QCR HOLDINGS INC
Form 10-K
March 10, 2017

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, 2016.

Commission file number: 0-22208

QCR HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	42-1397595
(State of incorporation)	(I.R.S. Employer Identification No.)

3551 7th Street, Moline, Illinois 61265

(Address of principal executive offices)

(309) 736-3580

(Registrant’s telephone number, including area code)

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

Common stock, $1.00 Par Value The NASDAQ Global Market

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

Preferred Share Purchase Rights

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

Yes [ ] No [X]

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

Yes [ ] No [X]

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

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

Yes [X] No [ ]

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

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

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

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

Yes[ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on The NASDAQ Global Market on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $328,508,413.

As of February 28, 2017, the Registrant had outstanding 13,140,013 shares of common stock, $1.00 par value per share.

Documents incorporated by reference:

Part III of Form 10-K Certain portions of the proxy statement for annual meeting of stockholders to be held in May 2017.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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

Statements.

Part I

Item 1. Business

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

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

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

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

Subsidiary Banks. QCBT was capitalized on October 13, 1993, and commenced operations on January 7, 1994. QCBT is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. QCBT provides full service commercial, correspondent, and consumer banking and trust and asset management services in the Quad Cities and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and in Moline, Illinois. QCBT, on a consolidated basis with m2, had total segment assets of $1.40 billion and $1.34 billion as of December 31, 2016 and 2015, respectively.

CRBT is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. The Company commenced operations in Cedar Rapids in June 2001, operating as a branch of QCBT. The Cedar Rapids branch operation then began functioning under the CRBT charter in September 2001. The acquired branches of CNB operate as a division of

CRBT under the name “Community Bank & Trust.” CRBT provides full-service commercial and consumer banking and trust and asset management services to Cedar Rapids and Waterloo/Cedar Falls, Iowa and adjacent communities through its five facilities. The headquarters for CRBT is located in downtown Cedar Rapids with one other branch located in northern Cedar Rapids, two branches located in Waterloo and one branch located in Cedar Falls. CRBT had total segment assets of $913.1 million and $866.9 million as of December 31, 2016 and 2015, respectively.

CSB is an Iowa-chartered commercial bank with depository accounts insured by the FDIC to the maximum amount permitted by law. CSB was acquired by the Company in 2016. CSB provides full-service commercial and consumer banking and trust and asset management services to Des Moines and adjacent communities through its headquarters located in Ankeny and its nine other branch facilities throughout the greater Des Moines area. CSB had total segment assets of $600.1 million as of December 31, 2016.

RB&T is an Illinois-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. The Company commenced operations in Rockford, Illinois in September 2004, operating as a branch of QCBT, and that operation began functioning under the RB&T charter in January 2005. RB&T provides full-service commercial and consumer banking and trust and asset management services to Rockford and adjacent communities through its headquarters located on Guilford Road at Alpine Road in Rockford and its branch facility located in downtown Rockford. RB&T had total segment assets of $391.2 million and $367.5 million as of December 31, 2016 and 2015, respectively.

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

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

Trust Preferred Subsidiaries. Following is a listing of the Company's non-consolidated subsidiaries formed for the issuance of trust preferred securities, including pertinent information as of December 31, 2016 and 2015:

Name	Date Issued	Amount Issued as of 12/31/16	Amount Issued as of 12/31/15	Interest Rate	Interest Rate as of 12/31/2016	Interest Rate as of 12/31/2015
QCR Holdings Statutory Trust II	February 2004	$ 10,310,000	$ 10,310,000	2.85% over 3-month LIBOR	3.85 %	3.18 %
QCR Holdings Statutory Trust III	February 2004	8,248,000	8,248,000	2.85% over 3-month LIBOR	3.85 %	3.18 %
QCR Holdings Statutory Trust IV	May 2005	-	5,155,000	1.80% over 3-month LIBOR	N/A	2.12 %
QCR Holdings Statutory Trust V	February 2006	10,310,000	10,310,000	1.55% over 3-month LIBOR	2.43 %	1.87 %
Community National Statutory Trust II	September 2004	3,093,000	3,093,000	2.17% over 3-month LIBOR	3.17 %	2.74 %
Community National Statutory Trust III	March 2007	3,609,000	3,609,000	1.75% over 3-month LIBOR	2.71 %	2.26 %
		$ 35,570,000	$ 40,725,000	Weighted Average Rate	3.26 %	2.60 %

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

QCR Holdings Statutory Trust IV was dissolved in 2016 after the Company purchased the related security at auction, as noted in Note 12 to the Consolidated Financial Statements.

Business. The Company’s principal business consists of attracting deposits and investing those deposits in loans/leases and securities. The deposits of the subsidiary banks are insured to the maximum amount allowable by the FDIC. The Company’s results of operations are dependent primarily on net interest income, which is the difference between the interest earned on its loans/leases and securities and the interest paid on deposits and borrowings. The Company’s operating results are affected by economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities, as described more fully in this Form 10-K. Its operating results also can be affected by trust fees, investment advisory and management fees, deposit service charge fees, gains on the sale of residential real estate and government guaranteed loans, earnings from BOLI and other noninterest income. Operating expenses include employee compensation and benefits, occupancy and equipment expense, professional and data processing fees, advertising and marketing expenses, bank service charges, FDIC and other insurance, loan/lease expenses and other administrative expenses.

The Company and its subsidiaries collectively employed 572 and 406 FTEs at December 31, 2016 and 2015, respectively. The increase in FTEs during 2016 was the result of the acquisition of CSB.

The Federal Reserve is the primary federal regulator of the Company, QCBT, CRBT and RB&T. CSB has not yet become a member of the Federal Reserve, but plans to apply for membership in early 2017. QCBT, CRBT and CSB are also regulated by the Iowa Superintendent and RB&T is regulated by the IDFPR. The FDIC, as administrator of the DIF, also has regulatory authority over the subsidiary banks. See Appendix A for more information on the federal and state statutes and regulations that are applicable to the Company and its subsidiaries.

Lending/Leasing. The Company and its subsidiaries provide a broad range of commercial and retail lending/leasing and investment services to corporations, partnerships, individuals, and government agencies. The subsidiary banks actively market their services to qualified lending and deposit clients. Officers actively solicit the business of new clients entering their market areas as well as long-standing members of the local business community. The Company has an established lending/leasing policy which includes a number of underwriting factors to be considered in making a loan/lease, including, but not limited to, location, loan-to-value ratio, cash flow, collateral and the credit history of the borrower.

In accordance with Iowa regulation, the legal lending limit to one borrower for QCBT, CRBT and CSB, calculated as 15% of aggregate capital, was $20.7 million, $16.0 million, and $12.2 million, respectively, as of December 31, 2016. In accordance with Illinois regulation, the legal lending limit to one borrower for RB&T, calculated as 25% of aggregate capital, totaled $10.4 million as of December 31, 2016.

The Company recognizes the need to prevent excessive concentrations of credit exposure to any one borrower or group of related borrowers. As such, the Company has established an in-house lending limit, which is lower than each subsidiary bank's legal lending limit, in an effort to manage individual borrower exposure levels.

The in-house lending limit is the maximum amount of credit each subsidiary bank will extend to a single borrowing entity or group of related entities. As of January 1, 2017, the Company implemented a tiered approach, based on the risk rating. Under the in-house limit, total credit exposure to a single borrowing entity or group of related entities will not exceed the following, subject to certain exceptions:

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

The QCRH Consolidated amount represents the maximum amount of credit that all affiliated banks, when combined, will extend to a single borrowing entity or group of related entities, subject to certain exceptions.

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

As part of the loan monitoring activity at the four subsidiary banks, credit administration personnel interact closely with senior bank management. For example, the internal loan committee of each subsidiary bank meets weekly. The Company has a separate in-house loan review function to analyze credits of the subsidiary banks. To complement the in-house loan review, an independent third-party performs external loan reviews. Historically, management has attempted to identify problem loans at an early stage and to aggressively seek a resolution of those situations.

The Company recognizes that a diversified loan/lease portfolio contributes to reducing risk in the overall loan/lease portfolio. The specific loan/lease portfolio mix is subject to change based on loan/lease demand, the business environment and various economic factors. The Company actively monitors concentrations within the loan/lease portfolio to ensure appropriate diversification and concentration risk is maintained.

Specifically, each subsidiary bank's total loans as a percentage of average assets may not exceed 85%. In addition, following are established policy limits and the actual allocations for the subsidiary banks as of December 31, 2016 for the loan portfolio on a per loan type basis, reflected as a percentage of the subsidiary bank's average gross loans:

Type of Loan *	QCBT Maximum Percentage per Loan Policy	QCBT As of December 31, 2016	CRBT Maximum Percentage per Loan Policy	CRBT As of December 31, 2016	CSB Maximum Percentage per Loan Policy	CSB As of December 31, 2016	RB&T Maximum Percentage per Loan Policy	RB&T As of December 31, 2016
One-to-four family residential	30 %	14 %	25 %	11 %	35 %	19 %	30 %	21 %
Multi-family	15 %	3 %	15 %	6 %	15 %	6 %	15 %	4 %
Farmland	5 %	1 %	5 %	1 %	15 %	3 %	5 %	- %
Non-farm, nonresidential	50 %	24 %	50 %	34 %	40 %	25 %	50 %	39 %
Construction and land development	20 %	5 %	15 %	5 %	45 %	25 %	20 %	2 %
C&I	60 %	20 %	60 %	34 %	40 %	17 %	60 %	27 %
Loans to individuals	10 %	1 %	10 %	1 %	10 %	1 %	10 %	1 %
Lease financing	30 %	21 %	5 %	- %	5 %	- %	20 %	- %
Bank stock loans	**	**	10 %	- %	- %	- %	10 %	- %
All other loans	15 %	11 %	10 %	8 %	10 %	4 %	10 %	6 %
		100 %		100 %		100 %		100 %

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

** QCBT's maximum percentage for bank stock loans is 150% of risk-based capital (bank stock loan commitments are limited to 200% of risk-based capital). At December 31, 2016, QCBT's bank stock loans totaled 52% of risk-based capital.

The following table presents total loans/leases by major loan/lease type and subsidiary as of December 31, 2016 and 2015. Residential real estate loans held for sale are included in residential real estate loans below.

