

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)

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

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

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

Preferred Share Purchase Rights

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

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

Yes ☒ No ☐

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

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 ☒ 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 ☒

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.

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Part I

Item 1. Business

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

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

On 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		Interest Rate	Interest	
		as of	as of		Rate as of	Rate as of
		12/31/16	12/31/15		12/31/2016	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)
	<i>(dollars in thousands)</i>		
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 As of			CRBT Maximum Percentage As of			CSB Maximum Percentage As of			RB&T Maximum Percentage As of		
	per Loan	December 31, 2016		per Loan	December 31, 2016		per Loan	December 31, 2016		per Loan	December 31, 2016	
	Policy			Policy			Policy			Policy		
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	
\$	%	\$	%	\$	%	\$	%	\$	%	\$	%

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(dollars in thousands)

As of
December
31, 2016:

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

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	100%

Proper pricing of loans is necessary to provide adequate return to the Company's stockholders. Loan pricing, as established by the subsidiary banks' internal loan committees, includes consideration for the cost of funds, loan maturity and risk, origination and maintenance costs, appropriate stockholder return, competitive factors, and the

economic environment. The portfolio contains a mix of loans with fixed and floating interest rates. Management attempts to maximize the use of interest rate floors on its variable rate loan portfolio. Refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk for more discussion on the Company's management of interest rate risk.

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.

<u>Approved Collateral Type</u>	<u>Maximum Advance %</u>
<u>Financial Instruments</u>	
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%
<u>General Business</u>	
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		2015		
	Amount	%	Amount	%	
<i>(dollars in thousands)</i>					
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	%	
<i>(dollars in thousands)</i>			
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 %	

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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	%
	<i>(dollars in thousands)</i>	
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.

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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	
	<i>(dollars in thousands)</i>					
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>).

Item 1A. Risk Factors

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

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

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

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 IDFP 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
<i>QCR Holdings, Inc.</i>		
3551 7th Street in Moline, IL (1)	30,000	Owned
<i>QCBT</i>		
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
<i>CRBT</i>		
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 1 st Street in Cedar Falls, IA (2)	4,800	Owned
<i>CSB</i>		
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
<i>RB&T</i>		
4571 Guilford Road in Rockford, IL	20,000	Owned
308 West State Street in Rockford, IL	1,100	Leased
<i>m2</i>		
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	Date Paid
			(in thousands)	
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.

<i>Index</i>	<i>Period Ending</i>					
	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	
	<i>(dollars in thousands, except per share data)</i>									
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
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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	

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 (1)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

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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.

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

m2 commercial loans and
leases

	Gains on sales of			
Consistent, high quality noninterest	government guaranteed portions of loans and	> \$4 million annually	\$4.9 million	\$3.0 million
income revenue streams	swap fee income 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.

	As of December 31, 2016	December 31, 2015
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(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	%
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	For the Year Ended December 31, 2016	December 31, 2015	December 31, 2014
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CORE NET INCOME

Net income (GAAP)	\$ 27,687	\$ 16,928	\$ 14,953
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Less nonrecurring items (post-tax) (*):

Income:

Securities gains	\$ 2,985	\$ 519	\$ 60
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Lawsuit award	-	252	-
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Total nonrecurring income (non-GAAP)	\$ 2,985	\$ 771	\$ 60
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Expense:

Losses on debt extinguishment	\$ 2,975	\$ 4,671	\$ -
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Acquisition costs	1,763	-	-
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Accrual adjustments	-	(487)	-
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Other non-recurring expenses	-	513	-
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Total nonrecurring expense (non-GAAP)	\$ 4,738	\$ 4,697	\$ -
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Core net income (non-GAAP)	\$ 29,440	\$ 20,854	\$ 14,893
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Less: Preferred stock dividends	-	-	1,082
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Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP)	\$ 29,440	\$ 20,854	\$ 13,811
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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
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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

GAAP TO NON-GAAP RECONCILIATIONS (CONTINUED)	For the Year Ended					
	December 31, 2016		December 31, 2015		December 31, 2014	
	<i>(dollars in thousands)</i>					
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 previous rate environment. As rates rise, the Company should also have less market volatility in the investment securities portfolio, as this becomes a smaller portion of the balance sheet.

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	Interest	Average	Average	Interest	Average	Average	Interest	Average
	Balance	Earned	Yield	Balance	Earned	Yield	Balance	Earned	Yield
		or Paid	or Cost		or Paid	or Cost		or Paid	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.) Components from of Change (1) Prior Rate Volume Year 2016 vs. 2015 (dollars in thousands)			Inc./(Dec.) Components from of Change (1) Prior Rate Volume Year 2015 vs. 2014 (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	December			
	31,	31,	\$ Change	%	
	2016	2015		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	December			
	31,	31,	\$ Change	%	
	2015	2014		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	December			
	31,	31,	\$ Change	%	
	2016	2015		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	December			
	31,	31,	\$ Change	%	
	2015	2014		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		2015		2014	
	Amount	%	Amount	%	Amount	%
	<i>(dollars in thousands)</i>					
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		
	Amount	%		Amount	%		Amount	%		Amount	%	
	<i>(dollars in thousands)</i>											
C&I loans	\$827,637	34 %		\$648,160	36 %		\$523,927	32 %		\$431,688	30 %	
CRE loans	1,093,459	46 %		724,369	41 %		702,140	43 %		671,753	46 %	
Direct financing leases	165,419	7 %		173,656	10 %		166,032	10 %		128,902	9 %	
Residential real estate loans	229,233	10 %		170,433	9 %		158,633	10 %		147,356	10 %	
Installment and other consumer loans	81,666	3 %		73,669	4 %		72,607	5 %		76,034	5 %	
Total loans/leases	\$2,397,414	100 %		\$1,790,287	100 %		\$1,623,339	100 %		\$1,455,733	100 %	
Plus deferred loan/lease origination costs, net of fees	8,073			7,736			6,664			4,547		
Less allowance	(30,757)			(26,141)			(23,074)			(21,448)		
Net loans/leases	\$2,374,730			\$1,771,882			\$1,606,929			\$1,438,832		

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

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

	As of December 31, 2016				
	Due in one year or less		Due after one through 5 years	Due after 5 years	Maturities After One Year
					Predetermined interest rates
					Adjustable interest rates
	<i>(dollars in thousands)</i>				
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 in one year or less		Due after one through 5 years	Due after 5 years	Maturities After One Year
					Predetermined interest rates
					Adjustable interest rates
	<i>(dollars in thousands)</i>				
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.

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	Years ended December 31,				
	2016	2015	2014	2013	2012
	<i>(dollars in thousands)</i>				
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	% 0.27

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

The following is a table that reports the historical trends of criticized and classified loan totals as of December 31, 2016, 2015 and 2014.

Internally Assigned Risk Rating *	As of December 31,		
	2016	2015	2014
	<i>(dollars in thousands)</i>		
Special Mention (Rating 6)	\$20,082	\$37,289	\$32,958
Substandard (Rating 7)	49,035	27,962	35,715
Doubtful (Rating 8)	-	-	-
	\$69,117	\$65,251	\$68,673
Criticized Loans **	\$69,117	\$65,251	\$68,673
Classified Loans ***	\$49,035	\$27,962	\$35,715

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

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

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

Criticized loans stayed relatively flat over the past three years, while classified loans decreased 22% in 2015 and then increased 75% in 2016.

NPLs (consisting of nonaccrual loans/leases, accruing loans/leases past due 90 days or more, and accruing TDRs) increased \$9.5 million, or 81%, during 2016 due to the addition of two large credits in the fourth quarter. NPLs declined \$8.4 million, or 42%, during 2015 and \$383 thousand, or 2%, during 2014. Furthermore, NPLs have declined

\$26.1 million, or 55% from their peak at September 30, 2010.

See the table in the following section for further detail on NPLs and NPAs. The level of allowance as a percentage of gross loans/leases increased slightly from 2014 to 2015. In 2016, allowance as a percentage of gross loans/leases decreased due to the acquisition of CSB. 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%. This elimination of CSB's allowance also resulted in a decrease of the allowance to NPLs ratio, as CSB's nonperforming loans no longer have reserves allocated to them and instead, have a loan discount amount that is separate from the allowance.

The following table summarizes the trend in allowance as a percentage of gross loans/leases and as a percentage of NPLs as of December 31, 2016, 2015, and 2014.

	As of December 31,					
	2016		2015		2014	
Allowance / Gross Loans/Leases	1.28	%	1.45	%	1.42	%
Allowance / NPLs	144.85	%	223.33	%	114.78	%

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

	As of December 31,														
	2016			2015			2014			2013			2012		
	Amount	%		Amount	%		Amount	%		Amount	%		Amount	%	
	<i>(dollars in thousands)</i>														
C&I loans	12,545	34	%	10,484	36	%	8,834	32	%	5,649	30	%	4,532	31	%
CRE loans	11,671	46	%	9,375	41	%	8,353	43	%	10,705	46	%	11,070	46	%
Direct financing leases	3,112	7	%	3,395	10	%	3,359	10	%	2,517	9	%	1,990	8	%
Residential real estate loans	2,342	10	%	1,790	9	%	1,526	10	%	1,396	10	%	1,070	9	%
Installment and other consumer loans	1,087	3	%	1,097	4	%	1,002	5	%	1,181	5	%	1,263	6	%
	\$30,757	100	%	\$26,141	100	%	\$23,074	100	%	\$21,448	100	%	\$19,925	100	%

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

Although management believes that the allowance at December 31, 2016 was at a level adequate to absorb probable losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require additional increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks and its leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

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

NONPERFORMING ASSETS

The table below presents the amounts of NPAs.

	As of December 31,									
	2016		2015		2014		2013		2012	
	<i>(dollars in thousands)</i>									
Nonaccrual loans/leases (1) (2)	\$13,919		\$10,648		\$18,588		\$17,878		\$17,932	
Accruing loans/leases past due 90 days or more	967		3		93		84		159	
TDRs - accruing	6,347		1,054		1,421		2,523		7,300	
NPLs	21,233		11,705		20,102		20,485		25,391	
OREO	5,523		7,151		12,768		9,729		3,955	
Other repossessed assets	202		246		155		346		212	
NPAs	\$26,958		\$19,102		\$33,025		\$30,560		\$29,558	
NPLs to total loans/leases	0.88	%	0.65	%	1.23	%	1.40	%	1.97	%
NPAs to total loans/leases plus repossessed property	1.12	%	1.06	%	2.01	%	2.08	%	2.29	%
NPAs to total assets	0.82	%	0.74	%	1.31	%	1.28	%	1.41	%
Texas ratio (Non-GAAP) (3)	9.09	%	7.62	%	20.26	%	18.43	%	18.68	%

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

(2) Includes TDRs of \$2.3 million at December 31, 2016, \$1.5 million at December 31, 2015, \$5.0 million at December 31, 2014, \$10.9 million at December 31, 2013, and \$5.7 million at December 31, 2012.

(3) Texas Ratio = NPAs (excluding Other Repossessed Assets) / Tangible Equity plus Allowance. Texas Ratio is a non-GAAP financial measure (see GAAP to Non-GAAP Reconciliations for more information).

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

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

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

In 2015, the Company's NPAs decreased \$13.9 million, or 42%. Nonaccrual loans decreased \$7.9 million as a result of improving performance and pay downs. OREO decreased \$5.6 million due to the sale of two large properties during the year, one of which was sold at a gain of \$1.2 million.

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

DEPOSITS

Deposits grew \$788.6 million during 2016 (\$302.3 million of organic growth, excluding the \$486.3 million of deposits acquired through the purchase of CSB). For 2015, deposits grew \$201.0 million, or 12%. The table below presents the composition of the Company's deposit portfolio.

	As of December 31,					
	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
<i>(dollars in thousands)</i>						
Noninterest-bearing demand deposits	\$797,415	30 %	\$615,292	33 %	\$511,992	31 %
Interest-bearing demand deposits	1,369,226	51 %	886,294	47 %	778,570	46 %
Time deposits	439,169	17 %	309,974	16 %	306,364	18 %
Brokered deposits*	63,451	2 %	69,106	4 %	82,742	5 %
	\$2,669,261	100 %	\$1,880,666	100 %	\$1,679,668	100 %

*Includes brokered money market balances of \$22.0 million, \$16.0 million and \$13.5 million as of December 31, 2016, 2015 and 2014, respectively.

The Company has been successful in growing its noninterest-bearing deposit portfolio over the past several years, growing average balances 11% in 2016 and 12% in 2015. Year-end balances can fluctuate a great deal due to large customer and correspondent bank activity. Trends have shown that this fluctuation is generally temporary.

