QCR HOLDINGS INC
Form 10-K
March 11, 2016

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, 2015.

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) 743-7724

(Registrant's telephone number, including area code)

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

Common stock, $1.00 Par Value The NASDAQ Global Market

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

Preferred Share Purchase Rights

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

Yes [ ]   No [X]

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

Yes [ ]   No [X]

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

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

Yes [X]   No [ ]

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

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

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

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

Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on The NASDAQ Global Market on June 30, 2015, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $235,581,715.

As of February 29, 2016, the Registrant had outstanding 11,812,011 shares of common stock, $1.00 par value per share.

Documents incorporated by reference:

Part III of Form 10-K - Proxy statement for annual meeting of stockholders to be held in May 2016.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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

Part I

Item 1. Business

General. QCR Holdings, Inc. is a multi-bank holding company headquartered in Moline, Illinois, that was formed in February 1993 under the laws of the state of Delaware. The Company serves the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls and Rockford communities through the following three 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; and
RB&T, which is based in Rockford, Illinois, and commenced operations in 2005.

On May 13, 2013, the Company acquired Community National and its banking subsidiary, CNB. Community National and CNB commenced operations in 1997 and historically provided full-service commercial and consumer banking, and trust and asset management services, to Cedar Falls, Mason City, and Waterloo, Iowa and Austin, Minnesota. At acquisition, CNB had a total of eight branch facilities with four in the Waterloo/Cedar Falls area where CNB was headquartered, two in Mason City, and two in Austin. On October 4, 2013, the Company finalized the sale of the two branches in Mason City. On October 11, 2013, the Company finalized the sale of the two branches in Austin. On October 26, 2013, CNB merged with and into CRBT. CNB's merged branch offices operate as a division of CRBT under the name "Community Bank & Trust." In December 2013, one of the branch facilities in Cedar Falls was closed due to lack of sufficient customer activity. See Note 2 to the consolidated financial statements for further discussion of the acquisition of Community National and sales of certain CNB branches.

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 $1.34 billion and $1.32 billion as of December 31, 2015 and 2014, 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 a branch of QCBT. The Cedar Rapids branch operation then began functioning under the CRBT charter in September 2001. As previously discussed, the merged 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 $866.9 million and $840.3 million as of December 31, 2015 and 2014, respectively.

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 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 $367.5 million and $353.4 million as of December 31, 2015 and 2014, respectively.

See Note 22 to the consolidated financial statements 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, 2015 and 2014:

Name	Date Issued	Amount Issued as of 12/31/15	Amount Issued as of 12/31/14	Interest Rate	Interest Rate as of 12/31/2015	Interest Rate as of 12/31/2014
QCR Holdings Statutory Trust II	February 2004	$10,310,000	$12,372,000	2.85% over 3-month LIBOR	3.18%	3.08%
QCR Holdings Statutory Trust III	February 2004	8,248,000	8,248,000	2.85% over 3-month LIBOR	3.18%	3.08%
QCR Holdings Statutory Trust IV	May 2005	5,155,000	5,155,000	1.80% over 3-month LIBOR	2.12%	2.03%
QCR Holdings Statutory Trust V	February 2006	10,310,000	10,310,000	1.55% over 3-month LIBOR	1.87%	1.78%
Community National Statutory Trust II	September 2004	3,093,000	3,093,000	2.17% over 3-month LIBOR	2.74%	2.42%
Community National Statutory Trust III	March 2007	3,609,000	3,609,000	1.75% over 3-month LIBOR	2.26%	1.99%
		$40,725,000	$42,787,000	Weighted Average Rate	2.60%	2.50%

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 25 to the Consolidated Financial Statements.

Other Ownership Interests. In addition to its wholly-owned subsidiaries, the Company owns a 20% equity position in Nobel Real Estate Investors, LLC. In June 2005, CRBT entered into a joint venture as a 50% owner of Cedar Rapids Mortgage Company, LLC, which provided residential real estate mortgage lending services. During the first quarter of 2013, CRBT and the partner mutually terminated the joint venture. CRBT continues to provide residential real estate mortgage lending services through its consumer banking division. In December 2014, QCBT entered into a joint venture as a 20% owner of Ruhl Mortgage, to provide residential real estate mortgage lending services and products to QCBT clients.

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 406 and 409 FTEs at December 31, 2015 and 2014, respectively.

The Federal Reserve is the primary federal regulator of the Company and its subsidiaries. In addition, QCBT and CRBT are regulated by the Iowa Superintendent and RB&T is regulated by the IDFPR. The FDIC, as administrator of the Deposit Insurance Fund, 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 and CRBT, calculated as 15% of aggregate capital, was $19.7 million and $15.8 million, respectively, as of December 31, 2015. In accordance with Illinois regulation, the legal lending limit to one borrower for RB&T, calculated as 25% of aggregate capital, totaled $9.6 million as of December 31, 2015.

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. 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:

QCBT:	$ 10.0 million
CRBT:	$ 7.5 million
RB&T:	$ 3.7 million

On a consolidated basis, the in-house lending limit is $15.0 million, which is 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.

As part of the loan monitoring activity at the three 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 three subsidiary banks as of December 31, 2015 for the loan portfolio on a per loan type basis, reflected as a percentage of the subsidiary bank's average gross loans:

Type of Loan *	QCBT Maximum Percentage per Loan Policy	QCBT As of December 31, 2015	CRBT Maximum Percentage per Loan Policy	CRBT As of December 31, 2015	RB&T Maximum Percentage per Loan Policy	RB&T As of December 31, 2015
One-to-four family residential	30%	14 %	25%	11 %	30%	20 %
Multi-family	15%	2 %	15%	7 %	15%	3 %
Farmland	5 %	1 %	5 %	1 %	5 %	0 %
Non-farm, nonresidential	50%	26 %	50%	34 %	50%	43 %
Construction and land development	20%	3 %	15%	6 %	20%	3 %
C&I	60%	20 %	60%	30 %	60%	26 %
Loans to individuals	10%	1 %	10%	1 %	10%	1 %
Lease financing	30%	21 %	5 %	0 %	20%	0 %
Bank stock loans	**	**	10%	1 %	10%	0 %
All other loans	15%	12 %	10%	9 %	10%	4 %
		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 aggregate capital (bank stock loan commitments are limited to 200% of aggregate capital). At December 31, 2015, QCBT's bank stock loans totaled 50% of aggregate capital.

The following table presents total loans/leases by major loan/lease type and subsidiary as of December 31, 2015 and 2014. Residential real estate loans held for sale are included in residential real estate loans below.

	QCBT		m2 Lease Funds		CRBT		RBT		Intercompany Eliminations	Consolidated Total	
	$	%	$	%	$	%	$	%	$	$	%
	(dollars in thousands)										
As of December 31, 2015:											
C&I loans	$267,367	39 %	$20,120	10 %	$263,792	43 %	$96,881	33 %	$-	$648,160	36 %
CRE loans	296,157	43 %	-	0 %	285,866	46 %	142,346	48 %	-	724,369	40 %
Direct financing leases	-	0 %	173,656	86 %	-	0 %	-	0 %	-	173,656	10 %
Residential real estate loans	86,920	13 %	-	0 %	43,345	7 %	40,168	14 %	-	170,433	9 %
Installment and other consumer loans	35,862	5 %	-	0 %	23,970	4 %	13,837	5 %	-	73,669	4 %
Deferred loan/lease origination costs, net of fees	457	0 %	7,343	4 %	(358)	0 %	294	0 %	-	7,736	0 %
	$686,763	100%	$201,119	100%	$616,615	100%	$293,526	100%	$-	$1,798,023	100%
As of December 31, 2014:											
C&I loans	$238,495	39 %	$4,739	3 %	$212,208	37 %	$68,485	25 %	$-	$523,927	32 %
CRE loans	256,195	42 %	-	0 %	297,377	51 %	150,031	55 %	(1,463)	702,140	43 %
Direct financing leases	-	0 %	166,032	93 %	-	0 %	-	0 %	-	166,032	10 %
Residential real estate loans	75,095	13 %	-	0 %	43,863	8 %	39,675	15 %	-	158,633	10 %
Installment and other consumer loans	35,213	6 %	-	0 %	24,252	4 %	13,142	5 %	-	72,607	5 %
Deferred loan/lease origination costs, net of fees	80	0 %	6,673	4 %	(337)	0 %	248	0 %	-	6,664	0 %

$605,078	100%	$177,444	100%	$577,363	100%	$271,581	100%	$(1,463)	$1,630,003	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.