QCBT		m2 Lease Funds		CRBT		CSB		RB&T		Consolidated Total	
$	%	$	%	$	%	$	%	$	%	$	%

As of December 31, 2016:	*(dollars in thousands)*											
C&I loans	$314,310	39 %	$38,668	18 %	$276,130	42 %	$101,530	24 %	$96,999	31 %	$827,637	34
CRE loans	355,850	45 %	-	- %	305,655	47 %	272,174	63 %	159,780	51 %	1,093,459	46
Direct financing leases	-	- %	165,026	78 %	-	- %	393	- %	-	- %	165,419	7
Residential real estate loans	99,626	12 %	-	- %	43,706	7 %	43,383	10 %	42,518	14 %	229,233	10
Installment and other consumer loans	28,694	4 %	-	- %	27,117	4 %	12,132	3 %	13,723	4 %	81,666	3
Deferred loan/lease origination costs, net of fees	918	- %	7,351	4 %	(395)	- %	(102)	- %	301	- %	8,073	-
	$799,398	100%	$211,045	100%	$652,213	100%	$429,510	100%	$313,321	100%	$2,405,487	10

As of December 31, 2015:	*(dollars in thousands)*											
C&I loans	$267,367	39 %	$20,120	10 %	$263,792	43 %	$-	- %	$96,881	33 %	$648,160	36
CRE loans	296,157	43 %	-	- %	285,866	46 %	-	- %	142,346	48 %	724,369	41
Direct financing leases	-	- %	173,656	86 %	-	- %	-	- %	-	- %	173,656	10
Residential real estate loans	86,920	13 %	-	- %	43,345	7 %	-	- %	40,168	14 %	170,433	9
Installment and other consumer loans	35,862	5 %	-	- %	23,970	4 %	-	- %	13,837	5 %	73,669	4
Deferred loan/lease origination costs, net of fees	457	- %	7,343	4 %	(358)	- %	-	- %	294	- %	7,736	-
	$686,763	100%	$201,119	100%	$616,615	100%	$-	- %	$293,526	100%	$1,798,023	10

Proper pricing of loans is necessary to provide adequate return to the Company’s stockholders. Loan pricing, as established by the subsidiary banks’ internal loan committees, includes consideration for the cost of funds, loan maturity and risk, origination and maintenance costs, appropriate stockholder return, competitive factors, and the economic environment. The portfolio contains a mix of loans with fixed and floating interest rates. Management attempts to maximize the use of interest rate floors on its variable rate loan portfolio. Refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk for more discussion on the Company's management of interest rate risk.

C&I Lending

As noted above, the subsidiary banks are active C&I lenders. The current areas of emphasis include loans to small and mid-sized businesses with a wide range of operations such as wholesalers, manufacturers, building contractors, business services companies, other banks, and retailers. The banks provide a wide range of business loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of facilities, equipment and other purposes. Since 2010, the subsidiary banks have been active in participating in lending programs offered by the SBA and USDA. Under these programs, the government entities will generally provide a guarantee of repayment ranging from 50% to 85% of the principal amount of the qualifying loan.

Loan approval is generally based on the following factors:

- Ability and stability of current management of the borrower;
- Stable earnings with positive financial trends;
- Sufficient cash flow to support debt repayment;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

For C&I loans, the Company assigns internal risk ratings which are largely dependent upon the aforementioned approval factors. The risk rating is reviewed annually or on an as needed basis depending on the specific circumstances of the loan. See Note 1 to the consolidated financial statements for additional information, including the internal risk rating scale.

As part of the underwriting process, management reviews current borrower financial statements. When appropriate, certain C&I loans may contain covenants requiring maintenance of financial performance ratios such as, but not limited to:

- Minimum debt service coverage ratio;
- Minimum current ratio;
- Maximum debt to tangible net worth ratio; and/or
- Minimum tangible net worth.

Establishment of these financial performance ratios depends on a number of factors, including risk rating and the specific industry.

Collateral for these loans generally includes accounts receivable, inventory, equipment, and real estate. The Company’s lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans must exceed the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash. Approved non-real estate collateral types and corresponding maximum advance percentages for each are listed below.

Approved Collateral Type	**Maximum Advance %**
Financial Instruments	
U.S. Government Securities	90% of market value
Securities of Federal Agencies	90% of market value
Municipal Bonds rated by Moody's As "A" or better	80% of market value
Listed Stocks	75% of market value
Mutual Funds	75% of market value
Cash Value Life Insurance	95%, less policy loans
Savings/Time Deposits (Bank)	100% of current value
Penny Stocks	0%
General Business	
Accounts Receivable	80% of eligible accounts
Inventory	50% of value
Crop and Grain Inventories	80% of current market value
Livestock	80% of purchase price, or current market value; or higher if cross-collateralized with other assets
Fixed Assets (Existing)	50% of net book value, or 75% of orderly liquidation appraised value
Fixed Assets (New)	80% of cost, or higher if cross-collateralized with other assets
Leasehold Improvements	0%

Generally, if the above collateral is part of a cross-collateralization with other approved assets, then the maximum advance percentage may be higher.

The Company's lending policy specifies maximum term limits for C&I loans. For term loans, the maximum term is generally seven years. Generally, term loans range from three to five years. For lines of credit, the maximum term is typically 365 days.

In addition, the subsidiary banks often take personal guarantees or cosignors to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

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

2016
Amount

	(dollars in thousands)
Bank holding companies	$ 66,070
Skilled nursing care facilities	43,864
Administration of urban planning & rural development	37,097
Hotels & motels	35,992
General medical & surgical hospitals	33,175

CRE Lending

The subsidiary banks also make CRE loans. CRE loans are subject to underwriting standards and processes similar to C&I loans, in addition to those standards and processes specific to real estate loans. Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The Company’s lending policy specifies maximum loan-to-value limits based on the category of CRE (commercial real estate loans on improved property, raw land, land development, and commercial construction). These limits are the same limits as, or in some situations, more conservative than, those established by regulatory authorities. Following is a listing of these limits as well as some of the other guidelines included in the Company’s lending policy for the major categories of CRE loans:

CRE Loan Types	**Maximum Advance Rate ****	**Maximum Term**
CRE Loans on Improved Property *	80%	7 years
Raw Land	Lesser of 90% of project cost, or 65% of "as is" appraised value	12 months
Land Development	Lesser of 85% of project cost, or 75% of "as-completed" appraised value	24 months
Commercial Construction Loans	Lesser of 85% of project cost, or 80% of "as-completed" appraised value	365 days
Residential Construction Loans to Builders	Lesser of 90% of project cost, or 80% of "as-completed" appraised value	12 months

* Generally, the debt service coverage ratio must be a minimum of 1.25x for non-owner occupied loans and 1.15x for owner-occupied loans. For loans greater than $500 thousand, the subsidiary banks sensitize this ratio for deteriorated economic conditions, major changes in interest rates, and/or significant increases in vacancy rates.

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

The Company’s lending policy also includes guidelines for real estate appraisals and evaluations, including minimum appraisal and evaluation standards based on certain transactions. In addition, the subsidiary banks often take personal guarantees to help assure repayment.

In addition, management tracks the level of owner-occupied CRE loans versus non-owner occupied CRE loans. Owner-occupied CRE loans are generally considered to have less risk. As of December 31, 2016 and 2015, approximately 30% and 35%, respectively, of the CRE loan portfolio was owner-occupied.

The Company’s lending policy limits non-owner occupied CRE lending to 300% of total risk-based capital, and limits construction, land development, and other land loans to 100% of total risk-based capital. Exceeding these limits warrants the use of heightened risk management practices in accordance with regulatory guidelines. As of December 31, 2016 and 2015, QCBT, CRBT and RB&T were in compliance with these limits. Although the CSB’s loan portfolio has historically been real estate dominated and its real estate portfolio levels exceed these policy limits, it has established a Credit Risk Committee to routinely monitor its real estate loan portfolio. CSB’s real estate levels, while still elevated at December 31, 2016, have declined since December 31, 2015.

Following is a listing of the significant industries within the Company's CRE loan portfolio as of December 31, 2016 and 2015:

	2016 Amount	%	2015 Amount	%
	(dollars in thousands)			
Lessors of Nonresidential Buildings	$322,337	30 %	$264,133	37 %
Lessors of Residential Buildings	141,321	13 %	89,189	12 %
Nonresidential Property Managers	70,914	7 %	10,500	1 %
New Housing For-Sale Builders	56,711	5 %	5,468	1 %
Land Subdivision	45,132	4 %	17,839	2 %
Hotels	35,006	3 %	19,228	3 %
Nursing Care Facilities	34,768	3 %	17,288	2 %
Lessors of Other Real Estate Property	25,664	2 %	22,009	3 %
New Multifamily Housing Construction	24,146	2 %	11,747	2 %
Other *	337,460	31 %	266,968	37 %
Total Commercial Real Estate Loans	$1,093,459	100 %	$724,369	100 %

* "Other" consists of all other industries. None of these had concentrations greater than $21.0 million, or 2%, of total CRE loans as of December 31, 2016.

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

	2016 Amount	%
	(dollars in thousands)	
Retail	$128,394	21 %
Multi-family	112,960	19 %
Office	97,878	16 %
Industrial/warehouse	46,149	8 %
Hotel/motel	33,828	6 %
Other	176,713	30 %
Total income-producing CRE	$595,922	100 %

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

	2016	
	Amount	%
	(dollars in thousands)	
Retail	$14,647	16 %
Multi-family	17,991	19 %
Office	9,342	10 %
Industrial/warehouse	5,810	6 %
Hotel/motel	1,983	2 %
Other	43,707	47 %
Total non-residential construction loans	$93,480	100 %

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

Direct Financing Leasing

m2 leases machinery and equipment to C&I customers under direct financing leases. All lease requests are subject to the credit requirements and criteria as set forth in the lending/leasing policy. In all cases, a formal independent credit analysis of the lessee is performed.

The following private and public sector business assets are generally acceptable to consider for lease funding:

- Computer systems;
- Photocopy systems;
- Fire trucks;
- Specialized road maintenance equipment;
- Medical equipment;
- Commercial business furnishings;
- Vehicles classified as heavy equipment;
- Trucks and trailers;
- Equipment classified as plant or office equipment; and
- Marine boat lifts.

m2 will generally refrain from funding leases of the following type:

- Leases collateralized by non-marketable items;
- Leases collateralized by consumer items, such as vehicles, household goods, recreational vehicles, boats, etc.;
- Leases collateralized by used equipment, unless its remaining useful life can be readily determined; and
- Leases with a repayment schedule exceeding seven years.

Residential Real Estate Lending

Generally, the subsidiary banks' residential real estate loans conform to the underwriting requirements of Freddie Mac and Fannie Mae to allow the subsidiary banks to resell loans in the secondary market. The subsidiary banks structure most loans that will not conform to those underwriting requirements as adjustable rate mortgages that adjust in one to five years, and then retain these loans in their portfolios. Servicing rights are generally not retained on the loans sold in the secondary market. The Company's lending policy establishes minimum appraisal and other credit guidelines.

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

	For the year ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Originations of residential real estate loans	$52,721	$41,279	$72,146
Sales of residential real estate loans	$35,499	$23,726	$33,100
Percentage of sales to originations	67 %	57 %	46 %

Installment and Other Consumer Lending

The consumer lending department of each subsidiary bank provides many types of consumer loans, including home improvement, home equity, motor vehicle, signature loans and small personal credit lines. The Company's lending policy addresses specific credit guidelines by consumer loan type. In particular, for home equity loans and home equity lines of credit, the minimum credit bureau score is 680. For both home equity loans and lines of credit, the maximum advance rate is 90% of value with a minimum credit bureau score of 720, and the maximum advance rate is 80% of value with a credit bureau score of 680 to 719. The maximum term on home equity loans is 10 years and maximum amortization is 15 years. The maximum term on home equity lines of credit is five years.

In some instances for all loans/leases, it may be appropriate to originate or purchase loans/leases that are exceptions to the guidelines and limits established within the Company's lending policy described above. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are generally noted as such and specifically identified in loan/lease approval documents.

