bank advances	7,237,026	5,609,114	4,168,077
Other borrowings	1,835,464	574,517	501,241
Junior subordinated debentures	2,622,531	2,489,879	1,587,049
Total interest expense	49,356,094	38,907,334	21,280,785
Net interest income	36,368,946	29,895,692	27,407,483
Provision for loan/lease losses (Note 4)	2,863,902	3,284,242	877,084
Net interest income after provision for loan/lease losses	33,505,044	26,611,450	26,530,399
Noninterest income:			
Credit card fees, net of processing costs	1,731,992	1,947,984	1,782,452
Trust department fees	3,743,120	3,049,440	2,818,832
Deposit service fees	2,711,040	1,928,246	1,582,530
Gains on sales of loans, net	1,219,800	991,536	1,254,242
Securities gains (losses), net		(142,866)	50
Gains on sales of foreclosed assets	1,007	664,223	42,380
Gains on sales of other assets	435,791		
Earnings on bank-owned life insurance	892,395	759,100	656,005
Investment advisory and management fees	1,575,887	1,216,350	691,800
Other	1,781,944	1,569,092	1,244,212
Total noninterest income	14,092,976	11,983,105	10,072,503
Noninterest expenses:			
Salaries and employee benefits	24,086,588	21,262,541	16,458,860

Professional and data processing fees	3,877,117	3,192,326	2,865,064
Advertising and marketing	1,356,420	1,367,545	1,221,039
Occupancy and equipment expense	5,008,821	4,762,827	4,316,443
Stationery and supplies	612,603	670,915	645,985
Postage and telephone	1,020,503	961,394	842,779
Bank service charges	579,923	583,687	516,537
FDIC and other Insurance	1,020,629	612,058	594,282
Loss on disposals/sales of fixed assets	223,308	36,305	332,283
Other	1,251,147	1,219,386	1,639,876
Total noninterest expenses	39,037,059	34,668,984	29,433,148
Income before income taxes	8,560,961	3,925,571	7,169,754
Federal and state income taxes (Note 11)	2,395,693	857,842	2,282,201
Income before minority interest in net income of consolidated subsidiaries	6,165,268	3,067,729	4,887,553
Minority interest in income of consolidated subsidiaries	387,791	265,524	77,538
Net Income	$ 5,777,477	$ 2,802,205	$ 4,810,015
Net Income	$ 5,777,477	$ 2,802,205	$ 4,810,015
Less: preferred stock dividends	1,072,000	164,373	
Net income available to common stockholders	$ 4,705,477	$ 2,637,832	$ 4,810,015
Earnings per common share (Note 15):			
Basic	$ 1.03	$ 0.57	$ 1.06
Diluted	$ 1.02	$ 0.57	$ 1.04
Weighted average common shares outstanding	4,581,919	4,609,626	4,518,162
Weighted average common and common equivalent shares outstanding	4,599,568	4,653,229	4,616,556
Cash dividends declared per common share	$ 0.08	$ 0.08	$ 0.08

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, 2007, 2006, and 2005

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2004		**4,496,730**	**20,329,033**	**25,278,666**	**669,371**	**50,773,800**
Comprehensive income:						
Net income				4,810,015		4,810,015
Other comprehensive (loss), net of tax (Note 2)					(1,236,850)	(1,236,850)
Comprehensive income						**3,573,165**
Cash dividends declared, $0.08 per share				(361,981)		(361,981)
Proceeds from issuance of 10,584 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan (Note 13)		10,584	181,458			192,042
Proceeds from issuance of 25,335 shares of common stock as a result of stock options exercised (Note 13)		25,335	167,764			193,099
Exchange of 1,425 shares of common stock in connection with options exercised		(1,425)	(27,994)			(29,419)
Tax benefit of nonqualified stock options exercised			125,993			125,993
Balance, December 31, 2005	**$**	**$ 4,531,224**	**$ 20,776,254**	**$ 29,726,700**	**$ (567,479)**	**$ 54,466,699**

Comprehensive income:						
Net income				2,802,205		2,802,205
Other comprehensive income, net of tax (Note 2)					595,438	595,438
Comprehensive income						**3,397,643**
Common cash dividends declared, $0.08 per share				(364,319)		(364,319)
Preferred cash dividends declared				(164,373)		(164,373)
Proceeds from issuance of 268 shares of preferred stock	268		12,884,146			12,884,414
Proceeds from issuance of 14,552 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan (Note 13)		14,552	223,901			238,453
Proceeds from issuance of 16,221 shares of common stock as a result of stock options exercised (Note 13)		16,221	109,522			125,743
Exchange of 1,368 shares of common stock in connection with options exercised		(1,368)	(23,458)			(24,826)
Tax benefit of nonqualified stock options exercised			37,795			37,795
Stock-based compensation expense			285,351			285,351
Balance, December 31, 2006	**$ 268**	**$ 4,560,629**	**$ 34,293,511**	**$ 32,000,213**	**$ 27,959**	**$ 70,882,580**
Comprehensive income:						
Net income				5,777,477		5,777,477
Other comprehensive income, net of tax (Note 2)					2,783,581	2,783,581
						8,561,058

Comprehensive income						
Common cash dividends declared, $0.08 per share				(367,124)		(367,124)
Preferred cash dividends declared				(1,072,000)		(1,072,000)
Proceeds from issuance of 300 shares of preferred stock	300		7,273,279			7,273,579
Proceeds from issuance of 19,834 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan		19,834	259,054			278,888
Proceeds from issuance of 19,069 shares of common stock as a result of stock options exercised		19,069	154,007			173,076
Exchange of 1,788 shares of common stock in connection with options exercised		(1,788)	(28,643)			(30,431)
Tax benefit of nonqualified stock options exercised			22,370			22,370
Stock-based compensation expense			343,796			343,796
Balance, December 31, 2007	**$ 568**	**$ 4,597,744**	**$ 42,317,374**	**$ 36,338,566**	**$ 2,811,540**	**$ 86,065,792**

See Notes to Consolidated Financial Statements.

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QCR Holdings, Inc.
and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006, and 2005

	2007	2006	2005
Cash Flows from Operating Activities:			
Net income	$ 5,777,477	$ 2,802,205	$ 4,810,015
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,293,874	2,395,174	2,008,773
Provision for loan/lease losses	2,863,902	3,284,242	877,084
Deferred income taxes	511,109	(394,934)	(109,452)
Amortization of offering costs on subordinated debentures	14,317	14,317	14,317
Stock-based compensation expense	21,348	171,125	
Minority interest in income of consolidated subsidiaries	387,791	265,524	77,538
Gains on sale of foreclosed assets	(1,007)	(664,223)	(42,380)
Gains on sale of other assets	(435,791)		
(Accretion of discounts) amortization of premiums on securities, net	(92,868)	252,457	524,808
Investment securities losses (gains), net		142,866	(50)
Loans originated for sale	(103,958,168)	(87,721,100)	(98,719,913)
Proceeds on sales of loans	104,860,392	85,161,720	100,840,794
Net gains on sales of loans	(1,219,800)	(991,536)	(1,254,242)
Net losses on disposals/sales of premises and equipment	223,308	36,305	332,283
Tax benefit of nonqualified stock options exercised			125,993