Approved Collateral Type	**Maximum Advance %**
Financial Instruments	
U.S. Government Securities	90% of market value
Securities of Federal Agencies	90% of market value
Municipal Bonds rated by Moody's As "A" or better	80% of market value
Listed Stocks	75% of market value
Mutual Funds	75% of market value
Cash Value Life Insurance	95%, less policy loans
Savings/Time Deposits (Bank)	100% of current value
General Business	
Accounts Receivable	80% of eligible accounts
Inventory	50% of value
Fixed Assets (Existing)	50% of net book value, or 75% of orderly liquidation appraised value
Fixed Assets (New)	80% of cost
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.

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 90% of project cost, or 75% of appraised value	24 months
Commercial Construction Loans	Lesser of 90% of project cost, or 80% of appraised value	365 days

* 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, 2015 and 2014, approximately 35% and 37%, respectively, of the CRE loan portfolio was owner-occupied.

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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, 2015, all three subsidiary banks were in compliance with these limits.

Following is a listing of the significant industries within the Company’s CRE loan portfolio as of December 31, 2015 and 2014:

	2015 Amount	%	2014 Amount	%
	(dollars in thousands)			
Lessors of Nonresidential Buildings	$264,133	37 %	$248,326	35 %
Lessors of Residential Buildings	89,189	12 %	73,781	11 %
Lessors of Other Real Estate Property	22,009	3 %	17,553	3 %
Hotels	19,228	3 %	16,252	2 %
Land Subdivision	17,839	2 %	19,504	3 %
Nursing Care Facilities	17,288	2 %	17,078	2 %
New Car Dealers	11,656	2 %	16,090	2 %
Other *	283,027	39 %	293,556	42 %
Total Commercial Real Estate Loans	$724,369	100%	$702,140	100%

* “Other” consists of all other industries. None of these had concentrations greater than $14.0 million, or 2%, of total CRE loans.

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 not presently retained on the loans sold in the secondary market. The Company's lending policy establishes minimum appraisal and other credit guidelines.

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

	For the year ended December 31,		
	2015	2014	2013
	(dollars in thousands)		
Originations of residential real estate loans	$41,279	$72,146	$105,716
Sales of residential real estate loans	$23,726	$33,100	$56,103
Percentage of sales to originations	57 %	46 %	53 %

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, and Rockford markets. Competitors include not only other commercial banks, credit unions, thrift institutions, and mutual funds, but also insurance companies, finance companies, brokerage firms, investment banking companies, and a variety of other financial services and advisory companies. Many of these competitors are not subject to the same regulatory restrictions as the Company. Many of these unregulated competitors compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services. 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 comparative 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, 2015, 2014, and 2013, 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:

A prolonged continuation of economic uncertainty or worsening of current economic conditions could have a material adverse effect on our financial condition and results of operations.

While economic indicators have generally shown signs of gradual improvement, uncertainty related to U.S. and worldwide fiscal issues, political climates and global economic conditions continue. There can be no assurance that this improvement will continue or be spread evenly throughout the markets that the Company serves. Continued uncertainty, elevated unemployment, volatility or disruptions of global financial markets, or prolonged deterioration in the global, national or local business or economic conditions could result in, among other things, a deterioration of credit quality, further impairment of real estate values or a reduced demand for credit or other products and services we offer to clients.

Additionally, competitive dynamics in our industry could change as a result of continued consolidation of financial services companies in connection with current market conditions.

If market conditions do not continue to improve or worsen to recessionary conditions, and/or if negative developments in the domestic and international credit markets continue, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, 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 $648.2 million, or approximately 36% of our total loan/lease portfolio, as of December 31, 2015. 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 $724.4 million, or approximately 40% of our total loan/lease portfolio, as of December 31, 2015. Of this amount, $252.5 million, or approximately 35%, 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 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 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, 2015, our allowance as a percentage of total gross loans/leases was 1.46%, and as a percentage of total NPLs was 223.33%. In addition, we had net charge-offs as a percentage of gross average loans/leases of 0.22% for the year ended December 31, 2015. 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, 2015 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, particularly denial of service attacks that are designed to disrupt key business 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 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 reduced use of payment cards and 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.

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. 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. RB&T, as an Illinois-chartered state member bank, is subject to regulation and supervision primarily by both the DFPR 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, on July 21, 2010, the Dodd-Frank Act was signed into law, which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act, together with the regulations to be developed thereunder, includes provisions affecting large and small financial institutions alike, including several provisions that affect how community banks, thrifts and small bank and thrift holding companies are regulated. In addition, in recent years the Federal Reserve has adopted numerous new regulations addressing banks' overdraft and mortgage lending practices. Further, the Consumer Financial Protection Bureau was recently established, with broad powers to supervise and enforce consumer protection laws, and additional consumer protection legislation and regulatory activity is anticipated in the near future.

In September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III, which constitutes a strengthened set of capital requirements for banking organizations in the U.S. and around the world. In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms and issued rules effecting certain changes required by the Dodd-Frank Act (the "Basel III Rules"). The Basel III Rules are applicable to all U.S. banks that are subject to minimum capital requirements, as well as to bank and savings and loan holding companies other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1 billion). The Basel III Rules not only increased most of the required minimum regulatory capital ratios, but they introduced a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rules also expanded the definition of capital as in effect currently by establishing criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now qualify as Tier 1 Capital will not qualify, or their qualifications will change. The Basel III Rules also permit smaller banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income, which currently does not affect regulatory capital. The Company made this election in the first quarter of 2015. The Basel III Rules have maintained the general structure of the current prompt corrective action framework, while incorporating the increased requirements. The prompt corrective action guidelines were also revised to add the Common Equity Tier 1 Capital ratio. In order to be a “well-capitalized” depository institution under the new regime, a bank and holding company must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more; a Tier 1 Capital ratio of 8% or more; a Total Capital ratio of 10% or more; and a leverage ratio of 5% or more. Generally, financial institutions became subject to the new Basel III Rules on January 1, 2015.

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 USA 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.

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 Rules. 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, 2015, we had $40.7 million of junior subordinated debentures held by six business trusts that we control. Interest payments on the debentures, which totaled $1.3 million for 2015, 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, 2015, our subsidiary banks had deposits and other liabilities in the aggregate of approximately $2.31 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, 2015, we had gross unrealized losses of $5.4 million, or 0.9% of amortized cost, in our investment portfolio (almost entirely offset by gross unrealized gains of $5.2 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, 2015 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 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 time 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 the recent recession and subsequent recovery, the financial services industry and the credit markets generally were materially and adversely affected by significant declines in asset values and by a lack of liquidity. The liquidity issues were particularly acute for regional and community banks, as many of the larger financial institutions significantly curtailed their lending to regional and community banks to reduce their exposure to the risks of other banks. In addition, many of the larger correspondent lenders reduced or even eliminated federal funds lines for their correspondent customers. 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.

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

We operate primarily in the Quad Cities, Cedar Rapids, Waterloo/Cedar Falls, 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, and Waterloo, 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 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 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, 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.

Changes in these standards are continuously occurring, and given the current economic environment, more drastic changes may occur. The implementation of such changes could 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.

Customers may decide not to use banks to complete their financial transactions, which could result in a loss of income to us.

Technology and other changes are allowing customers to complete financial transactions using nonbanks that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income as well as the loss of customer deposits.

Item 1B. Unresolved Staff Comments

There are no unresolved staff comments.

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Item 2. Properties

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

Facility Address	Facility Square Footage	Owned or Leased
QCR Holdings, Inc.		
3551 7th Street in Moline, IL (1)	30,000	Owned
QCBT		
2118 Middle Road in Bettendorf, IA	6,700	Owned
4500 Brady Street in Davenport, IA	36,000	Owned
5405 Utica Ridge Road in Davenport, IA	7,400	Leased
1700 Division Street in Davenport, IA	12,000	Owned
CRBT		
500 1st Avenue NE, Suite 100 in Cedar Rapids, IA (2)	48,000	Owned
5400 Council Street in Cedar Rapids, IA	5,900	Owned
422 Commercial Street in Waterloo, IA (3)	25,000	Owned
11 Tower Park Drive in Waterloo, IA (3)	6,000	Owned
312 1st Street in Cedar Falls, IA (3)	3,000	Owned
RBT		
4571 Guilford Road in Rockford, IL	20,000	Owned
308 West State Street in Rockford, IL	1,100	Leased
m2		
175 North Patrick Boulevard in Brookfield, WI	4,500	Leased

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

(2) In January 2015, CRBT purchased the 3rd floor of the 1st Avenue NE branch facility, adding approximately 12,000 square feet of additional business space.

(3) Branches of Community Bank & Trust.

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 29, 2016, there were 11,812,011 shares of common stock outstanding held by approximately 2,700 holders of record. Additionally, there are an estimated 800 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.