Management will continue to focus on growing its noninterest bearing deposit portfolio, including its correspondent banking business at QCBT, as well as shifting the mix from brokered and other higher cost deposits to lower cost core deposits. With the significant success achieved by QCBT in growing its correspondent banking business, QCBT has developed procedures to proactively monitor this industry concentration of deposits and loans. Other deposit-related industry concentrations and large accounts are monitored by the internal asset liability management committee. See discussion regarding policy limits on bank stock loans in the Lending/Leasing section under Item 1 – Business in Part I of this Form 10-K.

SHORT-TERM BORROWINGS

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

As of December 31,
2016 2015 2014

(dollars in thousands)

Overnight repurchase agreements with customers	\$8,131	\$73,873	\$137,252
Federal funds purchased	31,840	70,790	131,100
	\$39,971	\$144,663	\$268,352

In 2015 and 2016, the Company shifted some overnight customer repurchase agreement funds to insured deposit products which do not require collateral, helping to free up additional liquidity for the Company. This also allows the Company to further execute on the strategy of rotating out of investment securities into loans and leases.

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

FHLB ADVANCES AND OTHER BORROWINGS

As a result of their memberships in the FHLB of Des Moines and Chicago, the subsidiary banks have the ability to borrow funds for short-term or long-term purposes under a variety of programs. The subsidiary banks utilize FHLB advances for loan matching as a hedge against the possibility of rising interest rates or when these advances provide a less costly source of funds than customer deposits. For 2016, FHLB advances decreased \$13.5 million, or 9%, as several prepayments of advances were included in balance sheet restructurings throughout the year. See Note 10 of the Consolidated Financial Statements for additional details. For 2015, FHLB advances decreased \$52.5 million, or 26%, as several prepayments of advances were included in balance sheet restructurings throughout the year. See Note 10 of the Consolidated Financial Statements for additional details.

	As of December 31,					
	2016		2015		2014	
	<i>(dollars in thousands)</i>					
Amount Due	\$137,500		\$151,000		\$203,500	
Weighted Average Interest Rate at Year-End	1.25	%	1.37	%	2.83	%

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

	As of December 31,		
	2016	2015	2014
	<i>(dollars in thousands)</i>		
Wholesale structured repurchase agreements	\$45,000	\$110,000	\$130,000
Term note	30,000	-	17,625
Revolving line of credit	5,000	-	-
Series A subordinated notes	-	-	2,657
	\$80,000	\$110,000	\$150,282

In 2016, other borrowings decreased \$30 million. In 2015, other borrowings decreased \$40 million.

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

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

STOCKHOLDERS' EQUITY

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

	As of December 31,		
	2016	2015	2014
	Amount	Amount	Amount
<i>(dollars in thousands)</i>			
Common stock	\$ 13,107	\$ 11,761	\$ 8,074
Additional paid in capital	156,777	123,283	61,669
Retained earnings	118,617	92,966	77,877
AOI	(2,460)	(2,124)	(1,935)
Less: Treasury stock	-	-	(1,606)
Total stockholders' equity	286,041	225,886	144,079
TCE/TA ratio (non-GAAP)	8.04 %	8.55 %	5.52 %

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

As of December 31, 2016, 2015 and 2014, no preferred stock was outstanding.

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

In 2015, the Company sold 3,680,000 shares of its common stock at a price of \$18.25 per share, for net proceeds of \$63.5 million, after deducting expenses. This offering significantly increased common stock and additional paid in capital in comparison to the prior year. Refer to Note 16 of the Consolidated Financial Statements for additional information.

The following table presents the rollforward of stockholders' equity for the years ended December 31, 2016 and 2015, respectively.

	For the Years Ended December 31,	
	2016	2015
	<i>(dollars in thousands)</i>	
Beginning balance	\$225,886	\$144,079
Net income	27,686	16,928
Other comprehensive loss, net of tax	(336)	(189)
Common cash dividends declared	(2,036)	(935)
Proceeds from issuance of 3,680,000 shares of common stock, net of costs	-	63,484
Proceeds from issuance of 1,215,000 shares of common stock, net of costs	29,829	-
Other *	5,012	2,519
Ending balance	\$286,041	\$225,886

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers' credit needs. The Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which averaged \$139.5 million during 2016, \$129.5 million during 2015 and \$118.8 million during 2014. The Company's on balance sheet liquidity position can fluctuate based on short-term activity in deposits and loans.

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

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

At December 31, 2015, the subsidiary banks had 32 lines of credit totaling \$346.6 million, of which \$14.6 million was secured and \$332.0 million was unsecured. At December 31, 2015, \$286.6 million was available as \$60.0 million was utilized for short-term borrowing needs at QCBT.

The Company has emphasized growing the number and amount of lines of credit in an effort to strengthen this contingent source of liquidity. Additionally, the Company maintains its \$10.0 million secured revolving credit note with a variable interest rate and a maturity of June 30, 2017. At December 31, 2016, the Company had \$5.0 million outstanding on this revolving credit note and had \$5.0 million available. See Note 11 to the Consolidated Financial Statements for additional information.

Investing activities used cash of \$169.0 million during 2016 compared to \$66.1 million during 2015, and \$129.9 million during 2014. Proceeds from calls, maturities, pay downs, and sales of securities were \$285.2 million for 2016 compared to \$308.8 million for 2015, and \$137.3 million for 2014. Purchases of securities used cash of \$179.6 million for 2016 compared to \$232.1 million for 2015, and \$76.3 million for 2014. The net increase in loans/leases used cash of \$187.5 million for 2016 compared to \$172.8 million for 2015, and \$180.3 million for 2014. The Company paid

cash of \$69.9 million related to the acquisition of CSB.

Financing activities provided cash of \$154.4 million for 2016 compared to \$39.5 million for 2015, and \$100.6 million for 2014. Net increases in deposits totaled \$302.4 million, \$201.0 million, and \$32.7 million for 2016, 2015, and 2014, respectively. Net short-term borrowings decreased \$104.7 million and \$123.7 million in 2016 and 2015, respectively, while they increased \$119.1 million in 2014. In 2016 and 2015, respectively, the Company used \$104.7 million and \$120.7 million to prepay select FHLB advances and other borrowings. In 2016, the Company received \$29.8 million of proceeds from the common stock offering of 1.2 million shares of common stock. In 2015, the Company received \$63.5 million of proceeds from the public common stock offering of 3.7 million shares of common stock.

Total cash provided by operating activities was \$43.4 million for 2016, compared to \$30.1 million for 2015, and \$25.6 million for 2014.

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

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

As of December 31, 2016 and 2015, the subsidiary banks remained “well-capitalized” in accordance with regulatory capital requirements administered by the federal banking authorities. See Note 16 to the Consolidated Financial Statements for detail of the capital amounts and ratios for the Company and subsidiary banks.

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

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

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

Standby letters of credit are conditional commitments issued by the subsidiary banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The banks hold collateral, as described above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the banks would be required to fund the commitments. The maximum potential amount of future payments the banks could be required to make is represented by the contractual

amount. If the commitment is funded, the banks would be entitled to seek recovery from the customer. At December 31, 2016 and 2015, no amounts had been recorded as liabilities for the banks' potential obligations under these guarantees.

As of December 31, 2016 and 2015, commitments to extend credit aggregated \$666,778,085 and \$480,475,033, respectively. As of December 31, 2016 and 2015, standby letters of credit aggregated \$15,697,469 and \$13,067,100, respectively. Management does not expect that all of these commitments will be funded.

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

The Company has various financial obligations, including contractual obligations and commitments, which may require future cash payments. The following table presents, as of December 31, 2016, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Description	Financial Statement	Payments Due by Period				
	Note Reference	One Year				
		Total	or Less	2 - 3 Years	4 - 5 Years	After 5 Years
<i>(dollars in thousands)</i>						
Deposits without a stated maturity	N/A	\$2,188,683	\$2,188,683	\$-	\$-	\$-
Certificates of deposit	8	480,578	367,577	95,167	17,834	-
Short-term borrowings	9	39,971	39,971	-	-	-
FHLB advances	10	137,500	112,500	25,000	-	-
Other borrowings	11	80,000	21,000	22,000	37,000	-
Junior subordinated debentures	12	33,480	-	-	-	33,480
Rental commitments	5	616	226	390	-	-
Purchase obligations	5	1,800	1,800	-	-	-
Operating contracts	N/A	28,332	9,928	16,197	2,207	-
Total contractual cash obligations		\$2,990,960	\$2,741,685	\$158,754	\$57,041	\$33,480

Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: (1) fixed or minimum quantities to be purchased; (2) fixed, minimum or variable price provisions; and (3) the approximate timing of the transaction. The Company had a \$1.8 million purchase obligation at December 31, 2016, related to a branch remodel (further described in Note 5 to the Consolidated Financial Statements). The Company's operating contract obligations represent short and long-term lease payments for data processing equipment and services, software, and other equipment and professional services.

IMPACT OF INFLATION AND CHANGING PRICES

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

FORWARD LOOKING STATEMENTS

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

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

The strength of the local and national economy.

Changes in the interest rate environment.

The economic impact of exceptional weather occurrences such as tornadoes, floods and blizzards.

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

The impact of cybersecurity risks.

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

Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the FASB, the SEC or the PCAOB.

Unexpected results of acquisitions (including the acquisition of CSB), which may include failure to realize the anticipated benefits of the acquisition.

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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

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

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

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

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

Application of the simulation model analysis for select interest rate scenarios at December 31, 2016, 2015 and 2014 demonstrated the following:

INTEREST RATE SCENARIO	POLICY LIMIT	NET INTEREST INCOME EXPOSURE in YEAR 1							
		As of		As of		As of			
		December		December		December			
		31, 2016		31, 2015		31, 2014			
100 basis point downward shift	-10.0	%	-1.7	%	-2.1	%	-1.7	%	
200 basis point upward shift	-10.0	%	-1.2	%	-2.7	%	-5.0	%	
300 basis point upward shock	-25.0	%	-1.4	%	-7.1	%	-11.9	%	

The simulation is within the board-established policy limits for all three scenarios. Additionally, for all of the various interest rate scenarios modeled and measured by management (as described above), the results at December 31, 2016 were well within established risk tolerances as established by policy or by best practice (if the interest rate scenario didn't have a specific policy limit).

In 2014, the Company executed two interest rate cap transactions, each with a notional value of \$15.0 million, for a total of \$30.0 million. The interest rate caps purchased essentially set a ceiling to the interest rate paid on the \$30.0 million of short-term FHLB advances that are being hedged, minimizing the interest rate risk associated with rising

interest rates. The Company will continue to analyze and evaluate similar transactions as an alternative and cost effective way to mitigate interest rate risk.

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

Item 8. Financial Statements

QCR Holdings, Inc.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

QCR Holdings, Inc.

We have audited the accompanying consolidated balance sheets of QCR Holdings, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QCR Holdings, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QCR Holdings, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 10, 2017 expressed an unqualified opinion on the effectiveness of QCR Holdings, Inc. and subsidiaries' internal control over financial reporting.