Competition. The Company currently operates in the highly competitive Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, Des Moines, and Rockford markets. Competitors include not only other commercial banks, credit unions, thrift institutions, and mutual funds, but also insurance companies, FinTech companies, finance companies, brokerage firms, investment banking companies, and a variety of other financial services and advisory companies. Many of these competitors are not subject to the same regulatory restrictions as the Company. Many of these unregulated competitors compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services. The Company competes in markets with a number of much larger financial institutions with substantially greater resources and larger lending limits.

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

See Appendix B for tables and schedules that show selected financial statistical information relating to the business of the Company required to be presented pursuant to federal securities laws. Consistent with the information presented in the Form 10-K, results are presented as of and for the fiscal years ended December 31, 2016, 2015, and 2014, as applicable.

Internet Site, Securities Filings and Governance Documents. The Company maintains an Internet site at www.qcrh.com. The Company makes available free of charge through this site its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. These filings are available at http://www.snl.com/IRW/Docs/1024092. Also available are many of its corporate governance documents, including the Code of Conduct (http://www.snl.com/IRW/govdocs/1024092).

Item1A. Risk Factors

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors:

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

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

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

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

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

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

difficulties in supporting and transitioning customers of the target company;

diversion of financial and management resources from existing operations;

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

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

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

assumption of unanticipated problems or latent liabilities; and

inability to generate sufficient revenue to offset acquisition costs.

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

We must effectively manage our credit risk.

There are risks inherent in making any loan, including risks inherent in dealing with specific borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department and an external third party. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.

The majority of our subsidiary banks' loan portfolios are invested in C&I and CRE loans, and we focus on lending to small to medium-sized businesses. The size of the loans we can offer to commercial customers is less than the size of the loans that our competitors with larger lending limits can offer. This may limit our ability to establish relationships with the area's largest businesses. Smaller companies tend to be at a competitive disadvantage and generally have limited operating histories, less sophisticated internal record keeping and financial planning capabilities and fewer financial resources than larger companies. As a result, we may assume greater lending risks than financial institutions that have a lesser concentration of such loans and tend to make loans to larger, more established businesses. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. In addition to C&I and CRE loans, our subsidiary banks are also active in residential mortgage and consumer lending. Our borrowers may experience financial difficulties, and the level of nonperforming loans, charge-offs and delinquencies could rise, which could negatively impact our business through increased provision, reduced interest income on loans/leases, and increased expenses incurred to carry and resolve problem loans/leases.

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

C&I loans were $827.6 million, or approximately 34% of our total loan/lease portfolio, as of December 31, 2016. Our C&I loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment and real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the pledged collateral and enforcement of a personal guarantee, if any exists. Whenever possible, we require a personal guarantee or cosigner on commercial loans. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing these loans may lose value over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. In addition, a prolonged recovery period could harm or continue to harm the businesses of our C&I customers and reduce the value of the collateral securing these loans.

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

CRE lending comprises a significant portion of our lending business. Specifically, CRE loans were $1.1 billion, or approximately 46% of our total loan/lease portfolio, as of December 31, 2016. Of this amount, $332.4 million, or approximately 30%, was owner-occupied. The market value of real estate securing our CRE loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

The problems that have occurred in the residential real estate and mortgage markets throughout much of the U.S. in prior years also affected the commercial real estate market. In our market areas, we generally experienced a downturn in credit performance by our CRE loan customers in prior years relative to historical norms, and despite recent improvements in certain aspects of the economy, a level of uncertainty continues to exist in the economy and credit markets. There can be no guarantee that we will not experience further deterioration in the performance of CRE and other real estate loans in the future. In such case, we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results, financial condition and/or capital.

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

We establish our allowance for loan and lease losses in consultation with management of our subsidiaries and maintain it at a level considered adequate by management to absorb loan/lease losses that are inherent in the portfolio. The amount of future loan/lease losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2016, our allowance as a percentage of total gross loans/leases was 1.28%, and as a percentage of total NPLs was 144.85%. In accordance with GAAP for acquisition accounting, the loans acquired through the acquisition of CSB were recorded at fair value; therefore, there was no allowance associated with CSB's loans at acquisition. Management continues to evaluate the allowance needed on the acquired CSB loans factoring in the net remaining discount ($10.1 million at December 31, 2016). When factoring this remaining discount into the Company's allowance to total loans and leases calculation, the Company's allowance as a percentage of total loans and leases increases from 1.28% to 1.70%.

In addition, we had net charge-offs as a percentage of gross average loans/leases of 0.14% for the year ended December 31, 2016. Because of the concentration of C&I and CRE loans in our loan portfolio, which tend to be larger in amount than residential real estate and installment loans, the movement of a small number of loans to nonperforming status can have a significant impact on these ratios. Although management believes that the allowance as of December 31, 2016 was adequate to absorb losses on any existing loans/leases that may become uncollectible, we cannot predict loan/lease losses with certainty, and we cannot assure you that our allowance will prove sufficient to cover actual loan/lease losses in the future, particularly if economic conditions are more difficult than what management currently expects. Additional provisions and loan/lease losses in excess of our allowance may adversely affect our business, financial condition and results of operations.

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

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

The Company also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding the Company's customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that the Company does not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact the Company through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks relating to them. Despite third-party security risks that are beyond our control, the Company offers its customers protection against fraud and attendant losses for unauthorized use of debit cards in order to stay competitive in the marketplace. Offering such protection (including the cost of replacing compromised cards) to our customers exposes the Company to potential losses which, in the event of a data breach at one or more retailers of considerable magnitude, may adversely affect its business, financial condition, and results of operations. Further cyber-attacks or other breaches in the future, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in increased costs, all of which could have a material adverse effect on the Company's business. To the extent we are involved in any future cyber-attacks or other breaches, the Company's reputation could be affected, which could also have a material adverse effect on the Company's business, financial condition or results of operations.

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

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

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

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

We maintain a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors and customer or employee fraud. Despite having business continuity plans and other safeguards, the Company could still be affected. Should our internal controls fail to prevent or detect an occurrence, and if any resulting loss is not insured or exceeds applicable insurance limits, such failure could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

The primary federal and state banking laws and regulations that affect us are described in Appendix A to this report. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. For example, the Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry. In addition, in recent years the Federal Reserve has adopted numerous new regulations addressing banks’ overdraft and mortgage lending practices. Further, the Basel III regulatory capital reforms increased both the amount and quality of capital that financial institutions must hold.

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

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

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

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

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Interest rates and other conditions impact our results of operations.

Our profitability is in large part a function of the spread between the interest rates earned on investments and loans/leases and the interest rates paid on deposits and other interest bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan/lease terms, the mix of adjustable and fixed rate loans/leases in our portfolio, the length of time deposits and borrowings, and the rate sensitivity of our deposit customers could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations is presented at “Quantitative and Qualitative Disclosures about Market Risk” included under Item 7A of Part II of this Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

The Company and each of its banking subsidiaries are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations, which have recently increased due to the effectiveness of the Basel III regulatory capital reforms. We intend to grow our business organically and to explore opportunities to grow our business by taking advantage of attractive acquisition opportunities, and such growth plans may require us to raise additional capital to ensure that we have adequate levels of capital to support such growth on top of our current operations. Our ability to raise additional capital, when and if needed or desired, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market conditions, and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. Our failure to meet these capital and other regulatory requirements could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock and to make distributions on our trust preferred securities, our ability to make acquisitions, and our business, results of operations and financial condition.

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

As of December 31, 2016, we had $33.5 million of junior subordinated debentures held by five business trusts that we control. Interest payments on the debentures, which totaled $1.2 million for 2016, must be paid before we pay dividends on our capital stock, including our common stock. We have the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if we elect to defer interest payments, all deferred interest must be paid before we may pay dividends on our capital stock. Deferral of interest payments on the debentures could cause a subsequent decline in the market price of our common stock because we would not be able to pay dividends on our common stock.

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

We are a bank holding company, and our operations are primarily conducted by our subsidiary banks, which are subject to significant federal and state regulation. When available, cash to pay dividends to our stockholders is derived primarily from dividends received from our subsidiary banks. Our ability to receive dividends or loans from our subsidiary banks is restricted. Dividend payments by our subsidiaries to us in the future will require generation of future earnings by them and could require regulatory approval if any proposed dividends are in excess of prescribed guidelines. Further, as a structural matter, our right to participate in the assets of our subsidiary banks in the event of a liquidation or reorganization of any of the banks would be subject to the claims of the creditors of such bank, including depositors, which would take priority except to the extent we may be a creditor with a recognized claim. As of December 31, 2016, our subsidiary banks had deposits and other liabilities in the aggregate of approximately $3.0 billion.

Declines in asset values may result in impairment charges and adversely affect the value of our investments, financial performance and capital.

The market value of investments in our securities portfolio has become increasingly volatile in recent years, and as of December 31, 2016, we had gross unrealized losses of $8.6 million, or 1.5% of amortized cost, in our investment portfolio (partially offset by gross unrealized gains of $3.6 million). The market value of investments may be affected by factors other than the underlying performance of the servicer of the securities or the mortgages underlying the securities, such as ratings downgrades, adverse changes in the business climate and a lack of liquidity in the secondary market for certain investment securities. On a quarterly basis, we formally evaluate investments and other assets for impairment indicators. We may be required to record additional impairment charges if our investments suffer a decline in value that is considered other-than-temporary. If we determine that a significant impairment has occurred, we would be required to charge against earnings the credit-related portion of the OTTI, which could have a material adverse effect on our results of operations in the periods in which the write-offs occur. Based on management's evaluation, it was determined that the gross unrealized losses at December 31, 2016 were temporary and primarily a function of the changes in certain market interest rates.

Liquidity risks could affect operations and jeopardize our business, results of operations and financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of securities and/or loans and other sources could have a substantial negative effect on our liquidity. Our primary sources of funds consist of cash from operations, deposits, investment maturities, repayments, and calls, and loan/lease repayments. Additional liquidity is provided by federal funds purchased from the FRB or other correspondent banks, FHLB advances, wholesale and customer repurchase agreements, brokered deposits, and the ability to borrow at the FRB's Discount Window. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

During periods of economic turmoil, the financial services industry and the credit markets generally may be materially and adversely affected by significant declines in asset values and depressed levels of liquidity. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size and limited analyst coverage. Any decline in available funding could adversely impact our ability to originate loans/leases, invest in securities, meet our expenses, pay dividends to our stockholders, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

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

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

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

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

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

We operate primarily in the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, Des Moines/Ankeny and Rockford markets, and as a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in those areas. We have developed a particularly strong presence in Bettendorf, Cedar Falls, Cedar Rapids, Davenport, Waterloo, and Ankeny, Iowa and Moline, Rock Island, and Rockford, Illinois and their surrounding communities. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce demand for our products and services, affect the ability of our customers to repay their loans to us, increase the levels of our nonperforming and problem loans, and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

We face intense competition in all phases of our business from other banks and financial institutions.

The banking and financial services businesses in our markets are highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions, online lenders and other non-bank financial services providers. Many of these competitors are not subject to the same regulatory restrictions as we are. Many of our unregulated competitors compete across geographic boundaries and are able to provide customers with a feasible alternative to traditional banking services.