	2015 Sales Price		2014 Sales Price		2013 Sales Price	
	High	Low	High	Low	High	Low
First quarter	$18.19	$16.91	$17.48	$16.99	$16.96	$13.05
Second quarter	22.75	17.51	17.96	17.00	16.50	13.18
Third quarter	23.23	19.58	18.10	16.96	16.51	14.96
Fourth quarter	24.90	21.00	18.20	17.50	18.20	15.65

Dividends on Common Stock. Dividends paid on common stock for the years ending December 31, 2015 and 2014 are as follows:

Declaration Date	Amount Declared Per Share	Record Date	Total Amount Paid to Shareholders (in thousands)	Date Paid
May 14, 2014	$0.04	June 20, 2014	$315	July 8, 2014
November 6, 2014	0.04	December 19, 2014	316	January 7, 2015
May 20, 2015	0.04	June 19, 2015	466	July 8, 2015
November 20, 2015	0.04	December 18, 2015	469	January 6, 2016

As mentioned in the press release dated February 18, 2016, starting with the first quarter dividend declared on February 11, 2016, the board of directors has resolved to evaluate paying dividends on a quarterly basis, as opposed to the prior practice of semi-annual dividends. The Company anticipates an ongoing need to retain much of its operating income to help provide the capital for continued growth, but believes that operating results have reached a level that can sustain dividends, if declared, to stockholders.

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 filed with the SEC. 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 for the years ended December 31, 2015, 2014, and 2013.

Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2010 and ending December 31, 2015, 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, 2010 in the common stock of the Company and in each index, and that all dividends were reinvested.

	Period Ending					
Index	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**
QCR Holdings, Inc.	100.00	128.64	188.10	243.46	256.47	350.02
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Bank NASDAQ	100.00	88.73	105.75	152.00	157.42	169.94

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,				
	2015	2014	2013	2012	2011
STATEMENT OF INCOME DATA	*(dollars in thousands, except per share data)*				
Interest income	$90,003	$85,965	$81,872	$77,376	$77,723
Interest expense	13,707	16,894	17,767	19,727	23,578
Net interest income	76,296	69,071	64,105	57,649	54,145
Provision for loan/lease losses	6,871	6,807	5,930	4,371	6,616
Non-interest income	24,530	21,158	26,846	18,953	19,085
Non-interest expense (1)	73,358	65,430	65,465	54,591	52,616
Income tax expense	3,669	3,039	4,618	4,534	3,868
Net income	16,928	14,953	14,938	13,106	10,130
Less: net income attributable to noncontrolling interests	-	-	-	488	438
Net income attributable to QCR Holdings, Inc.	16,928	14,953	14,938	12,618	9,692
Less: preferred stock dividends and discount accretion	-	1,082	3,168	3,496	5,284
Net income attributable to QCR Holdings, Inc. common stockholders	16,928	13,871	11,770	9,122	4,408
PER COMMON SHARE DATA					
Net income - Basic (2)	$1.64	$1.75	$2.13	$1.88	$0.93
Net income - Diluted (2)	1.61	1.72	2.08	1.85	0.92
Cash dividends declared	0.08	0.08	0.08	0.08	0.08
Dividend payout ratio	4.88 %	4.57 %	3.76 %	4.26 %	8.60 %
Closing stock price	$24.29	$17.86	$17.03	$13.22	$9.10
BALANCE SHEET DATA					
Total assets	$2,593,198	$2,524,958	$2,394,953	$2,093,730	$1,966,610
Securities	577,109	651,539	697,210	602,239	565,229
Total loans/leases	1,798,023	1,630,003	1,460,280	1,287,388	1,200,745
Allowance	26,141	23,074	21,448	19,925	18,789
Deposits	1,880,666	1,679,668	1,646,991	1,374,114	1,205,458
Borrowings	444,162	662,558	563,381	547,758	590,603
Stockholders' equity:					
Preferred	-	-	29,799	53,163	63,386

Common	225,886	144,079	117,778	87,271	81,047
KEY RATIOS					
ROAA (3)	0.66 %	0.61 %	0.64 %	0.62 %	0.51 %
ROACE (2)	8.79	10.49	11.48	10.84	5.82
ROAE (3)	8.79	10.48	10.24	8.90	7.09
NIM, tax equivalent yield (4)	3.37	3.15	3.03	3.14	3.08
Efficiency ratio (5)	72.76	72.52	71.98	71.27	71.85
Loans to deposits	95.61	97.04	88.66	93.69	99.61
NPAs to total assets	0.74	1.31	1.28	1.41	2.06
Allowance to total loans/leases	1.46	1.42	1.47	1.55	1.56
Allowance to NPLs	223.33	114.78	104.70	78.47	58.70
Net charge-offs to average loans/leases	0.22	0.34	0.31	0.27	0.70
Average total stockholders' equity to average total assets	7.55	5.82	6.26	7.00	7.17

(1) Non-interest expense for 2015 includes several one-time expenses - most notably, $7.5 million of losses on debt extinguishment related tothe prepayment of certain borrowings further described in Notes 9, 10 and 12 to the Consolidated Financial Statements.

(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

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, 2015, 2014, and 2013, and our financial condition at December 31, 2015 and 2014. 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 two years, the Company has grown to include two additional banking subsidiaries (including the 2013 acquisition of CNB which was merged into one of the Company's legacy banking subsidiaries) and a number of nonbanking subsidiaries. As of December 31, 2015, the Company had $2.59 billion in consolidated assets, including $1.80 billion in total loans/leases and $1.88 billion in deposits.

EXECUTIVE OVERVIEW

The Company reported net income of $16.9 million for the year ended December 31, 2015, and diluted EPS of $1.61. For the same period in 2014, the Company reported net income of $15.0 million, and diluted EPS of $1.72, after preferred stock dividends of $1.1 million. By comparison, for 2013, the Company reported net income of $14.9 million, and diluted EPS of $2.08, after preferred stock dividends of $3.2 million.

The fiscal year ended December 31, 2015 was highlighted by several significant items:

- A successful common stock offering (described in Note 12 to the Consolidated Financial Statements);
- Several balance sheet restructurings (described in Notes 9, 10 and 12 to the Consolidated Financial Statements);
- Net interest margin improvement of 22 basis points, year-over-year, primarily attributable to the balance sheet restructurings;
- Loan and lease growth of 10.3% for the year;

Strong gains on the sale of government guaranteed portions of loans and swap fee income – totaling $3.0 million for the year; and
Improved asset quality metrics, with a reduction in NPAs as a percentage of total assets from 1.31% at December 31, 2014 to 0.74% at December 31, 2015.

Following is a table that represents the various net income measurements for the years ended December 31, 2015, 2014, and 2013.

	Year Ended December 31,		
	2015	2014	2013
Net income	$16,927,881	$14,952,537	$14,938,245
Less: Preferred stock dividends and discount accretion	-	1,081,877	3,168,302
Net income attributable to QCR Holdings, Inc. common stockholders	$16,927,881	$13,870,660	$11,769,943
Diluted EPS	$1.61	$1.72	$2.08
Weighted average common and common equivalent shares outstanding*	10,499,841	8,048,661	5,646,926

*The increase in the weighted average common and common equivalent shares outstanding was primarily due to the common stock issuance discussed in Note 12 to the Consolidated Financial Statements.

The Company reported core net income (non-GAAP) of $20.9 million, with diluted core EPS of $1.99. Core net income for the year excludes a number of non-recurring items, most significantly the $4.9 million of after-tax non-recurring expenses related to the prepayment of wholesale borrowings.

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

	Year Ended December 31,		
	2015	2014	2013
Net interest income	$76,296,724	$69,071,128	$64,105,437
Provision for loan/lease losses	6,870,900	6,807,000	5,930,420
Noninterest income	24,529,723	21,157,357	26,845,676
Noninterest expense	73,358,424	65,429,978	65,464,506
Federal and state income tax	3,669,242	3,038,970	4,617,942
Net income	$16,927,881	$14,952,537	$14,938,245

In comparison to prior years, the following are some noteworthy changes in the Company's financial results for 2015:

- Net interest income grew $7.2 million, or 10%, compared to the prior year. Compared to 2013, net interest income grew $12.2 million, or 19%.
- Provision for loan/lease losses was relatively flat from the prior year, while increasing $940 thousand compared to 2013.
- Noninterest income increased $3.4 million, or 16%, compared to the prior year.
  - o Gains on the sale of government guaranteed portion of loans and swap fee income increased $827 thousand, compared to the prior year.
  - o Trust department fees and investment advisory and management fees increased $590 thousand during the same period.
  - o Additionally, the Company recognized a lawsuit award in 2015 totaling $387 thousand and a gain on debt extinguishment of $300 thousand.
- Several one-time acquisition-related gains and other one-time gains were recognized in 2013, totaling approximately $5.6 million, resulting in the decrease in noninterest income from 2013 to 2014.
- Noninterest expense increased $7.9 million, or 12%, compared to the prior year. Losses on debt extinguishment totaled $7.5 million for the year. The Company also recognized a $1.2 million gain on the sale of an OREO property. Acquisition and data conversion costs totaling $2.4 million in 2013 contributed to the higher noninterest expense in that year.