Davenport, Iowa

March 10, 2017

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QCR Holdings, Inc. and Subsidiaries**Consolidated Balance Sheets****December 31, 2016 and 2015**

	2016	2015
Assets		
Cash and due from banks	\$70,569,993	\$41,742,321
Federal funds sold	22,257,000	19,850,000
Interest-bearing deposits at financial institutions	63,948,925	36,313,965
Securities held to maturity, at amortized cost	322,909,056	253,674,159
Securities available for sale, at fair value	251,113,139	323,434,982
Total securities	574,022,195	577,109,141
Loans receivable, held for sale	1,135,500	565,850
Loans/leases receivable, held for investment	2,404,351,485	1,797,456,825
Gross loans/leases receivable	2,405,486,985	1,798,022,675
Less allowance for estimated losses on loans/leases	(30,757,448)	(26,140,906)
Net loans/leases receivable	2,374,729,537	1,771,881,769
Bank-owned life insurance	57,257,051	55,485,655
Premises and equipment, net	60,643,508	37,350,352
Restricted investment securities	14,997,025	14,835,925
Other real estate owned, net	5,523,104	7,150,658
Goodwill	13,110,913	3,222,688
Core deposit intangible	7,381,213	1,471,409
Other assets	37,503,284	26,784,392
Total assets	\$3,301,943,748	\$2,593,198,275
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$797,415,090	\$615,292,211
Interest-bearing	1,871,846,183	1,265,373,973
Total deposits	2,669,261,273	1,880,666,184
Short-term borrowings	39,971,387	144,662,716
Federal Home Loan Bank advances	137,500,000	151,000,000
Other borrowings	80,000,000	110,000,000
Junior subordinated debentures	33,480,202	38,499,052
Other liabilities	55,690,087	42,484,573
Total liabilities	3,015,902,949	2,367,312,525

Commitments and Contingencies

Stockholders' Equity:

Preferred stock, \$1 par value; shares authorized 250,000		
December 2016 and 2015 - No shares issued or outstanding	-	-
Common stock, \$1 par value; shares authorized 20,000,000	13,106,845	11,761,083
December 2016 - 13,106,845 shares issued and outstanding		
December 2015 - 11,761,083 shares issued and outstanding		
Additional paid-in capital	156,776,642	123,282,851
Retained earnings	118,616,901	92,965,645
Accumulated other comprehensive loss:		
Securities available for sale	(1,527,433)	(1,324,408)
Interest rate cap derivatives	(932,156)	(799,421)
Total stockholders' equity	286,040,799	225,885,750
Total liabilities and stockholders' equity	\$3,301,943,748	\$2,593,198,275

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc. and Subsidiaries**Consolidated Statements of Income****Years Ended December 31, 2016, 2015, and 2014**

	2016	2015	2014
Interest and dividend income:			
Loans/leases, including fees	\$91,235,049	\$74,615,499	\$69,423,001
Securities:			
Taxable	4,585,300	6,772,244	9,618,436
Nontaxable	9,686,844	7,782,370	6,074,896
Interest-bearing deposits at financial institutions	393,048	304,602	299,227
Restricted investment securities	522,047	503,764	528,660
Federal funds sold	45,447	24,774	21,036
Total interest and dividend income	106,467,735	90,003,253	85,965,256
Interest expense:			
Deposits	6,018,366	4,495,538	4,508,921
Short-term borrowings	93,934	210,306	233,930
Federal Home Loan Bank advances	1,284,212	3,511,541	6,025,749
Other borrowings	3,317,513	4,233,193	4,890,909
Junior subordinated debentures	1,236,933	1,255,951	1,234,619
Total interest expense	11,950,958	13,706,529	16,894,128
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
Net interest income after provision for loan/lease losses	87,038,611	69,425,824	62,264,128
Noninterest income:			
Trust department fees	6,164,137	6,131,209	5,715,151
Investment advisory and management fees	2,992,811	2,971,964	2,798,170
Deposit service fees	4,439,455	3,784,935	3,809,539
Gains on sales of residential real estate loans, net	431,313	322,872	460,721
Gains on sales of government guaranteed portions of loans, net	3,159,073	1,304,575	2,040,638
Swap fee income	1,708,204	1,717,552	154,800
Securities gains, net	4,592,398	798,983	92,363
Earnings on bank-owned life insurance	1,771,396	1,762,107	1,721,507
Debit card fees	1,814,488	1,244,912	1,143,738
Correspondent banking fees	1,050,142	1,190,411	1,064,030
Other	2,913,458	3,133,801	2,280,622
Total noninterest income	31,036,875	24,363,321	21,281,279
Noninterest expenses:			
Salaries and employee benefits	46,317,060	42,967,915	40,337,055

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Occupancy and equipment expense	8,404,605	7,042,706	7,385,526
Professional and data processing fees	7,113,443	5,523,447	6,191,574
Acquisition costs	2,441,173	-	-
FDIC insurance, other insurance and regulatory fees	2,549,314	2,724,968	2,895,494
Loan/lease expense	662,299	882,591	665,602
Net cost of operations of other real estate	591,303	(1,092,401)	603,092
Advertising and marketing	2,127,566	1,900,539	1,985,121
Bank service charges	1,692,957	1,486,265	1,291,017
Losses on debt extinguishment, net	4,577,668	7,185,601	-
Correspondent banking expense	750,646	703,495	635,630
Other	4,257,878	3,866,896	3,563,789
Total noninterest expenses	81,485,912	73,192,022	65,553,900
Income before income taxes	36,589,574	20,597,123	17,991,507
Federal and state income tax expense	8,902,787	3,669,242	3,038,970
Net income	\$27,686,787	\$16,927,881	\$14,952,537
Less: preferred stock dividends	-	-	1,081,877
Net income attributable to QCR Holdings, Inc. common stockholders	\$27,686,787	\$16,927,881	\$13,870,660
Basic earnings per common share	\$2.20	\$1.64	\$1.75
Diluted earnings per common share	\$2.17	\$1.61	\$1.72
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
Cash dividends declared per common share	\$0.16	\$0.08	\$0.08

See Notes to Consolidated Financial Statements.

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****Years Ended December 31, 2016, 2015, and 2014**

	2016	2015	2014
Net income	\$27,686,787	\$16,927,881	\$14,952,537
Other comprehensive income (loss):			
Unrealized gains on securities available for sale:			
Unrealized holding gains arising during the period before tax	4,258,154	1,144,314	19,697,118
Less reclassification adjustment for gains included in net income before tax	4,592,398	798,983	92,363
	(334,244)	345,331	19,604,755
Unrealized losses on interest rate cap derivatives:			
Unrealized holding losses arising during the period before tax	(279,497)	(631,363)	(584,264)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	(75,290)	(15,895)	30,147
	(204,207)	(615,468)	(614,411)
Other comprehensive income (loss), before tax	(538,451)	(270,137)	18,990,344
Tax expense (benefit)	(202,691)	(81,524)	7,281,574
Other comprehensive income (loss), net of tax	(335,760)	(188,613)	11,708,770
Comprehensive income	\$27,351,027	\$16,739,268	\$26,661,307

See Notes to Consolidated Financial Statements

QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2016, 2015, and 2014

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2013	\$29,867	\$8,005,708	\$90,154,528	\$64,637,173	\$(13,643,986)	\$(1,606,510)	\$147,576,780
Net income	-	-	-	14,952,537	-	-	14,952,537
Other comprehensive income, net of tax	-	-	-	-	11,708,770	-	11,708,770
Common cash dividends declared, \$0.08 per share	-	-	-	(631,009)	-	-	(631,009)
Preferred cash dividends declared and accrued	-	-	-	(1,081,877)	-	-	(1,081,877)
Redemption of 29,867 shares of Series F Non-cumulative Perpetual Preferred Stock	(29,867)	-	(29,794,055)	-	-	-	(29,823,922)
Proceeds from issuance of 25,321 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	25,321	353,566	-	-	-	378,887
Proceeds from issuance of	-	23,659	218,095	-	-	-	241,754

23,659 shares of common stock as a result of stock options exercised							
Stock-based compensation expense	-	-	891,619	-	-	-	891,619
Tax benefit of nonqualified stock options exercised	-	-	42,954	-	-	-	42,954
Restricted stock awards - 30,055 shares of common stock	-	30,055	(30,055)	-	-	-	-
Exchange of 10,300 shares of common stock in connection with restricted stock vested	-	(10,300)	(167,684)	-	-	-	(177,984)
Balance,							
December 31, 2014	\$-	\$8,074,443	\$61,668,968	\$77,876,824	\$(1,935,216)	\$(1,606,510)	\$144,078,509
Net income	-	-	-	16,927,881	-	-	16,927,881
Other comprehensive loss, net of tax	-	-	-	-	(188,613)	-	(188,613)
Common cash dividends declared, \$0.08 per share	-	-	-	(934,682)	-	-	(934,682)
Proceeds from issuance of 3,680,000 share of common stock, net of issuance costs	-	3,680,000	59,804,123	-	-	-	63,484,123
Proceeds from issuance of 24,033 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	24,033	375,120	-	-	-	399,153
Proceeds from issuance of 79,638 shares of	-	79,638	1,091,402	-	-	-	1,171,040

common stock as a result of stock options exercised							
Stock-based compensation expense	-	-	941,469	-	-	-	941,469
Tax benefit of nonqualified stock options exercised	-	-	93,096	-	-	-	93,096
Retirement of treasury stock, 121,246 shares of common stock	-	(121,246)	(580,886)	(904,378)	-	1,606,510	-
Restricted stock awards - 28,846 shares of common stock	-	28,846	(28,846)	-	-	-	-
Exchange of 4,631 shares of common stock in connection with stock options exercised and restricted stock vested	-	(4,631)	(81,595)	-	-	-	(86,226)
Balance, December 31, 2015	\$-	\$11,761,083	\$123,282,851	\$92,965,645	\$(2,123,829)	\$-	\$225,885,750
Net income	-	-	-	27,686,787	-	-	27,686,787
Other comprehensive loss, net of tax	-	-	-	-	(335,760)	-	(335,760)
Common cash dividends declared, \$0.16 per share	-	-	-	(2,035,531)	-	-	(2,035,531)
Proceeds from issuance of 1,215,000 shares of common stock, net of issuance costs	-	1,215,000	28,613,916	-	-	-	29,828,916
Proceeds from issuance of 20,192 shares of common stock as a result of	-	20,192	417,336	-	-	-	437,528

stock purchased under the Employee Stock Purchase Plan							
Proceeds from issuance of 111,423 shares of common stock as a result of stock options exercised	-	111,423	1,556,823	-	-	-	1,668,246
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	-	-	2,132,415	-	-	-	2,132,415
Stock-based compensation expense	-	-	947,174	-	-	-	947,174
Tax benefit of nonqualified stock options exercised	-	-	394,149	-	-	-	394,149
Restricted stock awards - 21,882 shares of common stock	-	21,882	(21,882)	-	-	-	-
Exchange of 22,735 shares of common stock in connection with stock options exercised and restricted stock vested	-	(22,735)	(546,140)	-	-	-	(568,875)
Balance, December 31, 2016	\$-	\$13,106,845	\$156,776,642	\$118,616,901	\$(2,459,589)	\$-	\$286,040,799

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Cash Flows from Operating Activities:			
Net income	\$27,686,787	\$16,927,881	\$14,952,537
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	3,424,140	3,065,031	2,812,645
Provision for loan/lease losses	7,478,166	6,870,900	6,807,000
Deferred income taxes	(3,066,407)	(2,004,532)	(1,165,009)
Stock-based compensation expense	947,174	941,469	891,619
Deferred compensation expense accrued	1,155,549	1,023,827	1,311,627
Losses (gains) on sale of other real estate owned, net	243,858	(1,021,242)	447,272
Amortization of premiums on securities, net	1,302,962	1,040,275	1,809,804
Securities gains, net	(4,592,398)	(798,983)	(92,363)
Loans originated for sale	(74,329,667)	(38,748,100)	(58,128,415)
Proceeds on sales of loans	77,850,553	40,362,697	61,435,064
Gains on sales of residential real estate loans, net	(431,313)	(322,872)	(460,721)
Gains on sales of government guaranteed portions of loans, net	(3,159,073)	(1,304,575)	(2,040,638)
Losses on debt extinguishment, net	4,577,668	7,185,601	-
Amortization of core deposit intangible	442,849	199,512	199,512
Accretion of acquisition fair value adjustments, net	(3,718,160)	(367,009)	(674,539)
Increase in cash value of bank-owned life insurance	(1,771,396)	(1,762,107)	(1,721,507)
Increase in other assets	(943,891)	(3,910,486)	(1,198,107)
Increase in other liabilities	10,285,420	2,721,335	414,134
Net cash provided by operating activities	43,382,821	30,098,622	25,599,915
Cash Flows from Investing Activities:			
Net (increase) decrease in federal funds sold	(1,709,000)	26,930,000	(7,345,000)
Net increase in interest-bearing deposits at financial institutions	(12,904,803)	(979,283)	(2,289,765)
Proceeds from sales of other real estate owned	2,084,696	7,696,026	1,593,714
Purchase of derivative instruments	-	-	(2,071,650)
Activity in securities portfolio:			
Purchases	(179,598,630)	(232,092,732)	(76,256,503)
Calls, maturities and redemptions	117,876,284	211,942,737	35,247,090
Paydowns	33,169,638	15,476,369	23,611,559
Sales	134,188,737	81,410,368	78,476,422
Activity in restricted investment securities:			
Purchases	(1,098,200)	(3,752,450)	(1,912,050)
Redemptions	2,450,000	4,476,100	3,380,100