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

The stock market can be volatile, and fluctuations in our operating results and other factors, could cause our stock price to decline.

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

The soundness of other financial institutions could negatively affect us.

Our ability to engage in routine funding and other transactions could be negatively affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of the difficulties or failures of other banks and government-sponsored financial institutions, which would increase the capital we need to support our growth.

Our community banking strategy relies heavily on our subsidiaries' independent management teams, and the unexpected loss of key managers may adversely affect our operations.

We rely heavily on the success of our bank subsidiaries' independent management teams. Accordingly, much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain the executive officers and current management teams of our operating subsidiaries will continue to be important to the successful implementation of our strategy. It is also critical, as we manage our existing portfolio and grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

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

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services. In addition to enabling us to better serve our customers, the effective use of technology increases efficiency and the potential for cost reduction. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow our market share. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Our reputation could be damaged by negative publicity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

There are no unresolved staff comments.

Item 2. Properties

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

Facility Address	Facility Square Footage	Facility Owned or Leased
QCR Holdings, Inc.		
3551 7th Street in Moline, IL (1)	30,000	Owned
QCBT		
2118 Middle Road in Bettendorf, IA	6,700	Owned
4500 N Brady Street in Davenport, IA	36,000	Owned
5405 Utica Ridge Road in Davenport, IA	7,400	Leased
1700 Division Street in Davenport, IA	12,000	Owned
CRBT		
500 1st Avenue NE, in Cedar Rapids, IA	48,000	Owned
5400 Council Street in Cedar Rapids, IA	5,900	Owned
422 Commercial Street in Waterloo, IA (2)	25,000	Owned
11 Tower Park Drive in Waterloo, IA (2)	6,000	Owned
312 W 1st Street in Cedar Falls, IA (2)	4,800	Owned
CSB		
817 N Ankeny Boulevard, in Ankeny, IA	13,000	Owned
200 8th Street SE, in Altoona, IA	6,000	Owned
902 SE Oralabor Road, in Ankeny, IA	3,900	Owned
1640 SW White Birch Circle, in Ankeny, IA	15,700	Owned
3540 E 33rd Street, in Des Moines, IA	3,900	Owned
1401 E Euclid, in Des Moines, IA	4,500	Owned
6175 Merle Hay Road, in Johnston, IA	9,200	Owned
1025 N Hickory Boulevard, in Pleasant Hill, IA	4,500	Owned
4811 SE 14th Street, in Des Moines, IA	3,500	Owned
460 SE University Avenue, in Waukee, IA	6,000	Owned
RB&T		
4571 Guilford Road in Rockford, IL	20,000	Owned
308 West State Street in Rockford, IL	1,100	Leased
m2		
175 North Patrick Boulevard in Brookfield, WI	6,500	Leased

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

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

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 amounts to 10% or more of consolidated assets.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information. The common stock, par value $1.00 per share, of the Company is listed on The NASDAQ Global Market under the symbol "QCRH". The stock began trading on NASDAQ on October 6, 1993. The Company transferred its listing from the NASDAQ Capital Market to the NASDAQ Global Market on March 1, 2010. As of February 28, 2017, there were 13,140,013 shares of common stock outstanding held by approximately 747 holders of record. Additionally, there are an estimated 2,700 beneficial holders whose stock was held in the street name by brokerage houses and other nominees as of that date. The following table sets forth the high and low sales prices of the common stock, as reported by NASDAQ for the periods indicated.

	2016 Sales Price		2015 Sales Price		2014 Sales Price	
	High	Low	High	Low	High	Low
First quarter	$24.15	$18.05	$18.19	$16.91	$17.48	$16.99
Second quarter	28.74	22.96	22.75	17.51	17.96	17.00
Third quarter	32.19	26.41	23.23	19.58	18.10	16.96
Fourth quarter	44.80	30.31	24.90	21.00	18.20	17.50

Dividends on Common Stock. Dividends paid on common stock during the years ending December 31, 2016 and 2015 are as follows:

Declaration Date	Amount Declared Per Share	Record Date	Total Amount Paid to Stockholders (in thousands)	Date Paid
May 20, 2015	$0.04	June 19, 2015	$466	July 8, 2015
November 20, 2015	$0.04	December 18, 2015	$469	January 6, 2016
February 11, 2016	$0.04	March 18, 2016	$471	April 6, 2016
May 13, 2016	$0.04	June 17, 2016	$521	

				July 6, 2016
August 25, 2016	$0.04	September 16, 2016	$521	October 5, 2016
December 15, 2016	$0.04	December 23, 2016	$523	January 6, 2017

The Company is heavily dependent on dividend payments from its subsidiary banks to provide cash flow for the operations of the holding company and dividend payments on the Company's common stock. Under applicable state laws, the banks are restricted as to the maximum amount of dividends that they may pay on their common stock. Iowa and Illinois law provide that state-chartered banks in those states may not pay dividends in excess of their undivided profits.

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

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

Purchase of Equity Securities by the Company. There were no purchases of common stock by the Company during the years ended December 31, 2016, 2015, and 2014.

Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2011 and ending December 31, 2016, a comparison of cumulative total returns for the Company, the NASDAQ Composite Index, and the SNL Bank NASDAQ Index prepared by SNL Financial, Charlottesville, Virginia. The graph was prepared at the Company's request by SNL Financial. The information assumes that $100 was invested at the closing price on December 31, 2011 in the common stock of the Company and in each index, and that all dividends were reinvested.

	Period Ending					
Index	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**
QCR Holdings, Inc.	100.00	146.22	189.26	199.37	272.09	487.65
NASDAQ Composite	100.00	117.45	164.57	188.84	201.98	219.89
SNL Bank NASDAQ	100.00	119.19	171.31	177.42	191.53	265.56

Item 6. Selected Financial Data

The following “Selected Financial Data” of the Company is derived in part from, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto. See Item 8. Financial Statements. Results for past periods are not necessarily indicative of results to be expected for any future period.

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(dollars in thousands, except per share data)				
STATEMENT OF INCOME DATA					
Interest income	$106,468	$90,003	$85,965	$81,872	$77,376
Interest expense	11,951	13,707	16,894	17,767	19,727
Net interest income	94,517	76,296	69,071	64,105	57,649
Provision for loan/lease losses	7,478	6,871	6,807	5,930	4,371
Non-interest income	31,037	24,364	21,282	26,846	18,953
Non-interest expense (1)	81,486	73,192	65,554	65,465	54,591
Income tax expense	8,903	3,669	3,039	4,618	4,534
Net income	27,687	16,928	14,953	14,938	13,106
Less: net income attributable to noncontrolling interests	-	-	-	-	488
Net income attributable to QCR Holdings, Inc.	27,687	16,928	14,953	14,938	12,618
Less: preferred stock dividends and discount accretion	-	-	1,082	3,168	3,496
Net income attributable to QCR Holdings, Inc. common stockholders	27,687	16,928	13,871	11,770	9,122
PER COMMON SHARE DATA					
Net income - Basic (2)	$2.20	$1.64	$1.75	$2.13	$1.88
Net income - Diluted (2)	2.17	1.61	1.72	2.08	1.85
Cash dividends declared	0.16	0.08	0.08	0.08	0.08
Dividend payout ratio	7.27 %	4.88 %	4.57 %	3.76 %	4.26 %
Closing stock price	$43.30	$24.29	$17.86	$17.03	$13.22
BALANCE SHEET DATA					
Total assets	$3,301,944	$2,593,198	$2,524,958	$2,394,953	$2,093,730
Securities	574,022	577,109	651,539	697,210	602,239
Total loans/leases	2,405,487	1,798,023	1,630,003	1,460,280	1,287,388
Allowance	30,757	26,141	23,074	21,448	19,925
Deposits	2,669,261	1,880,666	1,679,668	1,646,991	1,374,114
Borrowings	290,952	444,162	662,558	563,381	547,758
Stockholders' equity:					
Preferred	-	-	-	29,799	53,163

Common	286,041		225,886		144,079		117,778		87,271	
KEY RATIOS										
ROAA (3)	0.97	%	0.66	%	0.61	%	0.64	%	0.62	%
ROACE (2)	10.56		8.79		10.49		11.48		10.84	
ROAE (3)	10.56		8.79		10.48		10.24		8.90	
NIM, tax equivalent yield (Non-GAAP) (4) (6)	3.75		3.37		3.15		3.03		3.14	
Efficiency ratio (Non-GAAP) (5) (6)	64.90		72.71		72.55		71.98		71.27	
Loans/leases to assets	72.85		69.34		64.56		60.97		61.49	
Loans/leases to deposits	90.12		95.61		97.04		88.66		93.69	
NPAs to total assets	0.82		0.74		1.31		1.28		1.41	
Allowance to total loans/leases	1.28		1.45		1.42		1.47		1.55	
Allowance to NPLs	144.85		223.33		114.78		104.70		78.47	
Net charge-offs to average loans/leases	0.14		0.22		0.34		0.31		0.27	
Average total stockholders' equity to average total assets	9.21		7.55		5.82		6.26		7.00	

(1) Non-interest expense includes several one-time expenses - most notably, $4.6 million and $7.2 million of losses on debt extinguishment for 2016 and 2015, respectively, related to the prepayment of certain borrowings further described in Notes 10 and 11 to the Consolidated Financial Statements. Acquisition costs of $2.4 million are also included in the 2016 amount. See Note 2 to the Consolidated Financial Statements for additional information regarding the acquisition of CSB.

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

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

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

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

(6) See GAAP to Non-GAAP reconciliations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information regarding our operations for the years ending December 31, 2016, 2015, and 2014, and our financial condition at December 31, 2016 and 2015. This discussion should be read in conjunction with "Selected Financial Data" and our consolidated financial statements and the accompanying notes thereto included or incorporated by reference elsewhere in this document.

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

GENERAL

The Company was formed in February 1993 for the purpose of organizing QCBT. Over the past twenty-three years, the Company has grown to include three additional banking subsidiaries (including the 2016 acquisition of CSB) and a number of nonbanking subsidiaries. As of December 31, 2016, the Company had $3.30 billion in consolidated assets, including $2.41 billion in total loans/leases and $2.67 billion in deposits.

EXECUTIVE OVERVIEW

The Company reported net income of $27.7 million for the year ended December 31, 2016, and diluted EPS of $2.17. For the same period in 2015, the Company reported net income of $16.9 million, and diluted EPS of $1.61. By comparison, for 2014, the Company reported net income of $15.0 million, and diluted EPS of $1.72, after preferred stock dividends of $1.1 million.

The year ended December 31, 2016 was highlighted by several significant items:

- The successful acquisition of CSB and the related common stock offering (described in Note 2 to the Consolidated Financial Statements);
- Several balance sheet restructurings (described in Notes 10 and 11 to the Consolidated Financial Statements);
- NIM improvement of 38 basis points, year-over-year, primarily attributable to the acquisition of CSB and balance sheet restructurings;
- Loan and lease growth of 10.5% for the year; and

Strong gains on the sale of government guaranteed portions of loans and swap fee income totaling $4.9 million for the year.

Following is a table that represents the various net income measurements for the years ended December 31, 2016, 2015, and 2014.