LONG-TERM FINANCIAL GOALS

As previously stated, the Company has established certain financial goals by which it manages its business and measures its performance. The goals are periodically updated to reflect changes in 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 targeting a gross loans and leases to total assets ratio greater than 70%;

- Improve profitability (measured by NIM and ROAA);

- Prioritize strong asset quality by maintaining NPAs to total assets of less than 0.75% and maintain charge-offs as a percentage of average loans 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 commercial lease portfolio so that it represents 10% of total assets;

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

Grow wealth management segment net income by 15% annually.

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

			For the Year Ending		
			December 31, 2015	**December 31, 2015 (non-GAAP)(1)**	**December 31, 2014**
Goal	**Key Metric**	**Target (2)**	*(dollars in thousands)*		
Balance sheet efficiency	Gross loans and leases to total assets	> 70%	69%		65%
Profitability	NIM	> 3.50%	3.37%		3.15%
	ROAA	> 1.00%	0.66%	0.82%	0.61%
Asset quality	NPAs to total assets	< 0.75%	0.74%		1.31%
	Net charge-offs to average loans/leases	< 0.25% annually	0.22%		0.34%
Lower reliance on wholesale funding	Wholesale funding to total assets	< 15%	20%		30%
Funding mix	Noninterest bearing deposits as a percentage of total assets	> 30%	24%		20%
Commercial leasing	Leases as a percentage of total assets	10%	7%		7%
Consistent, high quality noninterest	Gains on sales of government guaranteed portions of loans and swap fee income	> $4 million annually	$3.0 million		$2.3 million
income revenue streams	Grow wealth management segment net income	> 15% annually	5%		13%

(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 annually. The Company revisited targets in early 2016 and has adjusted accordingly.

STRATEGIC DEVELOPMENTS

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

Loan and lease growth for the year was 10.3%. This was within the Company's target organic growth rate of 10-12%. A majority of this growth was in the C&I loan category. As of December 31, 2015, this segment of the portfolio accounted for 36% of total loans and leases. At the same time, the Company has reduced its reliance on CRE loans, with that segment representing 40% of the portfolio as of December 31, 2015, down from 43% as of December 31, 2014. This loan and lease growth has continued to help move the loan and lease to total asset ratio upward to 69%, from 65% in the prior year and 61% two years ago. Additionally, the Company continues to evaluate market opportunities to rotate out of securities and into loans and leases, as this will also make the balance sheet more profitable. Generally, securities have a lower yield; therefore, by replacing with loans and leases, the Company will continue to improve NIM.

In the second quarter of 2015, the Company executed a common stock offering and balance sheet restructuring that greatly reduced borrowings and the weighted average cost of borrowings in order to improve the long-term profitability of the Company. Refer to Note 12 to the Consolidated Financial Statements for additional information. The Company continued to execute restructuring activities in the fourth quarter of 2015 (described in Notes 9 and 10 of the Consolidated Financial Statements) and the first quarter of 2016 (described in Note 25 of the Consolidated Financial Statements).

The Company was heavily focused on reducing NPAs to total assets ratio to below 1.00% and was successful in achieving this benchmark during the third quarter, with an actual ratio of 0.80% as of September 30. 2015. The Company continued to see improvement in this ratio in the fourth quarter, with an actual ratio of 0.74% as of December 31, 2015. The reduction of NPAs throughout the year was primarily due to OREO sales and nonaccrual loan paydowns. The Company remains committed to further improving asset quality in 2016.

Management continues to focus on reducing the Company's reliance on wholesale funding. The balance sheet restructuring that was executed in the second quarter lowered the Company's reliance significantly. Continued restructuring in the fourth quarter of 2015 helped further reduce the Company's reliance on wholesale funding to 20% (down from 30% at December 31, 2014). The restructuring executed in the 1st quarter of 2016 (as described in Note 25 of the Consolidated Financial Statements) has further reduced the Company's reliance on wholesale funding. Management continues to closely evaluate opportunities for further reduction in wholesale funding.

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 172 downstream banks with total noninterest bearing deposits of $286.9 million as of December 31, 2015. Average noninterest bearing deposit balances for 2015 totaled $343.1 million. This line of business provides a strong source of noninterest bearing deposits, fee income and high-quality loan participations.

The Company provides commercial leasing services through its wholly-owned subsidiary, m2 Lease Funds, which has lease specialists in Iowa, Illinois, Wisconsin, Minnesota, South Carolina, North Carolina, Georgia, Florida and Pennsylvania. Historically, this portfolio has been high yielding, with an average gross yield in 2015 approximating 8.2%. This portfolio has also shown strong asset quality throughout its history and the Company intends to grow this portfolio to 10% of consolidated assets.

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 significant and consistent source of noninterest income. In 2014, the Company hired a government-guaranteed lending specialist in the QCBT market. Also in 2014, in the CRBT market, the Company added a USDA relationship manager to CRBT's specialty lending team.

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, 2015 the Company had $1.73 billion of total financial assets in trust (and related) accounts and

$628 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, with a goal of growing this segment's net income by 15% annually. The Company hired four business development officers in 2014 to help with this strategy. Additionally, the Company has started offering 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 “tangible common equity to tangible assets ratio”, “core net income”, “core net income attributable to QCR Holdings, Inc. common stockholders”, “core earnings per common share” and “core return on average assets”. The table also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

The tangible common equity to tangible assets 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.

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

GAAP TO NON-GAAP RECONCILIATIONS	**As of December 31, 2015**	**December 31, 2014**
	(dollars in thousands, except per share data)	
TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS RATIO (1)		
Stockholders' equity (GAAP)	$225,886	$144,079
Less: Intangible assets	4,694	4,894
Tangible common equity (non-GAAP)	$221,192	$139,185
Total assets (GAAP)	$2,593,198	$2,524,958
Less: Intangible assets	4,694	4,894
Tangible assets (non-GAAP)	$2,588,504	$2,520,064

Tangible common equity to tangible assets ratio (non-GAAP)	**8.55 %**	**5.52 %**

CORE NET INCOME (2)	For the Year Ended December 31, 2015	December 31, 2014
Net income (GAAP)	$16,928	$14,953
Less nonrecurring items (post-tax) (3):		
Income:		
Securities gains	$519	$60
Gain on debt extinguishment	195	-
Lawsuit award	252	-
Total nonrecurring income (non-GAAP)	$966	$60
Expense:		
Losses on debt extinguishment	$4,866	$-
Accrual adjustments	(487)	-
Other non-recurring expenses	513	-
Total nonrecurring expense (non-GAAP)	$4,892	$-
Core net income (non-GAAP)	**$20,854**	**$14,893**
Less: Preferred stock dividends	-	1,082
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP) (2)	**$20,854**	**$13,811**

CORE EARNINGS PER COMMON SHARE (2)	2015	2014
Core net income attributable to QCR Holdings, Inc. common stockholders (non-GAAP) (from above)	$20,854	$13,811
Weighted average common shares outstanding	10,345,286	7,925,220
Weighted average common and common equivalent shares outstanding	10,499,841	8,048,661
Core earnings per common share (non-GAAP):		
Basic	**$2.02**	**$1.74**
Diluted	**$1.99**	**$1.72**

CORE RETURN ON AVERAGE ASSETS (2)	2015	2014
Core net income (non-GAAP) (from above)	$20,854	$14,893
Average Assets	$2,549,921	$2,453,678
Core return on average assets (non-GAAP)	**0.82%**	**0.61%**

(1) This ratio is a non-GAAP financial measure. The Company's management believes that this measure is important to many investors in the marketplace who are interested in changes period-to-period in common equity.

(2) Core net income, core net income attributable to QCR Holdings, Inc. common stockholders, core earnings per common share and core return on average assets are non-GAAP financial measures. The Company's management believes that these measure are important to investors as they exclude non-recurring income and expense items, therefore, they provide a more realistic run-rate for future periods.

(3) Nonrecurring items (post-tax) are calculated using an estimated tax rate of 35%.

NET INTEREST INCOME AND MARGIN (TAX EQUIVALENT BASIS)

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 has been 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 Note 12 to the Consolidated Financial Statements for additional details. Continued balance sheet restructurings occurred in late 2015 and early 2016, as described in Notes 9, 10 and 25 to the Consolidated Financial Statements.

A comparison of yields, spreads and margins from 2015 to 2014 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 .99% to .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%.

Net interest income, on a tax equivalent basis, grew $6.3 million, or 10%, in 2014 compared to 2013. The increase in net interest income was partly driven by the addition of CNB for the first full year. Additionally, the Company’s legacy charters experienced strong organic loan growth and improvements in investment securities yield during 2014. A comparison of yields, spreads and margins from 2014 to 2013 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets increased 4 basis points from 3.84% to 3.88%.
- The average cost of interest-bearing liabilities decreased 10 basis points from 1.09% to .99%.
- The net interest spread improved 14 basis points from 2.75% to 2.89%.
- The NIM improved 12 basis points from 3.03% to 3.15%.