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Net increase in loans/leases originated and held for investment	(187,496,180)	(172,786,032)	(180,325,359)
Purchase of premises and equipment	(6,032,416)	(4,394,255)	(2,035,855)
Net cash paid for Community State Bank acquisition	(69,905,355)	-	-
Net cash used in investing activities	(168,975,229)	(66,073,152)	(129,927,297)
Cash Flows from Financing Activities:			
Net increase in deposits	302,390,928	200,988,645	32,695,797
Net (decrease) increase in short-term borrowings	(104,691,329)	(123,688,954)	119,058,703
Activity in Federal Home Loan Bank advances:			
Term advances	-	5,000,000	6,000,000
Calls and maturities	(24,000,000)	(26,000,000)	(27,850,000)
Net change in short-term and overnight advances	20,500,000	47,000,000	(6,000,000)
Prepayments	(31,008,668)	(84,401,601)	-
Activity in other borrowings:			
Proceeds from other borrowings	35,000,000	-	10,000,000
Calls, maturities and scheduled principal payments	-	(7,350,000)	(2,125,000)
Prepayments	(69,769,000)	(34,559,000)	-
Retirement of junior subordinated debentures	(3,955,000)	(1,762,000)	-
Payment of cash dividends on common and preferred stock	(1,981,541)	(782,054)	(1,964,608)
Net proceeds from common stock offering, 3,680,000 shares issued	-	63,484,123	-
Net proceeds from common stock offering, 1,215,000 shares issued	29,828,916	-	-
Redemption of 29,867 shares of Series F Noncumulative Perpetual Preferred Stock, net	-	-	(29,823,922)
Proceeds from issuance of common stock, net	2,105,774	1,552,673	620,641
Net cash provided by financing activities	154,420,080	39,481,832	100,611,611
Net (decrease) increase in cash and due from banks	28,827,672	3,507,302	(3,715,771)
Cash and due from banks, beginning	41,742,321	38,235,019	41,950,790
Cash and due from banks, ending	\$70,569,993	\$41,742,321	\$38,235,019

Continued

QCR Holdings, Inc. and Subsidiaries**Consolidated Statements of Cash Flows - Continued****Years Ended December 31, 2016, 2015, and 2014**

	2016	2015	2014
Supplemental Disclosures of Cash Flow Information, cash payments for:			
Interest	\$ 11,926,012	\$ 14,027,512	\$ 16,826,619
Income and franchise taxes	10,758,611	2,619,288	4,541,000

Supplemental Schedule of Noncash Investing and Financing Activities:

Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale and derivative instruments, net	(335,760)	(188,613)	11,708,770
Exchange of shares of common stock in connection with payroll taxes for restricted stock and options exercised	(568,875)	(68,706)	(177,984)
Tax benefit of nonqualified stock options exercised	394,149	93,096	42,954
Transfers of loans to other real estate owned	51,000	1,577,060	5,594,256
Due from broker for sales of securities	-	-	2,290,930
Due to broker for purchases of securities	2,655,492	-	-
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	2,132,415	-	-
Decrease (increase) in the fair market value of interest rate swap assets and liabilities	706,244	(1,568,548)	(59,588)
Dividends payable	522,573	468,583	315,955

Supplemental disclosure of cash flow information for Community State Bank acquisition:**Fair value of assets acquired:**

Cash and due from banks *	\$ 10,094,645	\$-	\$-
Federal funds sold	698,000	-	-
Interest-bearing deposits at financial institutions	14,730,157	-	-
Securities	102,640,029	-	-
Loans/leases receivable, net	419,029,277	-	-
Premises and equipment, net	20,684,880	-	-
Core deposit intangible	6,352,653	-	-
Restricted investment securities	1,512,900	-	-
Other real estate owned	650,000	-	-
Other assets	5,283,937	-	-
Total assets acquired	\$581,676,478	\$-	\$-

Fair value of liabilities assumed:

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Deposits	\$486,298,262	\$-	\$-
FHLB advances	20,368,877	-	-
Other liabilities	4,897,564	-	-
Total liabilities assumed	\$511,564,703	\$-	\$-
Net assets acquired	\$70,111,775	\$-	\$-
Consideration paid:			
Cash paid *	\$80,000,000	\$-	\$-
Total consideration paid	\$80,000,000	\$-	\$-
Goodwill	\$9,888,225	\$-	\$-
* Net cash paid at closing totaled \$69,905,355			

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Basis of presentation:

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

Allowance: Allowance for estimated losses on loans/leases

AOCI: Accumulated other comprehensive income (loss)

AFS: Available for sale

ASC: Accounting Standards Codification

ASC 805: Business Combination Standard

ASU: Accounting Standards Update

BHCA: Bank Holding Company Act of 1956

BOLI: Bank-owned life insurance

Caps: Interest rate cap derivatives

CFPB: Bureau of Consumer Financial Protection

Community National: Community National Bancorporation

CNB: Community National Bank

CRA: Community Reinvestment Act

CRBT: Cedar Rapids Bank & Trust Company

HTM: Held to maturity

Iowa Superintendent: Iowa Superintendent of Banking

LCR: Liquidity Coverage Ratio

m2: m2 Lease Funds, LLC

MD&A: Management's Discussion & Analysis

NIM: Net interest margin

NPA: Nonperforming asset

NPL: Nonperforming loan

NSFR: Net Stable Funding Ratio

OREO: Other real estate owned

OTTI:

Other-than-temporary impairment

PCAOB: Public Company Accounting Oversight Board

PCI: Purchased credit impaired

CRE: Commercial real estate

CRE Guidance: Interagency Concentrations in Commercial Real Estate

Lending, Sound Risk Management Practices guidance

CSB: Community State Bank

C&I: Commercial and industrial

Dodd-Frank Act: Dodd-Frank Wall Street Reform and

Consumer Protection Act

IDFPR: Illinois Department of Financial & Professional Regulation

DGCL: Delaware General Corporation Law

DIF: Deposit Insurance Fund

EPS: Earnings per share

Exchange Act: Securities Exchange Act of 1934, as amended

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

Federal Reserve: Board of Governors of the Federal Reserve System

FHLB: Federal Home Loan Bank

FICO: Financing Corporation

FRB: Federal Reserve Bank of Chicago

FTEs: Full-time equivalents

GAAP: Generally Accepted Accounting Principles

Goldman Sachs: Goldman Sachs and Company

Provision: Provision for loan/lease losses

PUD LOC: Public Unit

Deposit Letter of Credit

QCBT: Quad City Bank & Trust Company

RB&T: Rockford Bank & Trust Company

ROAA: Return on Average Assets

ROACE: Return on Average Common Equity

ROAE: Return on Average Equity

SBA: U.S. Small Business Administration

SBLF: Small Business Lending Fund

SEC: Securities and Exchange Commission

SERPs: Supplemental Executive Retirement Plans

TA: Tangible assets

TCE: Tangible common equity

TDRs: Troubled debt restructurings

TEY: Tax equivalent yield

The Company: QCR Holdings, Inc.

Treasury: U.S. Department of the Treasury

USA Patriot Act: Uniting and Strengthening America by

Providing Appropriate Tools Required to Intercept and

Obstruct Terrorism Act of 2001

USDA: U.S. Department of Agriculture

Nature of business:

QCR Holdings, Inc. is a bank holding company providing bank and bank-related services through its banking subsidiaries, QCBT, CRBT, CSB and RB&T. The Company also engages in direct financing lease contracts through

its wholly-owned equity investment by QCBT in m2, headquartered in Milwaukee, Wisconsin.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

On August 31, 2016, the Company acquired Community State Bank in Ankeny, Iowa (Des Moines MSA). The financial results of CSB for the period since acquisition are included in this report. See Note 2 to the Consolidated Financial Statements for additional information.

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

QCBT, CRBT, and CSB are chartered and regulated by the state of Iowa, and RB&T is chartered and regulated by the state of Illinois. All four subsidiary banks are insured and subject to regulation by the FDIC. QCBT, CRBT and RB&T are members of and regulated by the Federal Reserve System. CSB has not yet become a member of the Federal Reserve, but plans to apply for membership in early 2017.

The remaining subsidiaries of the Company consist of five non-consolidated subsidiaries formed for the issuance of trust preferred securities. See Note 11 for a listing of these subsidiaries and additional information.

Significant accounting policies:

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

the fair value of financial instruments.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, except those six subsidiaries formed for the issuance of trust preferred securities which do not meet the criteria for consolidation. See Note 11 for a detailed listing of these subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Cash and due from banks: The subsidiary banks are required by federal banking regulations to maintain certain cash and due from bank reserves. The reserve requirement was approximately \$42,233,000 and \$30,532,000 as of December 31, 2016 and 2015, respectively.

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

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

In estimating OTTI losses on AFS debt securities, management considers a number of factors including, but not limited to, (1) the length of time and extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions, and (4) the lack of intent of the Company to sell the security prior to recovery and whether it is not more-likely-than-not that it will be required to sell

the security prior to recovery.

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

In estimating OTTI losses on AFS equity securities management considers factors (1), (2) and (3) above as well as whether the Company lacks the intent to sell the security and the ability to hold the security until its recovery. If the Company (a) intends to sell an impaired equity security and does not expect the fair value of the security to fully recover before the expected time of sale, or (b) does not have the ability to hold the security until its recovery, the security is deemed other-than-temporarily impaired and the impairment is charged to earnings. The Company recognizes an impairment loss through earnings if based upon other factors the loss is deemed to be other-than-temporary even if the decision to sell has not been made.

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

The Company's portfolio segments are as follows:

C&I
CRE
Residential real estate
Installment and other consumer

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

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

C&I

Owner-occupied CRE

Commercial construction, land development, and other land loans that are not owner-occupied CRE

Other non-owner-occupied CRE

Residential real estate

Installment and other consumer

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

- o The reduction of the stated interest rate.

- o The extension of the maturity date or dates at a stated interest rate lower than the current market rate for the new debt with similar risk.

- o The reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.

- o The reduction of accrued interest.

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

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

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

CRE loans are subject to underwriting standards and processes similar to C&I loans, in addition to those standards and processes specific to real estate loans. Collateral for CRE loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The Company's lending policy specifies maximum loan-to-value limits based on the category of CRE (CRE loans on improved property, raw land, land development, and commercial construction). These limits are the same limits established by regulatory authorities.

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

In addition, management tracks the level of owner-occupied CRE loans versus non-owner occupied loans. Owner-occupied loans are generally considered to have less risk. As of December 31, 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.

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

Generally, the Company's residential real estate loans conform to the underwriting requirements of Freddie Mac and Fannie Mae to allow the subsidiary banks to resell loans in the secondary market. The subsidiary banks structure most loans that will not conform to those underwriting requirements as adjustable rate mortgages that mature or adjust in one to five years or fixed rate mortgages that mature in 15 years, and then retain these loans in their portfolios. Servicing rights are not presently retained on the loans sold in the secondary market. The Company's lending policy establishes minimum appraisal and other credit guidelines.

The Company provides many types of installment and other consumer loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The Company's lending policy addresses specific credit guidelines by consumer loan type.

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Pro-rata ownership in an entire financial asset.

From the date of the transfer, all cash flows received from entire financial assets are divided proportionately among the participating interest holders in an amount equal to their share of ownership.

The rights of each participating interest holder have the same priority, and no participating interest holder’s interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.

No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

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

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

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Swap transactions: The Company offers a loan swap program to certain commercial loan customers. Through this program, the Company originates a variable rate loan with the customer. The Company and the swap customer will then enter into a fixed interest rate swap. Lastly, an identical offsetting swap is entered into by the Company with a counterparty. These “back-to-back” swap arrangements are intended to offset each other and allow the Company to book a variable rate loan, while providing the customer with a contract for fixed interest payments. In these arrangements, the Company’s net cash flow is equal to the interest income received from the variable rate loan originated with the customer. These customer swaps are not designated as hedging instruments and are recorded at fair value in other assets and other liabilities. Additionally, the Company receives an upfront fee from the counterparty, dependent upon the pricing that is recognized upon receipt from the counterparty. Swap fee income totaled \$1.7 million, \$1.7 million and \$155 thousand for the years ending December 31, 2016, 2015 and 2014, respectively.

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

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

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

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

Preferred stock: The Company currently has 250,000 shares of preferred stock authorized, but none outstanding as of December 31, 2016 and 2015. Should the Company have preferred stock outstanding in the future, dividends declared on those shares would be deducted from net income to arrive at net income available to common stockholders. Net income available to common stockholders would then be used in the earnings per share computations.