	Year Ended December 31,		
	2016	2015	2014
Net income	$27,686,787	$16,927,881	$14,952,537
Less: Preferred stock dividends and discount accretion	-	-	1,081,877
Net income attributable to QCR Holdings, Inc. common stockholders	$27,686,787	$16,927,881	$13,870,660
Diluted EPS	$2.17	$1.61	$1.72
Weighted average common and common equivalent shares outstanding*	12,766,003	10,499,841	8,048,661

*The 2016 increase in the weighted average common and common equivalent shares outstanding was primarily due to the common stock issuance discussed in Note 2 to the Consolidated Financial Statements. The 2015 increase was primarily due to the common stock issuance discussed in Note 16 to the Consolidated Financial Statements.

The Company reported core net income (non-GAAP) of $29.4 million, with diluted core EPS of $2.31. See section titled "GAAP to Non-GAAP Reconciliations" for additional information. Core net income for the year excludes a number of non-recurring items, most significantly $1.8 million of after-tax acquisition related costs.

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

	Year Ended December 31, 2016		2015		2014	
Net interest income	$	94,516,777	$	76,296,724	$	69,071,128
Provision for loan/lease losses		7,478,166		6,870,900		6,807,000
Noninterest income		31,036,875		24,363,321		21,281,279
Noninterest expense		81,485,912		73,192,022		65,553,900
Federal and state income tax		8,902,787		3,669,242		3,038,970
Net income	$	27,686,787	$	16,927,881	$	14,952,537

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

- Net interest income grew $18.2 million, or 24% in 2016, compared to the prior year. Of this increase, $10.0 million was attributable to the acquisition of CSB in the third quarter. Net interest income for 2015 grew $7.2 million, or 10%, compared to 2014.
- Provision increased $607 thousand from the prior year, while holding relatively flat when comparing 2015 to 2014. The increase in 2016 was attributable to the addition of CSB.
- Noninterest income increased $6.7 million, or 27% in 2016, compared to the prior year.
  - o Gains on the sale of government guaranteed portion of loans and swap fee income increased $1.8 million in 2016, compared to the prior year.
  - o Securities gains increased $3.8 million in 2016, compared to the prior year. Most of this was related to the sale of an equity security described in Note 3 to the Consolidated Financial Statements.
  - o CSB contributed $1.6 million of noninterest income in the period since acquisition.
- Noninterest income increased $3.1 million, or 14%, when comparing 2015 to 2014.
- Noninterest expense increased $8.3 million, or 11% in 2016, compared to the prior year.
  - o Acquisition costs totaled $2.4 million in 2016.
  - o The net cost of operations of other real estate increased $1.7 million in 2016. The prior year included a large gain on the sale of an OREO property.
  - o CSB contributed $6.3 million of noninterest expense in the period since acquisition.
- Noninterest expense increased $7.6 million, when comparing 2015 to 2014. Included in 2015 noninterest expense was $7.2 million of losses on debt extinguishment, net.

LONG-TERM FINANCIAL GOALS

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

Improve balance sheet efficiency by maintaining a gross loans and leases to total assets ratio in the range of 70 – 75%;

Improve profitability (measured by NIM and ROAA);

Continue to improve asset quality by reducing NPAs to total assets to less than 0.75% and maintain net charge-offs as a percentage of average loans/leases of under 0.25% annually;

Reduce reliance on wholesale funding to less than 15% of total assets;

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

Increase the m2 commercial loan and lease portfolio to $250 million;

Generate gains on sales of government guaranteed portions of loans and swap fee income of more than $4.0 million annually; and

Grow wealth management fee income by 10% annually.

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

			For the Year Ending	
			December 31, 2016	**December 31, 2015**
Goal	**Key Metric (1)**	**Target (2)**	*(dollars in thousands)*	
Balance sheet efficiency	Gross loans and leases to total assets	70% - 75%	73%	69%
Profitability	NIM TEY (non-GAAP)	> 3.75%	3.75%	3.37%
	ROAA	> 1.10%	0.97%	0.66%
	Core ROAA (non-GAAP)		1.03%	0.82%
Asset quality	NPAs to total assets	< 0.75%	0.82%	0.74%
	Net charge-offs to average loans/leases	< 0.25% annually	0.14%	0.22%
Lower reliance on wholesale funding	Wholesale funding to total assets	< 15%	11%	20%
Funding mix	Noninterest bearing deposits as a percentage of total assets	> 30%	24%	24%
	Total loans and leases	$250 million	$211 million	$201 million

m2 commercial loans and leases				
Consistent, high quality noninterest income revenue streams	Gains on sales of government guaranteed portions of loans and swap fee income	> $4 million annually	$4.9 million	$3.0 million
	Grow wealth management fee income	> 10% annually	1%	7%

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

STRATEGIC DEVELOPMENTS

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

Organic loan and lease growth for the year was 10.5%. This was within the Company's target organic growth rate of 10-12%. A portion of this growth was in the C&I category. As of December 31, 2016, this segment of the portfolio accounted for 34% of total loans and leases. The Company has also grown CRE loans, with that segment now representing 46% of the portfolio as of December 31, 2016. The strong organic loan and lease growth has continued to help move the loan and lease to total asset ratio upward to 73%, from 69% in the prior year and 65% two years ago. The Company has reached the targeted loan and lease to total asset ratio in the range of 70% - 75%. Going forward, the Company will strive to maintain the ratio in this range.

The Company intends to participate as an acquirer in the consolidation taking place in our markets to further boost ROAA and improve the Company's efficiency ratio. In the third quarter of 2016, the Company acquired CSB, headquartered in Ankeny, Iowa. See Note 2 of the Consolidated Financial Statements for additional details.

The Company continued to focus on reducing the NPAs to total assets ratio. The ratio of NPAs to total assets increased slightly from 0.74% at December 31, 2015 to 0.82% at December 31, 2016 due to the addition of two large credits in the fourth quarter of 2016. The Company is not anticipating significant losses related to these two credits. The Company also believes that these issues were isolated and not reflective of the overall portfolio. The Company remains committed to improving asset quality ratios in 2017.

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

Correspondent banking continues to be a core line of business for the Company. The Company is competitively positioned with experienced staff, software systems and processes to continue growing in the three states currently served – Iowa, Illinois and Wisconsin. The Company acts as the correspondent bank for 181 downstream banks with average total noninterest bearing deposits of $353.9 million during the fourth quarter of 2016. This line of business provides a strong source of noninterest bearing deposits, fee income, high-quality loan participations and bank stock loans.

The Company provides commercial leasing services through its wholly-owned subsidiary, m2 Lease Funds, which has lease specialists in Iowa, Wisconsin, Minnesota, North Carolina, South Carolina, Florida, California, Colorado, Texas, Massachusetts, and Pennsylvania. Historically, this portfolio has been high yielding, with an average gross yield in 2016 approximating 7.8%.

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

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

Wealth management is another core line of business for the Company and includes a full range of products, including trust services, brokerage and investment advisory services, asset management, estate planning and financial planning. As of December 31, 2016 the Company had $1.9 billion of total financial assets in trust (and related) accounts and $889 million of total financial assets in brokerage (and related) accounts. Continued growth in assets under management will help to drive trust and investment advisory fees. The Company offers trust and investment advisory services to the correspondent banks that it serves. As management focuses on growing fee income, expanding market share will continue to be a primary strategy.

GAAP TO NON-GAAP RECONCILIATIONS

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

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

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

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

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

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

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

GAAP TO NON-GAAP RECONCILIATIONS	As of December 31, 2016	December 31, 2015
	(dollars in thousands, except per share data)	
TCE/TA RATIO		
Stockholders' equity (GAAP)	$ 286,041	$ 225,886
Less: Intangible assets	22,522	4,694
TCE (non-GAAP)	$ 263,519	$ 221,192
Total assets (GAAP)	$ 3,301,944	$ 2,593,198
Less: Intangible assets	22,522	4,694
TA (non-GAAP)	$ 3,279,422	$ 2,588,504
TCE/TA ratio (non-GAAP)	**8.04 %**	**8.55 %**

CORE NET INCOME	For the Year Ended December 31, 2016	December 31, 2015	December 31, 2014
Net income (GAAP)	$ 27,687	$ 16,928	$ 14,953
Less nonrecurring items (post-tax) (*):			
Income:			
Securities gains	$ 2,985	$ 519	$ 60
Lawsuit award	-	252	-
Total nonrecurring income (non-GAAP)	$ 2,985	$ 771	$ 60
Expense:			
Losses on debt extinguishment	$ 2,975	$ 4,671	$ -
Acquisition costs	1,763	-	-
Accrual adjustments	-	(487)	-
Other non-recurring expenses	-	513	-
Total nonrecurring expense (non-GAAP)	$ 4,738	$ 4,697	$ -
Core net income (non-GAAP)	**$ 29,440**	**$ 20,854**	**$ 14,893**
Less: Preferred stock dividends	-	-	1,082
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP)	**$ 29,440**	**$ 20,854**	**$ 13,811**
CORE EARNINGS PER COMMON SHARE			
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP) (from above)	$ 29,440	$ 20,854	$ 13,811

Weighted average common shares outstanding		12,570,767			10,345,286			7,925,220	
Weighted average common and common equivalent shares outstanding		12,766,003			10,499,841			8,048,661	
Core EPS (non-GAAP):									
Basic	**$**	**2.34**		**$**	**2.02**		**$**	**1.74**	
Diluted	**$**	**2.31**		**$**	**1.99**		**$**	**1.72**	
CORE ROAA									
Core net income (non-GAAP) (from above)	$	29,440		$	20,854		$	14,893	
Average Assets	$	2,846,699		$	2,549,921		$	2,453,678	
Core ROAA (non-GAAP)		**1.03**	**%**		**0.82**	**%**		**0.61**	**%**

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GAAP TO NON-GAAP RECONCILIATIONS (CONTINUED)	For the Year Ended December 31, 2016	December 31, 2015	December 31, 2014
	(dollars in thousands)		
NIM (TEY)			
Net interest income (GAAP)	$ 94,517	$ 76,296	$ 69,071
Plus: Tax equivalent adjustment	6,021	4,881	3,977
Net interest income - tax equivalent (Non-GAAP)	$ 100,538	$ 81,177	$ 73,048
Average earning assets	$ 2,678,359	$ 2,406,213	$ 2,319,441
NIM (GAAP)	3.53 %	3.17 %	2.98 %
NIM (TEY) (Non-GAAP)	3.75 %	3.37 %	3.15 %
EFFICIENCY RATIO			
Noninterest expense (GAAP)	$ 81,486	$ 73,192	$ 65,554
Net interest income (GAAP)	$ 94,517	$ 76,296	$ 69,071
Noninterest income (GAAP)	31,037	24,363	21,281
Total income	$ 125,554	$ 100,659	$ 90,352
Efficiency ratio (noninterest expense/total income) (Non-GAAP)	64.90 %	72.71 %	72.55 %
TEXAS RATIO			
Nonaccrual loans/leases	$ 13,919	$ 10,648	$ 18,588
Accruing loans/leases past due 90 days or more	967	3	93
TDRs - accruing	6,347	1,054	1,421
OREO	5,523	7,151	12,768
NPLs (excluding other repossessed assets)	$ 26,756	$ 18,856	$ 32,870
Total stockholders' equity (GAAP)	$ 286,041	$ 225,886	$ 144,079
Less: Intangible assets	22,522	4,694	4,894
Plus: Allowance (GAAP)	30,757	26,141	23,074
Tangible equity plus allowance	$ 294,276	$ 247,333	$ 162,259
Texas Ratio (Non-GAAP)	9.09 %	7.62 %	20.26 %

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

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

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

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

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

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

Net interest income, on a tax equivalent basis, grew $8.1 million, or 11%, in 2015 compared to 2014. Net interest income improved due to several factors:

- The Company's strategy to redeploy funds from the taxable securities portfolio into higher yielding loans and leases;
- Organic loan and lease growth was strong throughout the year. Average gross loans/leases grew 10.9% in 2015; and
- The Company's balance sheet restructuring and deleveraging strategy that was executed in the second quarter of 2015. Refer to Notes 10 and 11 to the Consolidated Financial Statements.