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.

During 2014 and 2015, the Company placed an emphasis on shifting its balance sheet mix. With a stated goal of increasing loans/leases as a percentage of assets to at least 70%, the Company funded its loan/lease growth with a mixture of core deposits and cash from the investment securities portfolio, including the targeted sales of securities with the cash redeployed into the loan portfolio, with an attempt to minimize any extension of duration and a significant increase in yield. Additionally, the Company has recognized net gains on these sales due to the current 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, 2015			2014			2013		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
	(dollars in thousands)								
ASSETS									
Interest earning assets:									
Federal funds sold	$17,418	$25	0.14%	$17,263	$21	0.12%	$14,577	$19	0.13%
Interest-bearing deposits at financial institutions	66,897	304	0.45	56,620	299	0.53	43,909	275	0.63
Investment securities (1)	599,648	18,380	3.07	688,827	18,679	2.71	700,344	16,140	2.30
Restricted investment securities	14,727	504	3.42	16,349	529	3.24	16,083	559	3.48
Gross loans/leases receivable (1) (2) (3)	1,707,523	75,671	4.43	1,540,382	70,414	4.57	1,425,364	67,484	4.73
Total interest earning assets	$2,406,213	94,884	3.94	$2,319,441	89,942	3.88	$2,200,277	84,477	3.84
Noninterest-earning assets:									
Cash and due from banks	$45,178			$44,905			$44,336		
Premises and equipment, net	38,162			36,372			35,820		
Less allowance for estimated losses on loans/leases	(25,027)			(22,726)			(21,500)		
Other	85,395			75,686			71,671		
Total assets	$2,549,921			$2,453,678			$2,330,604		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									

Interest-bearing demand deposits	$821,043	1,836	0.22 %	$741,061	1,832	0.25 %	$672,038	1,879	0.28 %
Time deposits	388,691	2,660	0.68	392,167	2,677	0.68	404,495	2,836	0.70
Short-term borrowings	151,141	210	0.14	162,732	234	0.14	164,710	293	0.18
Federal Home Loan Bank advances	154,268	3,511	2.28	218,704	6,026	2.76	207,684	6,863	3.30
Other borrowings	126,902	4,234	3.34	147,091	4,891	3.33	140,888	4,753	3.37
Junior subordinated debentures	40,364	1,256	3.11	40,356	1,234	3.06	39,495	1,143	2.89
Total interest-bearing liabilities	$1,682,409	13,707	0.81	$1,702,111	16,894	0.99	$1,629,310	17,767	1.09
Noninterest-bearing demand deposits	$641,848			$575,549			$518,406		
Other noninterest-bearing liabilities	33,175			33,284			36,982		
Total liabilities	$2,357,432			$2,310,944			$2,184,698		
Stockholders' equity	192,489			142,734			145,906		
Total liabilities and stockholders' equity	$2,549,921			$2,453,678			$2,330,604		
Net interest income		$81,177			$73,048			$66,710	
Net interest spread			3.13 %			2.89 %			2.75 %
Net interest margin			3.37 %			3.15 %			3.03 %
Ratio of average interest earning assets to average interest-bearing liabilities	143.02 %			136.27 %			135.04 %		

(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, 2015, 2014 and 2013					
	Inc./(Dec.)	Components		Inc./(Dec.)	Components	
	from	of Change (1)		from	of Change (1)	
	Prior Year	Rate	Volume	Prior Year	Rate	Volume
	2015 vs. 2014			**2014 vs. 2013**		
	(dollars in thousands)			(dollars in thousands)		
INTEREST INCOME						
Federal funds sold	$4	$4	$-	$2	$(1)	$3
Interest-bearing deposits at other financial institutions .	5	(45)	50	24	(48)	72
Investment securities (2)	(299)	2,276	(2,575)	2,539	2,808	(269)
Restricted investment securities	(25)	30	(55)	(30)	(39)	9
Gross loans/leases receivable (2) (3)	5,256	(2,202)	7,458	2,930	(2,384)	5,314
Total change in interest income	$4,941	$63	$4,878	$5,465	$336	$5,129
INTEREST EXPENSE						
Interest-bearing demand deposits	$4	$(184)	$188	$(47)	$(230)	$183
Time deposits	(17)	7	(24)	(159)	(74)	(85)
Short-term borrowings	(24)	(8)	(16)	(59)	(55)	(4)
Federal Home Loan Bank advances	(2,515)	(934)	(1,581)	(837)	(1,186)	349
Other borrowings	(658)	15	(673)	138	(69)	207
Junior subordinated debentures	22	22	-	91	66	25
Total change in interest expense	$(3,188)	$(1,082)	$(2,106)	$(873)	$(1,548)	$675
Total change in net interest income	$8,129	$1,145	$6,984	$6,338	$1,884	$4,454

(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 throughout the Midwest, and in particular, the economic health of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan/lease portfolio, it enhances its methodology accordingly.

Management may report a materially different amount for the provision 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, 2015 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 intent of the Company to not 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, 2015, 2014, and 2013

INTEREST INCOME

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.

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 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 2014, interest income grew $4.1 million, or 5%. In total, the Company's average interest-earning assets increased $119.2 million, or 5%, year-over-year. This growth more than offset the continued impact of declining average yields on loans/leases. Average loans/leases grew 8%, while average securities declined 2%. 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 2014, 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 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 across all 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.

Comparing 2014 to 2013, interest expense declined $872 thousand, or 5%, year-over-year. Average interest-bearing liabilities grew 4% in 2014 with most of this in deposits. The Company was successful in continuing to manage down its cost of funds as follows:

- Continued reduction of interest rates paid across all deposits without runoff (the average cost of interest-bearing deposits fell from 0.44% for 2013 to 0.40% for 2014);
- Continued growth in noninterest bearing deposit accounts (average noninterest bearing balances grew 11% in 2014, 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.

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 $6.9 million for 2015, which was flat from 2014. Despite the drop in NPAs during the year (decreasing from 1.31% of total assets to 0.74%), the Company had strong loan growth to provide for, as well as several specific reserves for certain existing NPLs as the workouts of these loans and leases progressed.

Comparing 2014 to 2013, the Company's provision increased $877 thousand, or 15%, from $5.9 million for 2013 to $6.8 million for 2014.

The Company had an allowance of 1.45% of total gross loans/leases at December 31, 2015, compared to 1.42% of total gross loans/leases at December 31, 2014, and compared to 1.47% of total gross loans/leases at December 31, 2013.

The Company's allowance to total NPLs was 223% at December 31, 2015, which was up from 115% at December 31, 2014, and up from 105% at December 31, 2013.

NONINTEREST INCOME. The following tables set forth the various categories of noninterest income for the years ended December 31, 2015, 2014, and 2013.

	Years Ended December 31, 2015	December 31, 2014	$ Change	% Change
Trust department fees	$6,131,209	$5,715,151	$416,058	7.3 %
Investment advisory and management fees	2,971,964	2,798,170	173,794	6.2
Deposit service fees	3,823,818	3,847,350	(23,532)	(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	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	1,072,431	982,005	90,426	9.2
Correspondent banking fees	1,190,411	1,064,030	126,381	11.9
Participation service fees on commercial loan participations	865,280	854,621	10,659	1.2
Fee income from early termination of leases	296,546	60,941	235,605	386.6
Credit card issuing fees	538,167	552,639	(14,472)	(2.6)
Lawsuit award	387,045	-	387,045	100.0
Gain on debt extinguishment	300,000	-	300,000	100.0
Other	1,046,763	812,421	234,342	28.8
Total noninterest income	$24,529,723	$21,157,357	$3,372,366	15.9 %

	Years Ended December 31, 2014	December 31, 2013	$ Change	% Change
Trust department fees	$5,715,151	$4,941,681	$773,470	15.7 %
Investment advisory and management fees	2,798,170	2,580,140	218,030	8.5
Deposit service fees	3,847,350	3,873,349	(25,999)	(0.7)
Gains on sales of residential real estate loans, net	460,721	836,065	(375,344)	(44.9)
Gains on sales of government guaranteed portions of loans, net	2,040,638	2,148,979	(108,341)	(5.0)
Swap fee income	154,800	104,560	50,240	48.0
Securities gains	92,363	432,492	(340,129)	(78.6)
Earnings on bank-owned life insurance	1,721,507	1,786,023	(64,516)	(3.6)
Debit card fees	982,005	991,300	(9,295)	(0.9)
Correspondent banking fees	1,064,030	772,120	291,910	37.8
Participation service fees on commercial loan participations	854,621	768,547	86,074	11.2

Bargain purchase gain on Community National Acquisition	-	1,841,385	(1,841,385)	(100.0)
Gains on sales of certain Community National Bank branches	-	2,334,216	(2,334,216)	(100.0)
Gain on the sale of credit card loan receivables	-	495,405	(495,405)	(100.0)
Gain on the sale of credit card issuing operations	-	355,268	(355,268)	(100.0)
Fee income from early termination of leases	60,941	123,587	(62,646)	(50.7)
Credit card issuing fees	552,639	743,700	(191,061)	(25.7)
Lawsuit award	-	444,732	(444,732)	(100.0)
Other	812,421	1,272,127	(459,706)	(36.1)
Total noninterest income	$21,157,357	$26,845,676	$(5,688,319)	(21.2)%

Trust department fees continue to be a significant contributor to noninterest income, increasing 7% in 2015 and 16% in 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. Part of the increase in 2014 was the result of the addition of CNB's trust department for the first full year. As the markets have strengthened with the national economy's gradual recovery from recession, the Company's fee income has experienced similar growth. In recent years, the Company has been successful in expanding its customer base, which has helped drive the recent increases in fee income. Additionally, the Company recently started offering trust operations services to correspondent banks. Fees are expected to continue to grow as this new offering is rolled out.