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**Note 1. Nature of Business and Significant Accounting Policies (continued)

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

As discussed in Note 15, during the years ended December 31, 2016, 2015, and 2014, the Company recognized stock-based compensation expense related to stock option and incentive plans, stock purchase plans, and restricted stock awards of \$947,174, \$941,469, and \$891,619, respectively. As required, management made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

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

	2016			2015			2014		
Dividend yield	.35%	to	.51%	.37%	to	.46%		.47%	
Expected volatility	29.32%	to	29.37%	28.92%	to	29.32%	29.07%	to	29.18%
Risk-free interest rate	1.73%	to	2.18%	1.89%	to	2.37%	2.69%	to	2.82%
Expected life of option grants (years)	6			6			6		
Weighted-average grant date fair value	\$7.31			\$5.11			\$5.68		

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

2016	2015	2014
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Dividend yield	.33%	to	.59%	.37%	to	.45%	.46%	to	.47%
Expected volatility	12.70%	to	15.60%	8.81%	to	13.10%	16.96%	to	19.35%
Risk-free interest rate	.39%	to	.57%	.09%	to	.16%	.04%	to	.12%
Expected life of purchase grants (months)	3	to	6	3	to	6	3	to	6
Weighted-average grant date fair value	\$3.28				\$2.39				\$2.37

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

As of December 31, 2016, there was \$828,178 of unrecognized compensation cost related to share based payments, which is expected to be recognized over a weighted average period of 2.07 years.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the 587,961 options that were in-the-money at December 31, 2016. The aggregate intrinsic value at December 31, 2016 was \$16.7 million on options outstanding and \$11.8 million on options exercisable. During the years ended December 31, 2016, 2015 and 2014, the aggregate intrinsic value of options exercised under the Company's stock option plans was \$1,525,902, \$480,354, and \$173,105, respectively, and determined as of the date of the option exercise.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

New accounting pronouncements:

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was originally effective for the Company on January 1, 2017, however, FASB issued ASU 2015-14 which defers the effective date in order to provide additional time for both public and private entities to evaluate the impact. ASU 2014-09 will now be effective for the Company on January 1, 2018. ASU 2014-09 will not impact interest income recognition; however, it will require the Company to change how it recognizes certain recurring revenue streams within trust and investment management fees, however it is not expected to have a significant impact on the Company's consolidated financial statements. The Company continues to evaluate the potential impact on other components of noninterest income. At adoption, the Company will adjust beginning retained earnings for the cumulative effect, if that adjustment is deemed material.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 makes targeted adjustments to GAAP by eliminating the available for sale classification for equity securities and requiring equity investments to be measured at fair value with changes in fair value recognized in net income. The standard also requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. The standard clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. It also requires an entity to present separately (within other comprehensive income) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the standard eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim

periods within those fiscal years. The Company is in the process of analyzing the impact of adoption.

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

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation*. ASU 2016-09 aims to simplify the accounting for companies that issue share-based payment awards to their employees. Simplification includes the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows of share-based payment awards. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and it is not expected to have a significant impact on the Company's consolidated financial statements.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Acquisition of Community State Bank and Common Stock Offering

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

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

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

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

The Company accounted for the business combination under the acquisition method of accounting in accordance with ASC 805. The Company recognized the full fair value of the assets acquired and liabilities assumed at the acquisition

date, net of applicable income tax effects. The Company considers all purchase accounting adjustments as provisional and fair values are subject to refinement for up to one year after the closing date.

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

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**

Note 2. Acquisition of Community State Bank and Common Stock Offering (continued)

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

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

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

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

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

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**Note 2. Acquisition of Community State Bank and Common Stock Offering (continued)

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

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

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

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

During the year, there was also \$186 thousand of nonaccretable discount that was recognized due to the repayment of PCI loans.

Premises and equipment acquired with a fair value of \$20,684,880 includes ten branch locations with a fair value of \$19,735,000, including a write-up of \$8,334,437. Of this write-up amount, \$2,648,208 is attributable to land, while the remaining \$5,686,229 is attributable to the buildings. The fair value was determined with the assistance of a third

party appraiser. The buildings and building write-ups will be recognized in depreciation expense over 39 years.

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**

Note 2. Acquisition of Community State Bank and Common Stock Offering (continued)

During the current year, the Company incurred \$2.4 million of expenses related to the acquisition, comprised primarily of legal, accounting, investment banking costs and personnel costs. These acquisition costs are presented on their own line within the consolidated statements of income. CSB results are included in the consolidated statements of income effective on the acquisition date. For the period August 31, 2016 to December 31, 2016, CSB reported revenues of \$11.4 million and net income of \$2.1 million, which included \$473 thousand of after tax acquisition costs.

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

	Year Ended December 31,	
	2016	2015
Net interest income	\$ 110,035	\$98,483
Noninterest income	\$34,773	\$31,051
Net income	\$34,137	\$22,118
Earnings per common share:		
Basic	\$2.62	\$1.91
Diluted	\$2.58	\$1.89

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****Note 3. Investment Securities**

The amortized cost and fair value of investment securities as of December 31, 2016 and 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2016:				
Securities held to maturity:				
Municipal securities	\$321,859,056	\$2,200,577	\$(4,694,734)	\$319,364,899
Other securities	1,050,000	-	-	1,050,000
	\$322,909,056	\$2,200,577	\$(4,694,734)	\$320,414,899
Securities available for sale:				
U.S. govt. sponsored agency securities	\$46,281,306	\$132,886	\$(330,585)	\$46,083,607
Residential mortgage-backed and related securities	150,465,222	174,993	(2,938,088)	147,702,127
Municipal securities	52,816,541	425,801	(637,916)	52,604,426
Other securities	4,046,332	703,978	(27,331)	4,722,979
	\$253,609,401	\$1,437,658	\$(3,933,920)	\$251,113,139
December 31, 2015:				
Securities held to maturity:				
Municipal securities	\$252,624,159	\$3,190,558	\$(1,173,432)	\$254,641,285
Other securities	1,050,000	-	-	1,050,000
	\$253,674,159	\$3,190,558	\$(1,173,432)	\$255,691,285
Securities available for sale:				
U.S. govt. sponsored agency securities	\$216,281,416	\$104,524	\$(2,848,561)	\$213,537,379
Residential mortgage-backed and related securities	81,442,479	511,095	(1,283,439)	80,670,135
Municipal securities	26,764,981	872,985	(59,378)	27,578,588
Other securities	1,108,124	540,919	(163)	1,648,880
	\$325,597,000	\$2,029,523	\$(4,191,541)	\$323,434,982

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Investment Securities (continued)

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2016 and 2015, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
		Losses		Losses		Losses
December 31, 2016:						
Securities held to maturity:						
Municipal securities	\$ 122,271,533	\$(4,076,647)	\$ 13,010,803	\$(618,087)	\$ 135,282,336	\$(4,694,734)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$ 21,788,139	\$(257,640)	\$ 5,499,012	\$(72,945)	\$ 27,287,151	\$(330,585)
Residential mortgage-backed and related securities	121,506,582	(2,641,664)	7,437,615	(296,424)	128,944,197	(2,938,088)
Municipal securities	34,152,822	(618,462)	338,099	(19,454)	34,490,921	(637,916)
Other securities	3,177,414	(27,331)	-	-	3,177,414	(27,331)
	\$ 180,624,957	\$(3,545,097)	\$ 13,274,726	\$(388,823)	\$ 193,899,683	\$(3,933,920)
December 31, 2015:						
Securities held to maturity:						
Municipal securities	\$ 14,803,408	\$(294,438)	\$ 19,927,581	\$(878,994)	\$ 34,730,989	\$(1,173,432)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$ 112,900,327	\$(1,397,591)	\$ 64,476,661	\$(1,450,970)	\$ 177,376,988	\$(2,848,561)
Residential mortgage-backed and related securities	40,356,921	(730,466)	19,836,637	(552,973)	60,193,558	(1,283,439)
Municipal securities	2,220,800	(31,807)	848,329	(27,571)	3,069,129	(59,378)

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Other securities	411	(163)	-	-	411	(163)
	\$155,478,459	\$(2,160,027)	\$85,161,627	\$(2,031,514)	\$240,640,086	\$(4,191,541)

At December 31, 2016, the investment portfolio included 556 securities. Of this number, 267 securities were in an unrealized loss position. The aggregate losses of these securities totaled approximately 1.5% of the total aggregate amortized cost. Of these 267 securities, 18 securities had an unrealized loss for 12 months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company lacks the intent to sell these securities and/or it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery. At December 31, 2016 and 2015, the Company's equity securities represent less than 1% of the total portfolio.

The Company did not recognize OTTI on any debt or equity securities for the years ended December 31, 2016, 2015 or 2014.

All sales of securities, as applicable, for the years ended December 31, 2016, 2015 and 2014, respectively, were from securities identified as AFS. Information on proceeds received, as well as the gains and losses from the sale of those securities are as follows:

	2016	2015	2014
Proceeds from sales of securities	\$134,188,737	\$81,410,368	\$78,476,422
Gross gains from sales of securities	4,845,009	1,045,444	517,116
Gross losses from sales of securities	(252,611)	(246,461)	(424,753)

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Investment Securities (continued)

The amortized cost and fair value of securities as of December 31, 2016, by contractual maturity are shown below. Expected maturities of mortgage-backed and related securities may differ from contractual maturities because the mortgages underlying the securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following summary. "Other securities" available for sale are excluded from the maturity categories as there is no fixed maturity date for those securities.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	\$23,795,317	\$23,816,249
Due after one year through five years	16,362,018	16,406,132
Due after five years	282,751,721	280,192,518
	\$322,909,056	\$320,414,899
Securities available for sale:		
Due in one year or less	\$3,103,329	\$3,102,013
Due after one year through five years	44,550,460	44,614,611
Due after five years	51,444,058	50,971,409
	\$99,097,847	\$98,688,033
Residential mortgage-backed and related securities	150,465,222	147,702,127
Other securities	4,046,332	4,722,979
	\$253,609,401	\$251,113,139

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

	Amortized Cost	Fair Value
Securities held to maturity:		

Municipal securities	\$ 179,399,031	\$ 176,447,494
----------------------	----------------	----------------

Securities available for sale:

U.S. govt. sponsored agency securities	5,058,440	5,083,493
Municipal securities	40,032,698	39,633,259
	\$45,091,138	\$44,716,752

As of December 31, 2016 and 2015, investment securities with a carrying value of \$118,811,905 and \$248,277,471, respectively, were pledged on FHLB advances, customer and wholesale repurchase agreements, and for other purposes as required or permitted by law.

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****Note 3. Investment Securities (continued)**

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

As of December 31, 2015, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 82 issuers with fair values totaling \$67.8 million and revenue bonds issued by 92 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$214.4 million. The Company held investments in general obligation bonds in 19 states, including four states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in nine states, including four states in which the aggregate fair value exceeded \$5.0 million.

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

December 31, 2016:

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

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

December 31, 2015:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	15	\$19,974,939	\$20,247,108	\$1,349,807
Illinois	9	10,928,700	11,264,348	1,251,594
North Dakota	5	10,890,000	11,050,235	2,210,047
Missouri	12	7,924,800	7,986,856	665,571
Other	41	16,965,393	17,229,485	420,231
Total general obligation bonds	82	\$66,683,832	\$67,778,032	\$826,561

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****Note 3. Investment Securities (continued)**

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

December 31, 2016:

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

December 31, 2015:

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

(Fair
Value)

Missouri	41	\$78,593,590	\$79,015,378	\$1,927,204
Iowa	26	70,773,660	71,659,410	2,756,131
Indiana	17	40,018,381	40,210,320	2,365,313
Kansas	3	11,748,679	11,821,055	3,940,352
Other	5	11,570,998	11,735,678	2,347,136
Total revenue bonds	92	\$212,705,308	\$214,441,841	\$2,330,890

Both general obligation and revenue bonds are diversified across many issuers. As of December 31, 2016 and 2015, the Company did not hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded 6% of the Company's stockholders' equity. Of the general obligation and revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated bonds were underwritten according to loan underwriting standards and have an average risk rating of 2, indicating very high quality. Additionally, many of these bonds are funding essential municipal services (water, sewer, education, medical facilities).

The Company's municipal securities are owned by each of the four charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually and as of December 31, 2016, all were well-within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of total risk-based capital.

As of December 31, 2016, the Company's standard monitoring of its municipal securities portfolio had not uncovered any facts or circumstances resulting in significantly different credits ratings than those assigned by a nationally recognized statistical rating organization, or in the case of unrated bonds, the rating assigned using the credit underwriting standards.