A comparison of yields, spreads and margins from 2014 to 2015 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets increased 6 basis points from 3.88% to 3.94%.
- The average cost of interest-bearing liabilities decreased 18 basis points from 0.99% to 0.81%.
- The net interest spread improved 24 basis points from 2.89% to 3.13%.
- The NIM improved 22 basis points from 3.15% to 3.37%.

The Company's management closely monitors and manages NIM. From a profitability standpoint, an important challenge for the Company's subsidiary banks and leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing and other balance sheet management strategies.

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

The Company continues to place an emphasis on shifting its balance sheet mix. With a stated goal of maintaining loans/leases as a percentage of assets in a range of 70%-75%, the Company funded its loan/lease growth with a mixture of core deposits and cash from the investment securities portfolio. Cash from called securities and the targeted sales of securities was redeployed into the loan portfolio, resulting in a significant increase in yield, while minimizing any extension of duration. Additionally, the Company recognized net gains on these sales due to the previousrate environment. As rates rise, the Company should also have less market volatility in the investment securities portfolio, as this becomes a smaller portion of the balance sheet.

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

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

	Years Ended December 31,								
	2016			2015			2014		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
	(dollars in thousands)								
ASSETS									
Interest earning assets:									
Federal funds sold	$15,142	$45	0.30%	$17,418	$25	0.14%	$17,263	$21	0.12%
Interest-bearing deposits at financial institutions	70,757	393	0.56	66,897	304	0.45	56,620	299	0.53
Investment securities (1)	535,912	19,054	3.56	599,648	18,380	3.07	688,827	18,679	2.71
Restricted investment securities	13,993	522	3.73	14,727	504	3.42	16,349	529	3.24
Gross loans/leases receivable (1) (2) (3)	2,042,555	92,475	4.53	1,707,523	75,671	4.43	1,540,382	70,414	4.57
Total interest earning assets	$2,678,359	112,489	4.20	$2,406,213	94,884	3.94	$2,319,441	89,942	3.88
Noninterest-earning assets:									
Cash and due from banks	$53,650			$45,178			$44,905		
Premises and equipment, net	44,773			38,162			36,372		
Less allowance for estimated losses on loans/leases	(28,686)			(25,027)			(22,726)		
Other	98,603			85,395			75,686		
Total assets	$2,846,699			$2,549,921			$2,453,678		

LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$1,092,687	3,843	0.35%	$821,043	1,836	0.22%	$741,061	1,832	0.25%
Time deposits	436,070	2,175	0.50	388,691	2,660	0.68	392,167	2,677	0.68
Short-term borrowings	50,899	94	0.18	151,141	210	0.14	162,732	234	0.14
Federal Home Loan Bank advances	114,797	1,284	1.12	154,268	3,511	2.28	218,704	6,026	2.76
Other borrowings	98,105	3,318	3.38	126,902	4,234	3.34	147,091	4,891	3.33
Junior subordinated debentures	33,735	1,237	3.67	40,364	1,256	3.11	40,356	1,234	3.06
Total interest-bearing liabilities	$1,826,293	11,951	0.65	$1,682,409	13,707	0.81	$1,702,111	16,894	0.99
Noninterest-bearing demand deposits	$714,867			$641,848			$575,549		
Other noninterest-bearing liabilities	43,464			33,175			33,284		
Total liabilities	$2,584,624			$2,357,432			$2,310,944		
Stockholders' equity	262,075			192,489			142,734		
Total liabilities and stockholders' equity	$2,846,699			$2,549,921			$2,453,678		
Net interest income		$100,538			$81,177			$73,048	
Net interest spread			3.55%			3.13%			2.89%
Net interest margin			3.53%			3.17%			2.98%
Net interest margin (TEY)(Non-GAAP)			3.75%			3.37%			3.15%
Ratio of average interest earning assets to average interest-bearing liabilities	146.66 %			143.02 %			136.27 %		

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

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

(3) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

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

	For the years ended December 31, 2016, 2015 and 2014					
	Inc./(Dec.) from Prior Year	Components of Change (1) Rate	Volume	Inc./(Dec.) from Prior Year	Components of Change (1) Rate	Volume
	2016 vs. 2015			**2015 vs. 2014**		
	(dollars in thousands)			(dollars in thousands)		
INTEREST INCOME						
Federal funds sold	$20	$23	$(3)	$4	$4	$-
Interest-bearing deposits at other financial institutions	89	70	19	5	(45)	50
Investment securities (2)	674	2,753	(2,079)	(299)	2,276	(2,575)
Restricted investment securities	18	44	(26)	(25)	30	(55)
Gross loans/leases receivable (2) (3)	16,804	1,669	15,135	5,256	(2,202)	7,458
Total change in interest income	$17,605	$4,559	$13,046	$4,941	$63	$4,878
INTEREST EXPENSE						
Interest-bearing demand deposits	$2,007	$1,273	$734	$4	$(184)	$188
Time deposits	(485)	(782)	297	(17)	7	(24)
Short-term borrowings	(116)	54	(170)	(24)	(8)	(16)
Federal Home Loan Bank advances	(2,227)	(1,482)	(745)	(2,515)	(934)	(1,581)
Other borrowings	(916)	58	(974)	(658)	15	(673)
Junior subordinated debentures	(19)	205	(224)	22	22	-
Total change in interest expense	$(1,756)	$(674)	$(1,082)	$(3,188)	$(1,082)	$(2,106)
Total change in net interest income	$19,361	$5,233	$14,128	$8,129	$1,145	$6,984

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

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

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

The Company’s operating results are also impacted by various sources of noninterest income, including trust department fees, investment advisory and management fees, deposit service fees, gains from the sales of residential real estate loans and government guaranteed loans, earnings on BOLI, and other income. Offsetting these items, the

Company incurs noninterest expenses, which include salaries and employee benefits, occupancy and equipment expense, professional and data processing fees, FDIC and other insurance expense, loan/lease expense, and other administrative expenses.

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

CRITICAL ACCOUNTING POLICIES

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance.

The Company's allowance methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, governmental guarantees, payment status, changes in nonperforming loans/leases, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers' sensitivity to interest rate movements.

Qualitative factors include the general economic environment in the Company's markets, including economic conditions both locally and nationally, and in particular, the economic health of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan/lease portfolio, it enhances its methodology accordingly.

Management may report a materially different amount for the provision in the statement of operations to change the allowance if its assessment of the above factors were different. The discussion regarding the Company's allowance should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere in this Form 10-K, as well as the portion of this MD&A section entitled "Financial Condition – Allowance for Estimated Losses on Loans/Leases."

Although management believes the level of the allowance as of December 31, 2016 was adequate to absorb losses inherent in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

OTHER-THAN-TEMPORARY IMPAIRMENT

The Company's assessment of OTTI of its securities portfolio is another critical accounting policy as a result of the level of judgment required by management. Available-for-sale and held to maturity securities are evaluated to determine whether declines in fair value below their cost are other-than-temporary.

In estimating OTTI losses, management considers a number of factors including, but not limited to: (1) the length of time and extent to which the fair value has been less than amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the lack of intent of the Company to sell the security prior to recovery and whether it is not more-likely-than-not that the Company will be required to sell the security prior to recovery. The discussion regarding the Company's assessment of OTTI should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere in this Form 10-K.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, and 2014

INTEREST INCOME

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

Additionally, the Company continued to diversify its securities portfolio, including increasing its portfolio of tax exempt municipal securities. The large majority of these are privately placed debt issuances by municipalities located in the Midwest and require a thorough underwriting process before investment. Execution of this strategy has led to increased interest income on a tax equivalent basis over the past several years. Management understands that this strategy has extended the duration of its securities portfolio and continually evaluates the combined benefit of increased interest income and reduced effective income tax rate and the impact on interest rate risk.

For 2015, interest income grew $4.0 million, or 5%. In total, the Company’s average interest-earning assets increased $86.8 million, or 4%, year-over-year. This growth more than offset the continued impact of declining average yields on loans/leases. Average loans/leases grew 11%, while average securities declined 13%. This shift was part of the Company’s strategy to shift the mix of earning assets from lower yielding securities to higher yielding loans/leases.

In 2015, the Company diversified its securities portfolio by increasing its portfolio of tax-exempt municipal securities, as described above.

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

INTEREST EXPENSE

Comparing 2016 to 2015, interest expense declined $1.8 million, or 13%, year-over-year. Average interest-bearing liabilities increased 9% in 2016. The Company was successful in continuing to manage down its cost of funds as follows:

- Continued growth in noninterest bearing deposit accounts (average noninterest bearing balances grew 11% in 2016); and
- Continued shift of funding from high-cost borrowings to deposits and/or low-cost borrowings. Average interest bearing deposits increased 26%, while average borrowings decreased 37% during 2016.

Comparing 2015 to 2014, interest expense declined $3.2 million, or 19%, year-over-year. Average interest-bearing liabilities declined 1% in 2015. The Company was successful in continuing to manage down its cost of funds as follows:

- Continued reduction of interest rates paid on deposits without runoff (the average cost of interest-bearing deposits fell from 0.40% for 2014 to 0.37% for 2015);
- Continued growth in noninterest bearing deposit accounts (average noninterest bearing balances grew 12% in 2015, primarily due to successful growth in the correspondent banking area); and
- Continued shift of funding from high-cost borrowings to deposits and/or low-cost borrowings. Average interest bearing deposits increased 7%, while average borrowings decreased 17% during 2015.

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

PROVISION FOR LOAN/LEASE LOSSES

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

The Company's provision totaled $7.5 million for 2016, which was up $607 thousand from 2015. Notably, CSB incurred $1.5 million of provision expense for the partial year since acquisition. As acquired loans renew, the discount associated with those loans is accreted and the Company must re-establish a loan loss reserve. When comparing 2015 to 2014, the Company's provision was flat.

The Company had an allowance of 1.28% of total gross loans/leases at December 31, 2016, compared to 1.45% of total gross loans/leases at December 31, 2015, and compared to 1.42% of total gross loans/leases at December 31, 2014.

The Company's allowance to total NPLs was 145% at December 31, 2016, which was down from 223% at December 31, 2015, and up from 115% at December 31, 2014.