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, which has helped drive the recent increases in fee income. Investment advisory fees increased 6% in 2015 and 9% in 2014.

Deposit service fees declined slightly in each of the last two years (less than 1%). The decrease in 2015 was primarily due to lower overdraft fees, while the decrease in 2014 was primarily due to a decrease in commercial analysis fees. The Company intends to grow this line item by shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits, as the latter tends to be lower in interest cost and higher in service fees.

Gains on sales of residential real estate loans decreased 30% in 2015 and 45% in 2014. 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.

Gains on the sale of government guaranteed portions of loans decreased 36% in 2015 and 5% in 2014. As one of its core strategies, the Company continues to leverage its small business lending 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 small business loans that fit the criteria for the government guarantee. Further, some of the transactions can be large and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can be large. 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 is adding additional talent and executing on strategies in an effort to make this a more consistent and larger source of revenue.

As a result of the sustained historically low interest rate environment, the Company was able to execute several 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 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 2015, as compared to $155 thousand in 2014 and $105 thousand in 2013. Future levels of swap fee income are very dependent upon market interest rates.

As the Company works to improve its balance sheet mix, investment securities continue to be sold (as market opportunity allows) to fund loan/lease growth and municipal securities, improving the yield the Company earns on these assets and NIM. In 2015, the Company sold $81.4 million of investment securities at a net gain of $799 thousand. In 2014, the Company sold $78.5 million of investment securities at a modest net gain of $92 thousand. During 2013, the Company sold $37.4 million of investment securities at a net gain of $432 thousand.

Earnings on BOLI increased 2% in 2015 and decreased 4% in 2014. There were no purchases of BOLI in 2014 or 2015. With the acquisition of CNB in 2013, the Company acquired $4.6 million of BOLI. Yields on BOLI (based on a simple average and excluding the impact of the federal income tax exemption) were 3.23% for 2015, 3.26% for 2014, and 3.65% for 2013. 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 increased 9% in 2015 and were relatively flat in 2014. 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 increased interest rate that incentivizes debit card activity.

Correspondent banking fees grew 12% in 2015 and 38% in 2014. 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 additional loan growth as well as a steady source of fee income. In 2014, the Company expanded its territory to Wisconsin in order to continue to build this business unit. The Company now serves approximately 172 Banks in Iowa, Illinois and Wisconsin.

Participation service fees on commercial loan participations increased 1% in 2015 and 11% in 2014. These fees represent the amount paid to the Company by participants to cover the servicing expenses incurred by the Company. The fee is generally 25 basis points of the participated loan amount. Additionally, the Company receives a mandated 1% servicing fee on the sold portion of government guaranteed loans.

In accordance with acquisition accounting rules, the Company recognized a bargain purchase gain of $1.8 million in 2013 in recording the acquisition of Community National. The Company adjusted the acquired assets and assumed liabilities to fair value as determined by an independent valuation specialist. The gain resulted primarily from the recording of a core deposit intangible based on the value of the acquired deposit portfolio, and the recognition of a discount on the trust preferred securities that were previously issued by Community National and were assumed by the Company in the transaction. Net of other more modest valuation adjustments, and the resulting deferred income tax liabilities, the $1.8 million bargain purchase gain was included in noninterest income. See Note 2 to the Consolidated Financial Statements for additional information regarding the Company's acquisition of Community National.

In October 2013, the Company sold certain assets and liabilities of certain branches of CNB for a pre-tax gain on sale of $2.3 million. Specifically, the Company sold certain assets and liabilities of the two Mason City, Iowa branches, including deposits of $55 million and loans of $23 million, for a pre-tax gain on sale of $874 thousand. Additionally, the Company sold certain assets and liabilities of the two Austin, Minnesota branches, including deposits of $36 million and loans of $32 million, for a pre-tax gain on sale of $1.4 million. See Note 2 to the consolidated financial statements for additional information regarding these branch sales.

During the first quarter of 2013, QCBT sold its credit card loan portfolio for a pre-tax gain on sale of $495 thousand. In addition, QCBT sold its credit card issuing operations to the same purchaser for a pre-tax gain on sale of $355 thousand.

Fee income from the early termination of leases totaled $297 thousand, $61 thousand and $124 thousand in 2015, 2014 and 2013, respectively. From time to time, customers will choose to terminate their lease agreements prior to the original maturity date. At termination, the Company recognizes income related to these terminations (similar to a prepayment penalty).

Credit card issuing fees decreased 3% in 2015 and 26% in 2014. The decrease in 2014 was primarily the result of the sale of QCBT's credit card issuing operations in 2013.

The Company received lawsuit awards in the amounts of $387 thousand in 2015 and $445 thousand in 2013related to the favorable conclusion of a single lawsuit.

In 2015, the Company extinguished $2.1 million of the QCR Holdings Capital Trust II junior subordinated debentures and recorded a $300 thousand gain on extinguishment, as the Company was able to acquire the related security at a discount through auction. The interest rate on these debentures floated at 3-month LIBOR plus 2.85% and had a rate of 3.18% at the time of extinguishment.

Other noninterest income increased 29% in 2015 and decreased 36% in 2014. The increase in 2015 was primarily the result of earnings from a joint venture. In December 2014, QCBT entered into a joint venture as 20% owner of Ruhl Mortgage. In 2013, QCBT sold certain nonperforming loans at a gain of $576 thousand.

NONINTEREST EXPENSES. The following tables set forth the various categories of noninterest expenses for the years ended December 31, 2015, 2014, and 2013.

	Years Ended December 31, 2015	December 31, 2014	$ Change	% Change
Salaries and employee benefits	$42,967,915	$40,337,055	$2,630,860	6.5 %
Occupancy and equipment expense	7,042,706	7,385,526	(342,820)	(4.6)
Professional and data processing fees	5,523,447	6,191,574	(668,127)	(10.8)
FDIC insurance, other insurance and regulatory fees	2,724,968	2,895,494	(170,526)	(5.9)
Loan/lease expense	882,591	665,602	216,989	32.6
Net cost of operations of other real estate	(1,092,401)	603,092	(1,695,493)	(281.1)
Advertising and marketing	1,900,539	1,985,121	(84,582)	(4.3)
Postage and communications	936,231	930,408	5,823	0.6
Stationery and supplies	595,689	579,330	16,359	2.8
Bank service charges	1,486,265	1,291,017	195,248	15.1
Losses on debt extinguishment	7,485,601	-	7,485,601	100.0
Correspondent banking expense	703,495	635,630	67,865	10.7
Other	2,201,378	1,930,129	271,249	14.1
Total noninterest expense	$73,358,424	$65,429,978	$7,928,446	12.1 %

	Years Ended December 31, 2014	December 31, 2013	$ Change	% Change
Salaries and employee benefits	$40,337,055	$37,510,318	$2,826,737	7.5 %
Occupancy and equipment expense	7,385,526	6,712,468	673,058	10.0
Professional and data processing fees	6,191,574	6,424,594	(233,020)	(3.6)
FDIC insurance, other insurance and regulatory fees	2,895,494	2,587,041	308,453	11.9
Loan/lease expense	665,602	1,241,704	(576,102)	(46.4)
Net cost of operations of other real estate	603,092	1,206,973	(603,881)	(50.0)
Advertising and marketing	1,985,121	1,726,314	258,807	15.0
Postage and communications	930,408	1,069,142	(138,734)	(13.0)
Stationery and supplies	579,330	562,301	17,029	3.0
Bank service charges	1,291,017	1,144,757	146,260	12.8
Acquisition and data conversion costs	-	2,353,162	(2,353,162)	(100.0)
Correspondent banking expense	635,630	661,451	(25,821)	(3.9)
Other	1,930,129	2,264,281	(334,152)	(14.8)

Total noninterest expense	$65,429,978	$65,464,506	$(34,528)	(0.1)%

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

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Salaries and employee benefits, which is the largest component of noninterest expense, increased 7% and 8% in 2015 and 2014, respectively. The increase in 2014 was largely due to the addition of CNB's cost structure for the full year in 2014.