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**Note 4. Loans/Leases Receivable

The composition of the loan/lease portfolio as of December 31, 2016 and 2015 is presented as follows:

	2016	2015
C&I loans	\$827,637,263	\$648,159,892
CRE loans		
Owner-occupied CRE	332,387,621	252,523,164
Commercial construction, land development, and other land	165,149,491	49,083,844
Other non owner-occupied CRE	595,921,748	422,761,757
	1,093,458,860	724,368,765
Direct financing leases *	165,419,360	173,655,605
Residential real estate loans **	229,233,104	170,432,530
Installment and other consumer loans	81,665,695	73,669,493
	2,397,414,282	1,790,286,285
Plus deferred loan/lease origination costs, net of fees	8,072,703	7,736,390
	2,405,486,985	1,798,022,675
Less allowance	(30,757,448)	(26,140,906)
	\$2,374,729,537	\$1,771,881,769
* Direct financing leases:		
Net minimum lease payments to be received	\$184,274,802	\$195,476,230
Estimated unguaranteed residual values of leased assets	1,085,154	1,165,706
Unearned lease/residual income	(19,940,596)	(22,986,331)
	165,419,360	173,655,605
Plus deferred lease origination costs, net of fees	5,881,778	6,594,582
	171,301,138	180,250,187
Less allowance	(3,111,898)	(3,395,088)
	\$168,189,240	\$176,855,099

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

There were no losses related to residual values during the years ended December 31, 2016, 2015, and 2014. At December 31, 2016, the Company had 13 leases remaining with residual values totaling \$1,085,164 that were not protected with a lease end options rider. At December 31, 2015, the Company had 16 leases remaining with residual values totaling \$1,165,706 that were not protected with a lease end options rider. Management has performed specific evaluations of these residual values and determined that the valuations are appropriate.

**Includes residential real estate loans held for sale totaling \$1,135,500 and \$565,850 as of December 31, 2016 and 2015, respectively.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

The aging of the loan/lease portfolio by classes of loans/leases as of December 31, 2016 and 2015 is presented as follows:

Classes of Loans/Leases	2016											
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total						
C&I	\$821,637,507	\$1,455,185	\$10,551	\$346,234	\$4,187,786	\$827,637,263						
CRE												
Owner-Occupied	331,812,571	-	242,902	-	332,148	332,387,621						
CRE												
Commercial												
Construction, Land	160,760,034	35,638	-	-	4,353,819	165,149,491						
Development, and												
Other Land												
Other Non												
Owner-Occupied	594,384,926	100,673	-	-	1,436,149	595,921,748						
CRE												
Direct Financing	161,452,627	730,627	574,700	215,225	2,446,181	165,419,360						
Leases												
Residential Real	227,023,552	473,478	365,581	294,854	1,075,639	229,233,104						
Estate												
Installment and	81,199,766	204,973	63,111	110,501	87,344	81,665,695						
Other Consumer												
	\$2,378,270,983	\$3,000,574	\$1,256,845	\$966,814	\$13,919,066	\$2,397,414,282						
	99.20	% 0.13	% 0.05	% 0.04	% 0.58	% 100.00					%	

As a percentage of
total loan/lease
portfolio

Classes of Loans/Leases	2015											
	Current		30-59 Days Past Due		60-89 Days Past Due		Accruing Past		Nonaccrual Loans/Leases		Total	
							Due 90 Days					
							or More					
C&I CRE	\$ 640,725,241		\$ 1,636,860		\$ 5,816		\$ -		\$ 5,791,975		\$ 648,159,892	
Owner-Occupied CRE	251,612,752		182,949		-		-		727,463		252,523,164	
Commercial Construction, Land Development, and Other Land	48,890,040		-		-		-		193,804		49,083,844	
Other Non Owner-Occupied CRE	420,819,874		614,732		219,383		-		1,107,768		422,761,757	
Direct Financing Leases	170,021,289		1,490,818		439,314		2,843		1,701,341		173,655,605	
Residential Real Estate	166,415,118		2,800,589		200,080		-		1,016,743		170,432,530	
Installment and Other Consumer	73,134,197		412,052		14,127		-		109,117		73,669,493	
	\$ 1,771,618,511		\$ 7,138,000		\$ 878,720		\$ 2,843		\$ 10,648,211		\$ 1,790,286,285	
As a percentage of total loan/lease portfolio	98.96	%	0.40	%	0.05	%	0.00	%	0.59	%	100.00	%

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

NPLs by classes of loans/leases as of December 31, 2016 and 2015 is presented as follows:

Classes of Loans/Leases	2016 Accruing Past	Nonaccrual Loans/Leases *	Accruing TDRs	Total NPLs	Percentage of	
	Due 90 Days or More				Total NPLs	
C&I CRE	\$346,234	\$4,187,786	\$4,733,997	\$9,268,017	43.65	%
Owner-Occupied CRE	-	332,148	-	332,148	1.56	%
Commercial Construction, Land Development, and Other Land	-	4,353,819	-	4,353,819	20.51	%
Other Non Owner-Occupied CRE	-	1,436,149	-	1,436,149	6.77	%
Direct Financing Leases	215,225	2,446,181	1,008,244	3,669,650	17.28	%
Residential Real Estate	294,854	1,075,639	585,541	1,956,034	9.21	%
Installment and Other Consumer	110,501	87,344	18,746	216,591	1.02	%
	\$966,814	\$13,919,066	\$6,346,528	\$21,232,408	100.00	%

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

Classes of Loans/Leases	2015 Accruing Past	Nonaccrual Loans/Leases	Accruing TDRs	Total NPLs	Percentage of	

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	Due 90 Days	**			Total NPLs	
			or More			
C&I CRE	\$-	\$ 5,791,975	\$ 173,087	\$ 5,965,062	50.96	%
Owner-Occupied CRE	-	727,463	-	727,463	6.22	%
Commercial Construction, Land Development, and Other Land	-	193,804	-	193,804	1.66	%
Other Non Owner-Occupied CRE	-	1,107,768	-	1,107,768	9.46	%
Direct Financing Leases	2,843	1,701,341	-	1,704,184	14.56	%
Residential Real Estate	-	1,016,743	402,044	1,418,787	12.12	%
Installment and Other Consumer	-	109,117	478,625	587,742	5.02	%
	\$2,843	\$ 10,648,211	\$ 1,053,756	\$ 11,704,810	100.00	%

** At December 31, 2015, nonaccrual loans/leases included \$1,533,657 of TDRs, including \$1,164,423 in C&I loans, \$193,804 in CRE loans, \$42,098 in direct financing leases, \$119,305 in residential real estate loans, and \$14,027 in installment loans.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

Changes in the allowance by portfolio segment for the years ended December 31, 2016, 2015, and 2014 are presented as follows:

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

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

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Year Ended December 31, 2014

	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$5,648,774	\$10,705,434	\$2,517,217	\$1,395,849	\$1,180,774	\$21,448,048
Provisions (credits) charged to expense	4,297,253	(13,326)	2,278,132	251,030	(6,089)	6,807,000
Loans/leases charged off	(1,475,885)	(2,756,083)	(1,504,181)	(130,900)	(268,656)	(6,135,705)
Recoveries on loans/leases previously charged off	363,690	417,361	68,232	9,973	95,766	955,022
Balance, ending	\$8,833,832	\$8,353,386	\$3,359,400	\$1,525,952	\$1,001,795	\$23,074,365

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

The allowance by impairment evaluation and by portfolio segment as of December 31, 2016 and 2015 is presented as follows:

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

percentage
of
nonimpaired
loans/leases
Total
allowance as
a percentage
of total
loans/leases

1.52 % 1.07 % 1.88 % 1.02 % 1.33 % 1.28 %

2015

C&I

CRE

Direct
Financing
Leases

Residential
Real Estate

Installment
and Other
Consumer

Total

Allowance
for impaired
loans/leases

\$2,592,270

\$76,934

\$306,193

\$185,801

\$143,089

\$3,304,287

Allowance
for
nonimpaired
loans/leases

7,891,810

9,298,183

3,088,895

1,604,349

953,382

22,836,619

\$10,484,080

\$9,375,117

\$3,395,088

\$1,790,150

\$1,096,471

\$26,140,906

Impaired
loans/leases

\$5,286,482

\$2,029,035

\$1,701,341

\$1,418,787

\$587,742

\$11,023,387

Nonimpaired
loans/leases

642,873,410

722,339,730

171,954,264

169,013,743

73,081,751

1,779,262,898

\$648,159,892

\$724,368,765

\$173,655,605

\$170,432,530

\$73,669,493

\$1,790,286,285

Allowance as
a percentage
of impaired
loans/leases

49.04

%

3.79

%

18.00

%

13.10

%

24.35

%

29.98

%

Allowance as
a percentage
of
nonimpaired
loans/leases

1.23

%

1.29

%

1.80

%

0.95

%

1.30

%

1.28

%

Total
allowance as
a percentage
of total
loans/leases

1.62

%

1.29

%

1.96

%

1.05

%

1.49

%

1.45

%

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

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

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the years ended December 31, 2016, 2015, and 2014 are presented as follows:

Classes of Loans/Leases	2016		Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
	Recorded Investment	Unpaid Principal Balance				
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	\$841,895	\$951,600	\$-	\$2,858,343	\$ 16,748	\$ 16,748
CRE						
Owner-Occupied CRE	-	93,774	-	312,242	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	1,196,549	1,196,549	-	1,322,654	-	-
Direct Financing Leases	1,690,121	1,690,121	-	1,731,982	43,461	43,461
Residential Real Estate	853,294	892,495	-	964,590	9,903	9,903
Installment and Other Consumer	55,734	55,734	-	321,175	4,475	4,475
	\$4,637,593	\$4,880,273	\$-	\$7,510,986	\$ 74,587	\$ 74,587

Impaired Loans/Leases with
Specific Allowance Recorded:

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C&I	\$8,094,556	\$8,098,395	\$1,771,537	\$2,959,495	\$ 17,742	\$ 17,742
CRE						
Owner-Occupied CRE	322,148	322,148	57,398	385,269	-	-
Commercial Construction, Land Development, and Other Land	4,353,817	4,353,817	577,611	1,022,930	-	-
Other Non Owner-Occupied CRE	239,600	239,600	58,910	47,920	-	-
Direct Financing Leases	1,566,143	1,566,143	848,919	841,733	36,303	36,303
Residential Real Estate	807,886	882,018	289,112	573,211	11,675	11,675
Installment and Other Consumer	50,356	50,356	39,481	40,384	527	527
	\$15,434,506	\$15,512,477	\$3,642,968	\$5,870,942	\$ 66,247	\$ 66,247
Total Impaired Loans/Leases:						
C&I	\$8,936,451	\$9,049,995	\$1,771,537	\$5,817,838	\$ 34,490	\$ 34,490
CRE						
Owner-Occupied CRE	322,148	415,922	57,398	697,511	-	-
Commercial Construction, Land Development, and Other Land	4,353,817	4,353,817	577,611	1,022,930	-	-
Other Non Owner-Occupied CRE	1,436,149	1,436,149	58,910	1,370,574	-	-
Direct Financing Leases	3,256,264	3,256,264	848,919	2,573,715	79,764	79,764
Residential Real Estate	1,661,180	1,774,513	289,112	1,537,801	21,578	21,578
Installment and Other Consumer	106,090	106,090	39,481	361,559	5,002	5,002
	\$20,072,099	\$20,392,750	\$3,642,968	\$13,381,928	\$ 140,834	\$ 140,834

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

Classes of Loans/Leases	2015		Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
	Recorded Investment	Unpaid Principal Balance				
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	\$234,636	\$346,072	\$-	\$380,495	\$ 7,436	\$ 7,436
CRE						
Owner-Occupied CRE	256,761	350,535	-	447,144	-	-
Commercial Construction, Land Development, and Other Land	-	228,818	-	117,406	-	-
Other Non Owner-Occupied CRE	1,578,470	1,578,470	-	2,953,888	-	-
Direct Financing Leases	871,884	871,884	-	892,281	4,142	4,142
Residential Real Estate	613,486	649,064	-	1,047,001	3,929	3,929
Installment and Other Consumer	377,304	377,304	-	817,854	9,563	9,563
	\$3,932,541	\$4,402,147	\$-	\$6,656,069	\$ 25,070	\$ 25,070
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$5,051,846	\$5,055,685	\$2,592,270	\$4,811,046	\$ -	\$ -
CRE						
Owner-Occupied CRE	-	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	193,804	205,804	76,934	195,986	-	-
Other Non Owner-Occupied CRE	-	-	-	-	-	-
Direct Financing Leases	829,457	829,457	306,193	474,458	-	-
Residential Real Estate	805,301	805,301	185,801	712,085	7,913	7,913
Installment and Other Consumer	210,438	210,438	143,089	189,539	5,693	5,693
	\$7,090,846	\$7,106,685	\$3,304,287	\$6,383,114	\$ 13,606	\$ 13,606