The decrease in these ratios from 2015 to 2016 was the result of the acquisition of CSB. Upon acquisition and per GAAP, acquired loans/leases are recorded at fair value which eliminated the allowance and impacted these ratios.

NONINTEREST INCOME. The following tables set forth the various categories of noninterest income for the years ended December 31, 2016, 2015, and 2014.

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

	Years Ended December 31, 2015	December 31, 2014	$ Change	% Change
Trust department fees	$6,131,209	$5,715,151	$416,058	7.3 %
Investment advisory and management fees	2,971,964	2,798,170	173,794	6.2
Deposit service fees	3,784,935	3,809,539	(24,604)	(0.6)
Gains on sales of residential real estate loans, net	322,872	460,721	(137,849)	(29.9)
Gains on sales of government guaranteed portions of loans, net	1,304,575	2,040,638	(736,063)	(36.1)
Swap fee income	1,717,552	154,800	1,562,752	1,009.5
Securities gains, net	798,983	92,363	706,620	765.0
Earnings on bank-owned life insurance	1,762,107	1,721,507	40,600	2.4
Debit card fees	1,244,912	1,143,738	101,174	8.8
Correspondent banking fees	1,190,411	1,064,030	126,381	11.9
Other	3,133,801	2,280,622	853,179	37.4
Total noninterest income	$24,363,321	$21,281,279	$3,082,042	14.5 %

In recent years, the Company has been successful in expanding its wealth management customer base. While trust department fees continue to be a significant contributor to noninterest income, due to poor market conditions in early 2016, coupled with a large amount of distributions to clients and beneficiaries, trust department fees increased only

1% in the current year. Comparatively, trust fee income increased 7% when comparing 2015 to 2014. Income is generated primarily from fees charged based on assets under administration for corporate and personal trusts and for custodial services. The majority of the trust department fees are determined based on the value of the investments within the fully managed trusts. Additionally, the Company recently started offering trust operations services to correspondent banks.

Management has placed a stronger emphasis on growing its investment advisory and management services. Part of this initiative has been to restructure the Company’s Wealth Management Division to allow for more efficient delivery of products and services through selective additions of talent as well as leverage of and collaboration among existing resources (including the aforementioned trust department). Similar to trust department fees, these fees are largely determined based on the value of the investments managed. And, similar to the trust department, the Company has had some success in expanding its customer base. However, due to poor market conditions in early 2016, investment advisory and management fees increased only 1% in 2016. Comparatively, investment advisory and management fees increased 6% in 2015.

Deposit service fees expanded 17% in 2016, while they contracted slightly in the prior year. The majority of the current year increase was the result of the addition of CSB, whose deposit service fees for the partial year were $590 thousand. Additionally, the Company continues its emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits across all its markets. With this shift in mix, the Company has increased the number of demand deposit accounts, which tend to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to further focus on growing deposit service fees.

Gains on sales of residential real estate loans increased 34% in 2016, while decreasing 30% in 2015. Most of the increase in the current year was attributable to the addition of CSB, which recognized $97 thousand of gains on the sales of residential real estate in the partial year. Overall, with the sustained historically low interest rate environment, refinancing activity has slowed, as many of the Company’s existing and prospective customers have already executed a refinancing. Therefore, this area has become a much smaller contributor to overall noninterest income.

The Company’s gains on the sale of government-guaranteed portions of loans for 2016 increased 142%, while decreasing 36% in the prior year. Given the nature of these gains, large fluctuations can happen from quarter-to-quarter and year-to-year. Results for the current year are reflective of the strong demand for these types of loans in 2016. As one of its core strategies, the Company continues to leverage its expertise by taking advantage of programs offered by the SBA and the USDA. The Company’s portfolio of government-guaranteed loans has grown as a direct result of the Company’s strong expertise in SBA and USDA lending. In some cases, it is more beneficial for the Company to sell the government-guaranteed portion on the secondary market for a premium rather than retain the loans in the Company’s portfolio. Sales activity for government-guaranteed portions of loans tends to fluctuate depending on the demand for loans that fit the criteria for the government guarantee. Further, the size of the transactions can vary and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can vary. Lastly, a strategy for improved pricing is packaging loans together for sale. From time to time, the Company may execute on this strategy, which may delay the gains on sales of some loans to achieve better pricing. The Company has added additional talent and is executing on strategies in an effort to make this a more consistent and larger source of revenue. The pipelines for SBA and USDA lending are strong, and management believes that the Company will continue to have success in this category.

As a result of the sustained historically low interest rate environment, the Company was able to execute numerous interest rate swaps on select commercial loans over the past two years. The interest rate swaps allow the commercial borrowers to pay a fixed interest rate while the Company receives a variable interest rate as well as an upfront fee dependent upon the pricing. Management believes that these swaps help position the Company more favorably for rising rate environments. Management will continue to review opportunities to execute these swaps at all of its subsidiary banks, as the circumstances are appropriate for the borrower and the Company. Swap fee income totaled $1.7 million in 2016, compared to $1.7 million in 2015 and $155 thousand in 2014. Future levels of swap fee income are dependent upon prevailing interest rates.

Securities gains were $4.6 million for the current year, compared to $799 thousand for the prior year. The Company took advantage of market opportunities by selling approximately $130.2 million of investments that were low-yielding during 2016. Proceeds were then used to purchase higher-yielding tax-exempt municipal bonds and to fund loan and lease growth. Additionally, in the third quarter of 2016, the Company sold an equity investment and recognized a gain of $4.0 million, which was then used to reduce wholesale borrowings and further de-lever the balance sheet. In 2015, the Company sold approximately $81.4 million of investments that were low-yielding, using the proceeds to reinvest in loans and higher-yielding tax-exempt municipal bonds.

Earnings on BOLI increased 1% in 2016 and 2% in 2015. There were no purchases of BOLI in 2015 or 2016. Yields on BOLI (based on a simple average and excluding the impact of the federal income tax exemption) were 3.09% for 2016, 3.23% for 2015, and 3.26% for 2014. Notably, a small portion of the Company's BOLI is variable rate whereby the returns are determined by the performance of the equity market. Management intends to continue to review its BOLI investments to be consistent with policy and regulatory limits in conjunction with the rest of its earning assets in an effort to maximize returns while minimizing risk.

Debit card fees are the interchange fees paid on certain debit card customer transactions. Debit card fees increased 46% in 2016, compared to 9% in the prior year. The primary reason for the increase in 2016 was the addition of CSB, which had debit card fees totaling $503 thousand for the partial year since acquisition. Additionally, these fees can vary based on customer debit card usage, so fluctuations from period to period may occur. As an opportunity to maximize fees, the Company offers a deposit product with a modestly higher interest rate that incentivizes debit card activity.

Correspondent banking fees decreased 12% in 2016, while they increased 12% in the prior year. As correspondent bank deposit balances rise, they receive a higher earnings credit, which then reduces the direct fees that the Company receives. Notably, there was an earnings credit rate increase implemented in the first quarter of 2016 as a direct result of the increase in market rates in December 2015. Management will continue to evaluate earnings credit rates and the resulting impact on deposit balances and fees while balancing the ability to grow market share. Correspondent banking continues to be a core strategy for the Company, as this line of business provides a high level of noninterest bearing deposits that can be used to fund loan growth as well as a steady source of fee income. The Company now serves approximately 181 banks in Iowa, Illinois and Wisconsin.

Other noninterest income decreased 7% in 2016, while increasing 37% in 2015. The Company recognized $387 thousand of non-recurring income in 2015 from the favorable conclusion of a lawsuit.

NONINTEREST EXPENSES. The following tables set forth the various categories of noninterest expenses for the years ended December 31, 2016, 2015, and 2014.

	Years Ended December 31, 2016	December 31, 2015	$ Change	% Change
Salaries and employee benefits	$46,317,060	$42,967,915	$3,349,145	7.8 %
Occupancy and equipment expense	8,404,605	7,042,706	1,361,899	19.3
Professional and data processing fees	7,113,443	5,523,447	1,589,996	28.8
Acquisition costs	2,441,173	-	2,441,173	100.0
FDIC insurance, other insurance and regulatory fees	2,549,314	2,724,968	(175,654)	(6.4)
Loan/lease expense	662,299	882,591	(220,292)	(25.0)
Net cost of operations of other real estate	591,303	(1,092,401)	1,683,704	(154.1)
Advertising and marketing	2,127,566	1,900,539	227,027	11.9
Bank service charges	1,692,957	1,486,265	206,692	13.9
Losses on debt extinguishment, net	4,577,668	7,185,601	(2,607,933)	(36.3)
Correspondent banking expense	750,646	703,495	47,151	6.7
Other	4,257,878	3,866,896	390,982	10.1
Total noninterest expense	$81,485,912	$73,192,022	$8,293,890	11.3 %

	Years Ended December 31, 2015	December 31, 2014	$ Change	% Change
Salaries and employee benefits	$42,967,915	$40,337,055	$2,630,860	6.5 %
Occupancy and equipment expense	7,042,706	7,385,526	(342,820)	(4.6)
Professional and data processing fees	5,523,447	6,191,574	(668,127)	(10.8)
FDIC insurance, other insurance and regulatory fees	2,724,968	2,895,494	(170,526)	(5.9)
Loan/lease expense	882,591	665,602	216,989	32.6
Net cost of operations of other real estate	(1,092,401)	603,092	(1,695,493)	(281.1)
Advertising and marketing	1,900,539	1,985,121	(84,582)	(4.3)
Bank service charges	1,486,265	1,291,017	195,248	15.1
Losses on debt extinguishment	7,185,601	-	7,185,601	100.0
Correspondent banking expense	703,495	635,630	67,865	10.7
Other	3,866,896	3,563,789	303,107	8.5
Total noninterest expense	$73,192,022	$65,553,900	$7,638,122	11.7 %

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

Salaries and employee benefits, which is the largest component of noninterest expense, increased 8% and 7% in 2016 and 2015, respectively. The increase in 2016 was largely due to the addition of CSB's cost structure, which contributed $3.3 million for the partial year since the acquisition. The increase in 2015 was due to merit increases, increases in health insurance costs, higher accrued incentive compensation based on core results, and talent additions in wealth management, commercial banking, correspondent banking and equipment leasing.

Occupancy and equipment expense increased 19% in 2016 and decreased 5% in 2015. The increase in 2016 was largely due to the addition of CSB's cost structure, which contributed $926 thousand of occupancy and equipment expense for the partial year since acquisition. The decrease in 2015 was primarily due to the relocation of RB&T's downtown facility. Additionally, the Company adjusted certain accrued expenses, a portion of which included occupancy expense.

Professional and data processing fees increased 29% in 2016 and decreased 11% in 2015. This increased expense in 2016 was mostly due to the addition of CSB for the partial year. CSB's professional and data processing fees totaled $840 thousand for the period since acquisition. The prior year also included an adjustment of certain accrued expenses, including data processing expense.

Acquisition costs totaled $2.4 million for 2016. These costs were related to the acquisition of CSB, as described in Note 2 to the Consolidated Financial Statements.

FDIC and other insurance expense decreased 6% in 2016 and 2015. The decrease in expense was due to a decrease in the assessment rate designated by the FDIC. Partially offsetting this was the acquisition of CSB, which had $45 thousand of FDIC and other insurance expense.