The Company's increase in 2015 was largely the result of:

- Customary annual salary and benefits increases averaging approximately 3% for the Company's employee base.
- Continued increases in health insurance-related employee benefits for the Company's employee base.
- Higher accrued incentive compensation based on core net income.
- Targeted talent additions. Throughout 2014, the Company added twelve business development/sales officers (four in the Wealth Management area, four in the Commercial Banking area, three in the Correspondent Banking area, and one at m2) in an effort to continue to grow market share. Four additional business development/sales officers (two in the Wealth Management area, one in the Commercial Banking area and one at m2) were added in 2015.

The Company had several retirements at the end of 2015. Some of these positions will not be replaced or will be replaced with existing resources.

Occupancy and equipment expense decreased 5% in 2015 and increased 10% in 2014. The decrease in 2015 was primarily due to the relocation of RB&T's downtown facility. In 2014, RB&T's downtown Rockford branch was relocated to a more cost-effective space with improved visibility. In 2015, the Company adjusted certain accrued expenses, a portion of which included occupancy expense.

Professional and data processing fees decreased 11% in 2015 and 4% in 2014. The decrease in 2015 was primarily due to the adjustment of certain accrued expenses, including data processing expense.

FDIC insurance, other insurance and regulatory fees have generally fallen over the past several years since the FDIC modified its assessment calculation to more closely align with bank performance and risk. The increase in 2014 was primarily the result of adding CNB for the full year.

Loan/lease expense fluctuated significantly over the past two years with a 33% increase during 2015 and a 46% decrease in 2014. 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. Management expects these historically elevated levels of expense to decline in line with the declining trend in 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 decreased 4% in 2015 and increased 15% in 2014. The Company incurred additional expenses during 2014 in an effort to gain market share across all four markets the Company serves. A portion of the increase in 2014 was also attributable to a full year of CNB’s cost structure.

Bank service charges, a large portion of which includes indirect costs incurred to provide services to QCBT’s correspondent banking customer portfolio, increased significantly over the past two years (15% in 2015 and 13% in 2014). 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.

In 2015, the Company incurred $7.5 million of losses on debt extinguishment. These losses relate to the prepayment of certain FHLB advances and wholesale structured repurchase agreements. Refer to Notes 9, 10 and 12 of the Consolidated Financial Statements for additional information.

With the acquisition of Community National on May 13, 2013, the Company incurred costs related to the acquisition including professional fees (legal, investment banking, accounting), data conversion costs (including both the de-conversion of the sold branches and the conversion of the remaining branches), and compensation costs for retained and severed employees. In accordance with GAAP, the Company expensed these costs as incurred during 2013.

Correspondent banking expense increased 11% in 2015 and decreased 4% in 2014. These are direct costs incurred to provide services to QCBT's correspondent banking customer portfolio, including safekeeping and cash management services. The increase in 2015 was due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio.

Other noninterest expense increased 14% in 2015 and decreased 15% in 2014. Included in other noninterest expense are items such as subscriptions, sales and use tax and expenses related to wealth management. As the wealth management area continues to grow, expenses related to this area also increase, resulting in an increase to this line item in 2015. The decrease in 2014 was primarily due to the efficiencies gained from the full integration of CNB into CRBT's operational structure.

INCOME TAX EXPENSE

The provision for income taxes was $3.7 million for 2015, or an effective tax rate of 17.8%, compared to $3.0 million for 2014, or an effective tax rate of 16.9%, and compared to $4.6 million for 2013, or an effective tax rate of 23.6%. The general declines in the effective tax rate were primarily the result of the following:

- The continued increases in tax-exempt income for securities and loans. For securities, nontaxable interest income on municipal securities grew 28% in 2015 and 46% in 2014. These growth rates outpaced the growth rates of the Company's taxable income sources.
- The Company recognized a one-time tax benefit in the first quarter of 2014 of $359 thousand as a result of the finalization of the tax issues related to the CNB acquisition following the filing of the acquired entity's final tax return.

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, 2015 AND 2014

OVERVIEW

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

	As of December 31,			
	2015		2014	
	(dollars in thousands)			
	Amount	%	Amount	%
Cash, federal funds sold, and interest-bearing deposits	$97,906	4 %	$120,350	5 %
Securities	577,109	22 %	651,539	26 %
Net loans/leases	1,771,882	68 %	1,606,929	64 %
Other assets	146,301	6 %	146,140	5 %
Total assets	$2,593,198	100%	$2,524,958	100%
Total deposits	$1,880,666	72 %	$1,679,668	67 %
Total borrowings	444,162	17 %	662,558	26 %
Other liabilities	42,484	2 %	38,653	1 %
Total stockholders' equity	225,886	9 %	144,079	6 %
Total liabilities and stockholders' equity	$2,593,198	100%	$2,524,958	100%

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 9, 10 and 12 to the Consolidated Financial Statements.

In 2014, total assets grew $130.0 million, or 5%. The Company organically grew its net loan/lease portfolio $168.1 million, which was partly funded by cash from the securities portfolio, as it decreased $45.7 million, or 7% (mostly due to the sale of securities). Deposits grew $32.7 million, or 2% during 2014. Borrowings increased $99.2 million, mostly due to an increase in overnight funding of $80.6 million. Quarter-end and year-end deposit balances can fluctuate a great deal due to large customer and correspondent bank activity. Since this cash outflow is typically temporary, the Company normally fills the funding gap with overnight or other short-term borrowings.

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 and residential mortgage-backed securities, while increasing 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. Additionally, management will continue to diversify the portfolio with further growth strictly dictated by the pace of growth in deposits and loans. Management expects to continue to fund future loan growth partially with cashflow from the securities portfolio (calls and maturities of government sponsored agencies, paydowns on residential mortgage-backed securities, and/or targeted sales of securities that meet certain criteria as defined by management).

Following is a breakdown of the Company's securities portfolio by type as of December 31, 2015, 2014, and 2013.

	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
U.S. govt. sponsored agency securities	$213,537	37 %	$307,869	47 %	$356,473	51 %
Municipal securities	280,203	49 %	229,230	35 %	180,361	26 %
Residential mortgage-backed and related securities	80,670	14 %	111,423	17 %	157,429	23 %
Other securities	2,699	0 %	3,017	1 %	2,947	0 %
	$577,109	100%	$651,539	100%	$697,210	100%
As a % of Total Assets	22.25 %		25.80 %		27.61 %	

Net Unrealized Losses as a % of Amortized Cost	(0.03)%	(0.19)%	(4.02)%
Duration (in years)	5.1	4.4	4.7
Yield on investment securities (tax equivalent)	3.07 %	2.71 %	2.30 %

As a result of fluctuations in longer-term interest rates, the Company's fair value of its securities portfolio moved from a net unrealized loss position (approximately 4.02% of amortized cost at the end of 2013) to more modest net unrealized loss positions (approximately 0.19% at the end of 2014 and 0.03% at the end of 2015). Management monitors the level of unrealized gains/losses including performing quarterly reviews of individual securities for evidence of OTTI. Management identified no OTTI in 2015, 2014 or 2013.

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.

In 2014, the duration of the securities portfolio decreased slightly for two reasons:

A portion of the government-sponsored agency securities contain call options at the discretion of the issuer whereby the issuer can call the security at par at certain times which vary by individual security. With a steady decline in longer-term market interest rates in 2014, the duration of these callable agency securities shortened as the likelihood of a call increased.

The Company's sales strategy in 2014 targeted the liquidation of longer duration government-sponsored agency securities and government-sponsored mortgage-backed securities.

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 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 Company's gross loan/lease portfolio grew $167.6 million, or 12%, during 2014. Notably, C&I loans increased $92.2 million, or 21%, and direct financing leases increased $37.1 million, or 29%. Although CRE loans grew $30.4 million, or 5%, this sector of the loan/lease portfolio is becoming a smaller percentage of total loans/leases (down from 46% in 2013 to 43% in 2014).