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

Classes of Loans/Leases	2014					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	\$246,308	\$342,391	\$-	\$525,543	\$ 7,599	\$ 7,599
CRE						
Owner-Occupied CRE	67,415	163,638	-	548,464	-	-
Commercial Construction, Land Development, and Other Land	31,936	143,136	-	1,656,401	-	-
Other Non Owner-Occupied CRE	491,717	491,717	-	4,925,681	13,283	13,283
Direct Financing Leases	561,414	561,414	-	867,657	31,911	31,911
Residential Real Estate	1,060,770	1,060,770	-	1,269,213	3,032	3,032
Installment and Other Consumer	613,804	813,804	-	893,971	-	-
	\$3,073,364	\$3,576,870	\$-	\$10,686,930	\$ 55,825	\$ 55,825
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$7,033,401	\$8,190,495	\$3,300,199	\$3,159,985	\$ 14,837	\$ 14,837
CRE						
Owner-Occupied CRE	620,896	620,896	4,462	316,743	-	-
Commercial Construction, Land Development, and Other Land	337,076	577,894	12,087	528,564	-	-
Other Non Owner-Occupied CRE	5,884,343	6,583,934	1,153,471	4,240,000	-	-
Direct Financing Leases	777,858	777,858	356,996	514,144	-	-
Residential Real Estate	727,958	763,537	151,663	538,678	2,967	2,967
Installment and Other Consumer	494,229	494,229	265,795	386,009	3,564	3,564
	\$15,875,761	\$18,008,843	\$5,244,673	\$9,684,123	\$ 21,368	\$ 21,368

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Total Impaired Loans/Leases:						
C&I	\$7,279,709	\$8,532,886	\$3,300,199	\$3,685,528	\$ 22,436	\$ 22,436
CRE						
Owner-Occupied CRE	688,311	784,534	4,462	865,207	-	-
Commercial Construction, Land Development, and Other Land	369,012	721,030	12,087	2,184,965	-	-
Other Non Owner-Occupied CRE	6,376,060	7,075,651	1,153,471	9,165,681	13,283	13,283
Direct Financing Leases	1,339,272	1,339,272	356,996	1,381,801	31,911	31,911
Residential Real Estate	1,788,728	1,824,307	151,663	1,807,891	5,999	5,999
Installment and Other Consumer	1,108,033	1,308,033	265,795	1,279,980	3,564	3,564
	\$18,949,125	\$21,585,713	\$5,244,673	\$20,371,053	\$ 77,193	\$ 77,193

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

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

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

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of December 31, 2016 and 2015:

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

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\$827,637,263 \$332,387,621 \$165,149,491 \$595,921,748 \$1,921,096,123 100.00 %

Delinquency Status *	2016 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total	
Performing	\$ 161,749,710	\$ 227,277,070	\$ 81,449,104	\$ 470,475,884	98.77	%
Nonperforming	3,669,650	1,956,034	216,591	5,842,275	1.23	%
	\$ 165,419,360	\$ 229,233,104	\$ 81,665,695	\$ 476,318,159	100.00	%

Internally Assigned Risk Rating	2015 C&I	CRE Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total	
Pass (Ratings 1 through 5)	\$616,200,797	\$238,119,608	\$46,929,876	\$406,027,442	\$1,307,277,723	95.24	%
Special Mention (Rating 6)	18,031,845	8,630,658	1,780,000	8,846,286	37,288,789	2.72	%
Substandard (Rating 7)	13,927,250	5,772,898	373,968	7,888,029	27,962,145	2.04	%
Doubtful (Rating 8)	-	-	-	-	-	0.00	%
	\$648,159,892	\$252,523,164	\$49,083,844	\$422,761,757	\$1,372,528,657	100.00	%

Delinquency Status *	2015 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total	
Performing	\$ 171,951,421	\$ 169,013,743	\$ 73,081,751	\$ 414,046,913	99.11	%
Nonperforming	1,704,184	1,418,787	587,742	3,710,715	0.89	%
	\$ 173,655,605	\$ 170,432,530	\$ 73,669,493	\$ 417,757,628	100.00	%

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loans/Leases Receivable (continued)

As of December 31, 2016 and 2015, TDRs totaled \$8,647,007 and \$2,587,413, respectively.

For each class of financing receivable, the following presents the number and recorded investment of TDRs, by type of concession, that were restructured during the years ended December 31, 2016 and 2015. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of restructuring. The specific allowance is as of December 31, 2016 and 2015, respectively. The following excludes any TDRs that were restructured and paid off or charged off in the same year.

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

TOTAL	29	\$ 7,880,881	\$ 7,880,881	\$ 1,225,716
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Classes of Loans/Leases	2015 Number of Loans/Leases	Pre- Modification Recorded Investment	Post- Modification Recorded Investment	Specific Allowance
CONCESSION - Interest rate adjusted below market				
Installment and Other Consumer	2	\$ 37,979	\$ 37,979	\$ 12,013
	2	\$ 37,979	\$ 37,979	\$ 12,013
TOTAL	2	\$ 37,979	\$ 37,979	\$ 12,013

Of the TDRs reported above, eight with a post-modification recorded investment totaling \$2,008,424 were on nonaccrual as of December 31, 2016 and one with a post-modification recorded investment totaling \$14,027 was on nonaccrual as of December 31, 2015.

For the years ended December 31, 2016 and 2015, the Company had no TDRs that redefaulted within 12 months subsequent to restructure, where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

Not included in the table above, the Company had three TDRs that were restructured and charged off in 2016, totaling \$341,952. There were no TDRs that were both restructured and charged off in 2015.

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**Note 4. Loans/Leases Receivable (continued)

Loans are made in the normal course of business to directors, executive officers, and their related interests. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other persons. An analysis of the changes in the aggregate committed amount of loans greater than or equal to \$60,000 during the years ended December 31, 2016, 2015, and 2014, is as follows:

	2016	2015	2014
Balance, beginning	\$42,012,313	\$42,469,111	\$39,192,966
Net increase (decrease) due to change in related parties	19,945,960	(3,606,418)	1,040,278
Advances	4,806,616	19,040,675	13,284,475
Repayments	(5,155,913)	(15,891,055)	(11,048,608)
Balance, ending	\$61,608,976	\$42,012,313	\$42,469,111

The Company's loan portfolio includes a geographic concentration in the Midwest. Additionally, the loan portfolio included a concentration of loans in certain industries as of December 31, 2016 and 2015 as follows:

Industry Name	2016		2015	
	Balance	Percentage of	Balance	Percentage of
		Total		Total
		Loans/Leases		Loans/Leases
Lessors of Non-Residential Buildings	\$359,040,649	15 %	\$311,138,005	17 %
Lessors of Residential Buildings	166,036,201	7 %	91,811,101	5 %
Nonresidential Property Managers	76,504,076	3 %	10,500,305	1 %
Bank Holding Companies	66,069,612	3 %	55,840,984	3 %

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**

Note 5. Premises and Equipment

The following summarizes the components of premises and equipment as of December 31, 2016 and 2015:

	2016	2015
Land	\$ 12,936,223	\$ 6,655,796
Buildings (useful lives 15 to 50 years)	51,546,499	34,615,006
Furniture and equipment (useful lives 3 to 10 years)	28,458,946	24,953,570
Premises and equipment	92,941,668	66,224,372
Less accumulated depreciation	32,298,160	28,874,020
Premises and equipment, net	\$ 60,643,508	\$ 37,350,352

As a result of the acquisition of CSB in 2016, the Company assumed ownership of the related fixed assets, valued at approximately \$20.7 million as of the acquisition date. This accounts for the increase in premises and equipment during 2016.

Certain facilities are leased under operating leases. Rental expense was \$334,977, \$339,839, and \$484,868 for the years ended December 31, 2016, 2015, and 2014, respectively.

Future minimum rental commitments under noncancelable leases are as follows as of December 31, 2016:

Year ending December 31:	
2017	226,283
2018	226,643
2019	162,833
	\$ 615,759

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

The project total is estimated at \$3.7 million. This is the full contract price, as subcontractors will be utilized to complete the work. It is estimated that the entity will receive \$2.2 million for its work as the general contractor, including payments for a portion of the actual construction costs as the entity is completing a portion of the subcontracting work in addition to being the general contractor.

As of December 31, 2016, the Company had an outstanding commitment of \$1.8 million left on the \$3.7 million contract for the remodel of the Waterloo branch.

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**

Note 6. Goodwill and Intangibles

The following table presents the changes in the carrying amount of goodwill as of December 31, 2016 and 2015:

	2016	2015
Balance at the beginning of period	\$3,222,688	\$3,222,688
Goodwill from acquisition of CSB	9,888,225	-
Balance at the end of period	\$13,110,913	\$3,222,688

See Note 2 to the Consolidated Financial Statements for additional information regarding the acquisition of CSB and the related goodwill.

The Company has other intangible assets consisting of core deposit intangibles. The Company recognized a core deposit intangible that related to the acquisition of CNB in 2013. In 2016, the Company added a core deposit related to the acquisition of CSB, which totaled \$6.4 million. See Note 2 to the Consolidated Financial Statements for additional information regarding the acquisition of CSB.

The following table presents the changes in the carrying amount of core deposit intangibles, gross carrying amount, accumulated amortization, and net book value as of December 31, 2016 and 2015:

	2016	2015
Balance at the beginning of the period	\$1,471,409	\$1,670,921
Core deposit intangibles from acquisition of CSB	6,352,653	-
Amortization expense	(442,849)	(199,512)
Balance at the end of the period	\$7,381,213	\$1,471,409

Gross carrying amount	\$8,347,780	\$1,995,127
Accumulated amortization	(966,567)	(523,718)
Net book value	\$7,381,213	\$1,471,409

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

Years ending December 31,	Amount
2017	\$923,467
2018	910,263
2019	893,886
2020	874,331
2021	851,600
Thereafter	2,927,666
	\$7,381,213

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****Note 7. Derivatives and Hedging Activities**

Below is a summary of the interest rate cap derivatives held by the Company as of December 31, 2016 and 2015. An initial premium of \$2.1 million was paid upfront for the two caps. The fair value of these instruments will fluctuate with market value changes, as well as amortization of the initial premium to interest expense.

Effective Date	Maturity Date	Balance Sheet Location	Notional Amount	Accounting Treatment	December 31, 2016	December 31, 2015
					Fair Value	Fair Value
June 5, 2014	June 5, 2019	Other Assets	\$15,000,000	Cash Flow Hedging	\$179,939	\$321,112
June 5, 2014	June 5, 2021	Other Assets	15,000,000	Cash Flow Hedging	396,588	534,912
			\$30,000,000		\$576,527	\$856,024

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

	Year Ended	
	December 31,	December 31,
	2016	2015
Unrealized loss at beginning of period, net of tax	\$(799,421)	\$(399,367)
Amount reclassified from accumulated other comprehensive income to noninterest income related to hedge ineffectiveness	(76,797)	(156)
Amount reclassified from accumulated other comprehensive income to interest expense related to caplet amortization	152,087	16,051
Amount of loss recognized in other comprehensive income, net of tax	(208,025)	(415,949)
Unrealized loss at end of period, net of tax	\$(932,156)	\$(799,421)

Changes in the fair value related to the ineffective portion of cash flow hedges, are reported in noninterest income during the period of the change. As shown in the table above, \$76,797 and \$156 of income from the change in fair value for the years ending December 31, 2016 and 2015, respectively, was due to ineffectiveness.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Deposits

The aggregate amount of certificates of deposit, each with a minimum denomination of \$250,000, was \$300,852,485 and \$235,565,570 as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, the scheduled maturities of certificates of deposit were as follows:

Year ending December 31:

2017	\$367,576,999
2018	61,637,914
2019	33,529,173
2020	11,294,524
2021	6,539,314
	\$480,577,924

The Company had a \$40.0 million PUD LOC with the FHLB of Des Moines and an \$7.0 million PUD LOC with the FHLB of Chicago for the purpose of providing additional collateral on public deposits as of December 31, 2016. As of December 31, 2015, the Company had a \$45.0 million PUD LOC with the FHLB of Des Moines and an \$8.0 million PUD LOC with the FHLB of Chicago. There were no amounts outstanding under these letters of credit as of December 31, 2016 or 2015.

Note 9. Short-Term Borrowings

Short-term borrowings as of December 31, 2016 and 2015 are summarized as follows:

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	2016	2015
Overnight repurchase agreements with customers	\$8,131,387	\$73,872,716
Federal funds purchased	31,840,000	70,790,000
	\$39,971,387	\$144,662,716

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

	2016	2015
U.S. govt. sponsored agency securities	\$630,077	\$29,499,803
Residential mortgage-backed and related securities	19,090,261	65,888,911
Total securities pledged to overnight customer repurchase agreements	\$19,720,338	\$95,388,714
Less: overcollateralized position	11,588,951	21,515,998
	\$8,131,387	\$73,872,716

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**

Note 9. Short-Term Borrowings (continued)

The securities underlying the agreements as of December 31, 2016 and 2015 were under the Company's control in safekeeping at third-party financial institutions.