Loan/lease expense decreased 25% in 2016 and increased 33% in 2015. The Company incurred elevated levels of expense during 2015 for certain existing NPLs in connection with the work-out of these loans. Generally, loan/lease expense has a direct relationship with the level of NPLs; however, it may deviate depending upon the individual NPLs.

Net cost of operations of other real estate includes gains/losses on the sale of OREO, write-downs of OREO and all income/expenses associated with OREO. In 2015, this included a $1.2 million gain on the sale of a large OREO property that also reduced NPAs by $3.2 million.

Advertising and marketing expense increased 12% in 2016 and decreased 4% in 2015. A portion of the increase in 2016 was due to the addition of CSB, which had $137 thousand of advertising and marketing expense for the partial year since acquisition.

Bank service charges, a large portion of which include indirect costs incurred to provide services to QCBT's correspondent banking customer portfolio, increased significantly over the past two years (14% in 2016 and 15% in 2015). The increases were due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio over the past two years. As transaction volumes continue to increase and the number of correspondent banking clients increases, the associated expenses will also increase. This may not directly correlate to correspondent banking balances, as quarter-end balances can fluctuate.

In 2016, the Company incurred $4.6 million in losses on debt extinguishment (net), while in 2015, the Company incurred $7.2 million of losses on debt extinguishment (net). These losses relate to the prepayment of certain FHLB advances and wholesale structured repurchase agreements. Additionally, the Company recognized gains on extinguishment related to the repurchase of junior subordinated debentures that were acquired at a discount through auction. Refer to Notes 10, 11, and 12 of the Consolidated Financial Statements for additional information.

Correspondent banking expense increased 7% in 2016 and 11% in 2015. These are direct costs incurred to provide services to QCBT's correspondent banking customer portfolio, including safekeeping and cash management services. The increases in both years were due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio.

Other noninterest expense increased 10% in 2016 and 9% in 2015. Included in other noninterest expense are items such as subscriptions, sales and use tax and expenses related to wealth management. A portion of this increase in also related to the addition of CSB's cost structure.

INCOME TAX EXPENSE

The provision for income taxes was $8.9 million for 2016, or an effective tax rate of 24.3%, compared to $3.7 million for 2015, or an effective tax rate of 17.8%, and compared to $3.0 million for 2014, or an effective tax rate of 16.9%. In general, taxable income streams grew at a faster pace than nontaxable income streams in 2016, therefore increasing the effective tax rate.

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

FINANCIAL CONDITION, AS OF THE YEARS ENDED DECEMBER 31, 2016 AND 2015

OVERVIEW

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

	As of December 31,			
	2016		2015	
	(dollars in thousands)			
	Amount	%	Amount	%
Cash, federal funds sold, and interest-bearing deposits	$156,776	5 %	$97,906	4 %
Securities	574,022	17 %	577,109	22 %
Net loans/leases	2,374,730	72 %	1,771,882	68 %
Other assets	196,416	6 %	146,301	6 %
Total assets	$3,301,944	100%	$2,593,198	100%
Total deposits	$2,669,261	81 %	$1,880,666	72 %
Total borrowings	290,952	9 %	444,162	17 %
Other liabilities	55,690	2 %	42,484	2 %
Total stockholders' equity	286,041	8 %	225,886	9 %
Total liabilities and stockholders' equity	$3,301,944	100%	$2,593,198	100%

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

In 2015, total assets grew $68.2 million, or 3%. The Company organically grew its net loan/lease portfolio $165.0 million, which was partly funded by cash from the securities portfolio, as it decreased $74.4 million, or 11% (mostly due to the sale of securities). Deposits grew $201.0 million, or 12% during 2015. Borrowings decreased $218.4 million, or 33% during 2015, mostly due the balance sheet restructuring activities that took place throughout 2015, the details of which are in Notes 10 and 11 to the Consolidated Financial Statements.

INVESTMENT SECURITIES

The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on interest rate risk and maximizing return, while minimizing credit risk. The Company has further diversified the portfolio by decreasing U.S government sponsored agency securities, while increasing residential mortgage-backed and related securities and tax-exempt municipal securities. Of the latter, the large majority are privately placed tax-exempt debt issuances by municipalities located in the Midwest (with some in or near the Company's existing markets) and require a thorough underwriting process before investment.

Following is a breakdown of the Company's securities portfolio by type as of December 31, 2016, 2015, and 2014.

	2016 Amount	%	2015 Amount	%	2014 Amount	%
	(dollars in thousands)					
U.S. govt. sponsored agency securities	$46,084	8 %	$213,537	37 %	$307,869	47 %
Municipal securities	374,463	65 %	280,203	49 %	229,230	35 %
Residential mortgage-backed and related securities	147,702	26 %	80,670	14 %	111,423	17 %
Other securities	5,773	1 %	2,699	0 %	3,017	1 %
	$574,022	100%	$577,109	100%	$651,539	100%
As a % of total assets	17.38 %		22.25 %		25.80 %	
Net unrealized losses as a % of amortized cost	(0.87)%		(0.03)%		(0.19)%	
Duration (in years)	6.0		6.2		5.1	
Yield on investment securities (tax equivalent)	3.56 %		3.07 %		2.71 %	

Management monitors the level of unrealized gains/losses including performing quarterly reviews of individual securities for evidence of OTTI. Management identified no OTTI in 2016, 2015 or 2014.

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

In 2015, the duration of the securities portfolio increased due, in large part, to the continued shift in mix. Duration was extended from the strong growth in longer term fixed rate municipal securities, but was partially offset by the duration shortening of agency and mortgage-backed securities portfolios resulting from targeted sales of longer duration investments and as the remaining agency portfolio rolled closer to maturities or call dates.

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

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

LOANS/LEASES

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

The Company's total loan/lease portfolio grew $166.9 million, or 10%, during 2015. Notably, C&I loans increased $124.2 million, or 24%. Although CRE loans grew $22.2 million, or 3%, this sector of the loan/lease portfolio is becoming a smaller percentage of total loans/leases (down from 43% in 2014 to 40% in 2015).

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

	As of December 31,									
	2016		2015		2014		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
C&I loans	$827,637	34 %	$648,160	36 %	$523,927	32 %	$431,688	30 %	$394,244	31 %
CRE loans	1,093,459	46 %	724,369	41 %	702,140	43 %	671,753	46 %	593,979	46 %
Direct financing leases	165,419	7 %	173,656	10 %	166,032	10 %	128,902	9 %	103,686	8 %
Residential real estate loans	229,233	10 %	170,433	9 %	158,633	10 %	147,356	10 %	115,582	9 %
Installment and other consumer loans	81,666	3 %	73,669	4 %	72,607	5 %	76,034	5 %	76,720	6 %
Total loans/leases	$2,397,414	100%	$1,790,287	100%	$1,623,339	100%	$1,455,733	100%	$1,284,211	100%
Plus deferred loan/lease origination costs, net of fees	8,073		7,736		6,664		4,547		3,176	
Less allowance	(30,757)		(26,141)		(23,074)		(21,448)		(19,925)	
Net loans/leases	$2,374,730		$1,771,882		$1,606,929		$1,438,832		$1,267,462	

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

The following tables set forth the remaining maturities by loan/lease type as of December 31, 2016 and 2015. Maturities are based on contractual dates.

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

	As of December 31, 2015				
		Due after one		Maturities After One Year	
	Due in one	through 5	Due after	Predetermined	Adjustable
	year or less	years	5 years	interest rates	interest rates
	(dollars in thousands)				
C&I loans	$224,414	$280,857	$142,889	$275,094	$148,652
CRE loans	102,009	426,821	195,539	439,108	183,252
Direct financing leases	5,034	163,010	5,612	168,622	-
Residential real estate loans	2,774	2,418	165,241	116,224	51,435
Installment and other consumer loans	21,072	40,619	11,978	26,499	26,098
	$355,303	$913,725	$521,259	$1,025,547	$409,437
Percentage of total loans/leases	20 %	51 %	29 %	71 %	29 %

As CRE loans have historically been the Company’s largest portfolio segment, management places a strong emphasis on monitoring the composition of the Company’s CRE loan portfolio. For example, management tracks the level of owner-occupied CRE loans relative to non owner-occupied loans. Owner-occupied loans are generally considered to have less risk. As of December 31, 2016 and 2015, respectively, approximately 30% and 35% of the CRE loan portfolio was owner-occupied. The decrease in this percentage in 2016 was mostly due to the addition of CSB, which had a slightly lower owner-occupied percentage as compared to the other three charters. CSB’s percentage of owner-occupied loans was 20% of their CRE portfolio, while the other three charters were collectively at 34%.

Over the past several quarters, the Company has been successful in shifting the mix of its commercial loan portfolio by adding more C&I loans. C&I loans grew $179.5 million, or 28% over the past twelve months. A portion of this growth was attributable to the acquisition of CSB, which had $101.5 million of C&I loans as of December 31, 2016.

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

ALLOWANCE FOR ESTIMATED LOSSES ON LOANS/LEASES

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

The allowance totaled $26.1 million at December 31, 2015, which was an increase of $3.1 million, or 13%, from $23.1 million at December 31, 2014. Provision totaled $6.9 million for 2015 and outpaced net charge-offs of $3.8 million (or 22 basis points of average loans/leases outstanding).

The increase in allowance in both 2016 and 2015 was primarily due to a combination of general allocations related to loan growth, as well as changes in qualitative and quantitative factors. Additionally, a portion of the increase in 2016 was due to the acquisition of CSB. Although purchase accounting eliminates the allowance at acquisition, as loans refinance and new loans are originated, an allowance must be established. CSB’s provision for the partial year of 2016 was $1.5 million.

The following table summarizes the activity in the allowance.

	Years ended December 31, 2016	2015	2014	2013	2012
	(dollars in thousands)				
Average amount of loans/leases outstanding, before allowance	$2,042,555	$1,707,523	$1,540,382	$1,425,364	$1,219,623
Allowance:					
Balance, beginning of fiscal period	$26,141	$23,074	$21,448	$19,925	$18,789
Charge-offs:					
C&I	(527)	(454)	(1,476)	(963)	(683)
CRE	(24)	(2,560)	(2,756)	(3,573)	(2,232)
Direct financing leases	(2,503)	(1,789)	(1,504)	(917)	(740)
Residential real estate	(77)	(170)	(131)	(162)	(4)
Installment and other consumer	(113)	(252)	(269)	(229)	(717)
Subtotal charge-offs	(3,244)	(5,225)	(6,136)	(5,844)	(4,376)
Recoveries:					
C&I	109	634	363	626	663
CRE	33	502	418	574	222
Direct financing leases	93	136	68	12	77
Residential real estate	1	4	10	17	-
Installment and other consumer	146	145	96	208	179
Subtotal recoveries	382	1,421	955	1,437	1,141
Net charge-offs	(2,862)	(3,804)	(5,181)	(4,407)	(3,235)
Provision charged to expense	7,478	6,871	6,807	5,930	4,371
Balance, end of fiscal year	$30,757	$26,141	$23,074	$21,448	$19,925
Ratio of net charge-offs to average loans/leases outstanding	0.14 %	0.22 %	0.34 %	0.31 %	