Information concerning overnight repurchase agreements with customers is summarized as follows as of December 31, 2016 and 2015:

	2016		2015	
Average daily balance during the period	\$30,082,866		\$121,186,231	
Average daily interest rate during the period	0.07	%	0.11	%
Maximum month-end balance during the period	\$59,833,229		\$159,407,193	
Weighted average rate as of end of period	0.02	%	0.11	%

Information concerning federal funds purchased is summarized as follows as of December 31, 2016 and 2015:

	2016		2015	
Average daily balance during the period	\$19,105,595		\$32,826,489	
Average daily interest rate during the period	0.56	%	0.41	%
Maximum month-end balance during the period	\$51,750,000		\$126,220,000	
Weighted average rate as of end of period	0.70	%	0.57	%

Note 10. FHLB Advances

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The subsidiary banks are members of the FHLB of Des Moines or Chicago. Maturity and interest rate information on advances from FHLB as of December 31, 2016 and 2015 is as follows:

December 31, 2016						
	Amount Due	Weighted Average Interest Rate at Year-End		Amount Due with Putable Option *	Weighted Average Interest Rate at Year-End	
Maturity:						
Year ending December 31:						
2017	\$ 112,500,000	0.78	%	\$ -	-	
2018	25,000,000	3.35		-	-	
Total FHLB advances	\$ 137,500,000	1.25	%	\$ -	-	

December 31, 2015						
	Amount Due	Weighted Average Interest Rate at Year-End		Amount Due with Putable Option *	Weighted Average Interest Rate at Year-End	
Maturity:						
Year ending December 31:						
2016	\$ 103,000,000	0.56	%	\$ 2,000,000	4.00	%
2017	18,000,000	2.89		-	-	
2018	30,000,000	3.27		5,000,000	2.84	
Total FHLB advances	\$ 151,000,000	1.37	%	\$ 7,000,000	3.17	%

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. FHLB Advances (continued)

Advances are collateralized by loans of \$669,513,037 and \$480,466,274 as of December 31, 2016 and 2015, respectively, in aggregate. On pledged loans, the FHLB applies varying collateral maintenance levels from 125% to 333% based on the loan type. Although advance balances have decreased significantly in 2015 and 2016, the Company continues to pledge loans under blanket liens to provide off balance sheet liquidity.

As of December 31, 2016 and included with the 2016 maturity grouping above are \$104.5 million of short-term advances from the FHLB. These advances have maturities ranging from 1 day to 1 month. Short-term and overnight advances totaled \$84.0 million as of December 31, 2015 and had maturities ranging from 1 day to 1 month.

Throughout 2015 and 2016, the Company has executed several balance sheet restructuring strategies in an effort to reduce reliance on wholesale funding. These strategies will continue to be evaluated in the future. A summary of prepayments of FHLB advances related to these restructurings is summarized in the following table for the years ended December 31, 2016 and 2015, respectively:

2016

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

2015

Date of Restructuring	Amount	Weighted	Range of Maturity Dates	Prepayment
		Average Interest Rate		Fees
Second Quarter of 2015	\$75,500,000	4.36	% May 2016 to June 2019	\$5,692,185
Fourth Quarter of 2015	3,000,000	3.98	% May 2018	209,416
Total for 2015	\$78,500,000	4.35	%	\$5,901,601

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

As of December 31, 2016 and 2015, the subsidiary banks held \$9,271,300 and \$9,135,900, respectively, of FHLB stock, which is included in restricted investment securities on the consolidated balance sheet.

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QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**Note 11. Other Borrowings and Unused Lines of Credit

Other borrowings as of December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Wholesale structured repurchase agreements	\$45,000,000	\$110,000,000
Term note	30,000,000	-
Revolving line of credit	5,000,000	-
	\$80,000,000	\$110,000,000

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

	2016	2015
U.S. govt. sponsored agency securities	\$20,798,703	\$129,824,128
Residential mortgage-backed and related securities	31,321,028	-
Total securities pledged to wholesale customer repurchase agreements	\$52,119,731	\$129,824,128
Less: overcollateralized position	7,119,731	19,824,128
	\$45,000,000	\$110,000,000

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

Throughout 2015 and 2016, the Company has executed several balance sheet restructuring strategies in an effort to reduce reliance on wholesale funding. These strategies will continue to be evaluated in the future. A summary of

prepayments of wholesale structured repurchase agreements related to those restructurings is summarized in the following table for the years ended December 31, 2016 and 2015, respectively:

2016

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

2015

Date of Restructuring	Amount	Weighted	Range of Maturity Dates	Prepayment
		Average Interest Rate		Fees
Second Quarter of 2015	\$10,000,000	4.40	% May 2019	\$1,202,000
Fourth Quarter of 2015	5,000,000	3.46	% May 2019	382,000
Total for 2015	\$15,000,000	4.09	%	\$1,584,000

All prepayment fees shown in the table above are included in losses on debt extinguishment in the statements of income. There were no material modifications of borrowings during 2016, 2015 or 2014.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

	December 31, 2016		December 31, 2015	
	Amount Due	Weighted Average Interest Rate at Year-End	Amount Due	Weighted Average Interest Rate at Year-End
Maturity:				
Year ending December 31:				
2017	\$ 10,000,000	3.00 %	\$ 10,000,000	3.00 %
2018	-	0.00	10,000,000	3.97
2019	10,000,000	3.44	45,000,000	3.40
2020	25,000,000	2.48	45,000,000	2.66
Total Wholesale Structured Repurchase Agreements	\$ 45,000,000	2.81 %	\$ 110,000,000	3.11 %

Each wholesale structured repurchase agreement has a one-time put option, at the discretion of the counterparty, to terminate the agreement and require the subsidiary bank to repay at predetermined dates prior to the stated maturity date of the agreement. Of the \$45.0 million in wholesale structured repurchase agreements outstanding at December 31, 2016, \$25.0 million no longer have put options and \$20.0 million are puttable in 2017.

At December 31, 2014, the Company had a 4-year term note with principal and interest due quarterly. Interest was calculated at the effective LIBOR rate plus 3.00% per annum (3.23% at December 31, 2014) and the balance totaled \$17,625,000 at December 31, 2014. After two quarterly principal payments totaling \$2,350,000 were made in January and April 2015, the resulting balance of the term debt was \$15,275,000. In May 2015, the Company repaid this term note in its entirety without prepayment penalty and using proceeds from a common stock offering. Additional

information regarding the common stock offering is described in Note 16 to the Consolidated Financial Statements.

As of December 31, 2015, the Company maintained a \$40.0 million revolving line of credit note, with interest calculated at the effective LIBOR rate plus 2.50% per annum (3.10% at December 31, 2015). At December 31, 2015, the Company had not borrowed on this revolving credit note and had the full amount available. At the renewal date in June 2016, the note was amended to provide a \$10.0 million revolving line of credit note and a \$30.0 million term note commitment with a five-year term. Interest on the revolving line of credit is calculated at the effective LIBOR rate plus 2.50% per annum (3.27% at December 31, 2016). Interest on the term note is calculated at the effective LIBOR rate plus 3.00% per annum (3.77% at December 31, 2016). Upon closing of the acquisition of CSB, the Company utilized the full \$30.0 million term note commitment and borrowed \$5.0 million on the revolving line of credit note. For the term note, the Company is required to make quarterly principal payments of \$1.5 million with maturity information as of December 31, 2016, summarized as follows:

	As of December 31, 2016
2017	6,000,000
2018	6,000,000
2019	6,000,000
2020	6,000,000
2021	6,000,000
	\$30,000,000

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**

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

As of December 31, 2014, the Company had Series A subordinated notes outstanding totaling \$2.7 million with a maturity date of September 1, 2018 and interest payable semi-annually, in arrears, on June 30 and December 30 of each year. This debt was at a fixed rate of 6.00% per year. In June 2015, the Company redeemed all of these subordinated notes using proceeds from a common stock offering, leaving no remaining balance as of December 31, 2015. There was no penalty related to this redemption.

Unused lines of credit of the subsidiary banks as of December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Secured	\$34,409,192	\$14,601,432
Unsecured	347,000,000	332,000,000
	\$381,409,192	\$346,601,432

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

QCR Holdings, Inc. and Subsidiaries**Notes to Consolidated Financial Statements**Note 12. Junior Subordinated Debentures

Junior subordinated debentures are summarized as of December 31, 2016 and 2015 as follows:

	2016	2015
Note Payable to QCR Holdings Capital Trust II	\$ 10,310,000	\$ 10,310,000
Note Payable to QCR Holdings Capital Trust III	8,248,000	8,248,000
Note Payable to QCR Holdings Capital Trust IV	-	5,155,000
Note Payable to QCR Holdings Capital Trust V	10,310,000	10,310,000
Note Payable to Community National Trust II	3,093,000	3,093,000
Note Payable to Community National Trust III	3,609,000	3,609,000
Market Value Discount per ASC 805*	(2,089,798)	(2,225,948)
	\$33,480,202	\$38,499,052

*Discount on junior subordinated debt acquired in 2013 as part of the purchase of Community National

A schedule of the Company's non-consolidated subsidiaries formed for the issuance of trust preferred securities including the amounts outstanding as of December 31, 2016 and 2015, is as follows:

Name	Date Issued	Amount	Amount	Interest Rate	Interest Rate as of	Interest Rate as of
		Outstanding	Outstanding		December 31,	December 31,
		December 31, 2016	December 31, 2015		2016	2015
		\$10,310,000	\$10,310,000		3.85%	3.18%

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QCR Holdings Statutory Trust II*	February 2004			2.85% over 3-month LIBOR		
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%

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

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

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

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

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Federal and State Income Taxes

Federal and state income tax expense was comprised of the following components for the years ended December 31, 2016, 2015, and 2014:

	2016	2015	2014
Current	\$11,969,194	\$5,673,774	\$4,203,979
Deferred	(3,066,407)	(2,004,532)	(1,165,009)
	\$8,902,787	\$3,669,242	\$3,038,970

A reconciliation of the expected federal income tax expense to the income tax expense included in the consolidated statements of income was as follows for the years ended December 31, 2016, 2015, and 2014:

	Years Ended December 31, 2016		2015		2014	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed "expected" tax expense	\$12,806,351	35.0 %	\$7,208,993	35.0 %	\$6,297,027	35.0 %
Effect of graduated tax rates	(250,013)	(0.7)	(76,973)	(0.4)	(79,529)	(0.4)
Tax exempt income, net	(4,343,270)	(11.9)	(3,461,438)	(16.8)	(2,646,275)	(14.7)
Bank-owned life insurance	(619,988)	(1.7)	(616,737)	(3.0)	(585,312)	(3.3)
State income taxes, net of federal benefit, current year	1,245,524	3.4	767,557	3.7	497,068	2.8
Change in unrecognized tax benefits	121,008	0.3	223,668	1.1	(55,728)	(0.3)
Acquisition costs	176,050	0.5	-	-	-	-
Other	(232,875)	(0.6)	(375,828)	(1.8)	(388,281)	(2.1)
	\$8,902,787	24.3 %	\$3,669,242	17.8 %	\$3,038,970	17.0 %

Changes in the unrecognized tax benefits included in other liabilities are as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Balance, beginning	\$1,225,959	\$1,002,291
Impact of tax positions taken during current year	319,047	468,055
Gross increase related to tax positions of prior years	17,789	16,965
Reduction as a result of a lapse of the applicable statute of limitations	(215,828)	(261,352)
Balance, ending	\$1,346,967	\$1,225,959

Included in the unrecognized tax benefits liability at December 31, 2016 are potential benefits of approximately \$1,124,000 that, if recognized, would affect the effective tax rate.

The liability for unrecognized tax benefits includes accrued interest for tax positions, which either do not meet the more-likely-than-not recognition threshold or where the tax benefit is measured at an amount less than the tax benefit claimed or expected to be claimed on an income tax return. At December 31, 2016 and 2015, accrued interest on uncertain tax positions was approximately \$223,000 and \$221,000, respectively. Estimated interest related to the underpayment of income taxes is classified as a component of “income taxes” in the statements of income.

QCR Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Federal and State Income Taxes (continued)

The Company's federal income tax returns are open and subject to examination from the 2013 tax return year and later. Various state franchise and income tax returns are generally open from the 2012 and later tax return years based on individual state statute of limitations.

The net deferred tax assets consisted of the following as of December 31, 2016 and 2015:

	2016	2015
Deferred tax assets:		
Alternative minimum tax credits	\$6,513,502	\$5,475,062
New markets tax credits	1,797,587	2,700,000