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

As of December 31,									
2015		2014		2013		2012		2011	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(dollars in thousands)									

C&I loans	$648,160	36 %	$523,927	32 %	$431,688	30 %	$394,244	31 %	$350,794	29 %
CRE loans	724,369	40 %	702,140	43 %	671,753	46 %	593,979	46 %	577,804	48 %
Direct financing leases	173,656	10 %	166,032	10 %	128,902	9 %	103,686	8 %	93,212	8 %
Residential real estate loans	170,433	10 %	158,633	10 %	147,356	10 %	115,582	9 %	98,107	8 %
Installment and other consumer loans	73,669	4 %	72,607	5 %	76,034	5 %	76,720	6 %	78,223	7 %
Total loans/leases	$1,790,287	100%	$1,623,339	100%	$1,455,733	100%	$1,284,211	100%	$1,198,140	100%
Plus deferred loan/lease origination costs, net of fees	7,736		6,664		4,547		3,176		2,605	
Less allowance	(26,141)		(23,074)		(21,448)		(19,925)		(18,789)	
Net loans/leases	$1,771,882		$1,606,929		$1,438,832		$1,267,462		$1,181,956	

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. The remaining residential real estate loans originated by the Company continue to be sold on the secondary market to avoid the interest rate risk associated with longer term fixed rate loans. 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, 2015 and 2014. Maturities are based on contractual dates.

	As of December 31, 2015				
				Maturities After One Year	
	Due in one year or less	Due after one through 5 years	Due after 5 years	Predetermined interest rates	Adjustable interest rates
	(dollars in thousands)				
C&I loans	$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 of December 31, 2014				
				Maturities After One Year	
	Due in one year or less	Due after one through 5 years	Due after 5 years	Predetermined interest rates	Adjustable interest rates
	(dollars in thousands)				
C&I loans	$179,177	$254,961	$89,789	$226,178	$118,572
CRE loans	131,438	446,352	124,350	427,753	142,949
Direct financing leases	5,326	151,558	9,148	160,706	-
Residential real estate loans	3,688	2,625	152,320	109,398	45,547
Installment and other consumer loans	21,851	41,077	9,679	25,711	25,045
	$341,480	$896,573	$385,286	$949,746	$332,113
Percentage of total loans/leases	21 %	55 %	24 %	74 %	26 %

Over the past two years, the Company has seen modest changes to the duration of its overall loan/lease portfolio. With the growth in municipal securities and residential real estate loans, both of which are longer duration assets with fixed interest rates, it is important that the Company limits extension of the rest of the loan portfolio in an effort to limit exposure to rising rate scenarios. The strategy, as discussed in the "Noninterest Income" section, of the execution of interest rate swaps on commercial loans, helps offset the growth of longer term fixed rate assets and maintain a favorable interest rate risk profile.

Management continues to focus on growing quality loans/leases and carefully monitors maturities and interest rate sensitivity of the current portfolio.

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 $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 allowance totaled $23.1 million at December 31, 2014, which was an increase of $1.6 million, or 8%, from $21.4 million at December 31, 2013. Provision totaled $6.8 million for 2014 and outpaced net charge-offs of $5.2 million (or 34 basis points of average loans/leases outstanding).

The increase in allowance in both 2015 and 2014 was primarily due to a combination of general allocations related to loan growth, as well as changes in qualitative and quantitative factors.

The following table summarizes the activity in the allowance.

	Years ended December 31, 2015	2014	2013	2012	2011
	(dollars in thousands)				
Average amount of loans/leases outstanding, before allowance	$1,707,523	$1,540,382	$1,425,364	$1,219,623	$1,177,705
Allowance:					
Balance, beginning of fiscal period	$23,074	$21,448	$19,925	$18,789	$20,365
Charge-offs:					
C&I	(454)	(1,476)	(963)	(683)	(3,334)
CRE	(2,560)	(2,756)	(3,573)	(2,232)	(3,682)
Direct financing leases	(1,789)	(1,504)	(917)	(740)	(1,101)
Residential real estate	(170)	(131)	(162)	(4)	-
Installment and other consumer	(252)	(269)	(229)	(717)	(945)
Subtotal charge-offs	(5,225)	(6,136)	(5,844)	(4,376)	(9,062)
Recoveries:					
C&I	634	363	626	663	414
CRE	502	418	574	222	287
Direct financing leases	136	68	12	77	3
Residential real estate	4	10	17	-	-
Installment and other consumer	145	96	208	179	166
Subtotal recoveries	1,421	955	1,437	1,141	870
Net charge-offs	(3,804)	(5,181)	(4,407)	(3,235)	(8,192)
Provision charged to expense	6,871	6,807	5,930	4,371	6,616
Balance, end of fiscal year	$26,141	$23,074	$21,448	$19,925	$18,789
Ratio of net charge-offs to average loans/leases outstanding	0.22%	0.34%	0.31%	0.27%	0.70%

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 Company continued the strengthening of its core loan portfolio as the levels of criticized loans remained relatively flat, while levels of classified loans declined in 2015 and 2014, as reported in the following table.

	As of December 31,		
Internally Assigned Risk Rating *	2015	2014	2013
	(dollars in thousands)		
Special Mention (Rating 6)	$37,289	$32,958	$24,572
Substandard (Rating 7)	27,962	35,715	43,508
Doubtful (Rating 8)	-	-	-
	$65,251	$68,673	$68,080
Criticized Loans **	$65,251	$68,673	$68,080
Classified Loans ***	$27,962	$35,715	$43,508

* 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 have seen a steady decline from 2013 to 2015. Classified loans decreased 18% in 2014 and 22% in 2015.

NPLs (consisting of nonaccrual loans/leases, accruing loans/leases past due 90 days or more, and accruing TDRs) declined $8.4 million, or 42%, during 2015, $383 thousand, or 2%, during 2014 and $4.9 million, or 19%, during 2013. Furthermore, NPLs have declined $35.6 million, or 75% from their peak at September 30, 2010.

See the table in the following section for further detail on NPLs and NPAs. As a direct result, the level of allowance as a percentage of gross loans/leases declined from 2009 to 2014. In 2015, allowance as a percentage of gross loans/leases slightly increased.

Further, in accordance with GAAP for acquisition accounting, the acquired CNB loans were recorded at fair value; therefore, there was no allowance associated with CNB's loans at acquisition. Additionally, the Company has strengthened its allowance as a percentage of NPLs.

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, 2015, 2014, and 2013.

	As of December 31,		
	2015	2014	2013
Allowance / Gross Loans/Leases	1.46 %	1.42 %	1.47 %
Allowance / NPLs	223.33 %	114.78 %	104.70 %

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

	As of December 31,									
	2015		2014		2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
C&I loans	10,484	36 %	8,834	32 %	5,649	30 %	4,532	31 %	4,878	29 %

CRE loans	9,375	40	%	8,353	43	%	10,705	46	%	11,070	46	%	10,597	48	%
Direct financing leases	3,395	10	%	3,359	10	%	2,517	9	%	1,990	8	%	1,339	8	%
Residential real estate loans	1,790	10	%	1,526	10	%	1,396	10	%	1,070	9	%	705	8	%
Installment and other consumer loans	1,097	4	%	1,002	5	%	1,181	5	%	1,263	6	%	1,270	7	%
	$26,141	100	%	$23,074	100	%	$21,448	100	%	$19,925	100	%	$18,789	100	%

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

Although management believes that the allowance at December 31, 2015 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,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Nonaccrual loans/leases (1) (2)	$10,648	$18,588	$17,878	$17,932	$18,995
Accruing loans/leases past due 90 days or more	3	93	84	159	1,111
TDRs - accruing	1,054	1,421	2,523	7,300	11,904
NPLs	11,705	20,102	20,485	25,391	32,010
OREO	7,151	12,768	9,729	3,955	8,386
Other repossessed assets	246	155	346	212	109
NPAs	$19,102	$33,025	$30,560	$29,558	$40,505
NPLs to total loans/leases	0.65 %	1.23 %	1.40 %	1.97 %	2.67 %
NPAs to total loans/leases plus repossessed property	1.06 %	2.01 %	2.08 %	2.29 %	3.35 %
NPAs to total assets	0.74 %	1.31 %	1.28 %	1.41 %	2.06 %
Texas ratio (3)	7.62 %	20.26 %	18.43 %	18.68 %	25.58 %

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

(2) Includes TDRs of $1.5 million at December 31, 2015, $5.0 million at December 31, 2014, $10.9 million at December 31, 2013, $5.7 million at December 31, 2012, and $8.6 million at December 31, 2011.

(3) Texas Ratio = NPAs (excluding Other Repossessed Assets) / Tangible Equity plus Allowance. Texas Ratio is a non-GAAP financial measure. Management included the ratio as it is considered by many investors and analysts to be a metric with which to analyze and evaluate asset quality. Other companies may calculate this ratio differently.

The large majority of the Company’s NPAs consists of nonaccrual loans/leases 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 2015, the Company's NPAs decreased $13.9 million, or 42%. Nonaccrual loans decreased $7.9 million as a result of improving performance and paydowns. 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.

In 2014, the Company's nonperforming assets increased $2.5 million, or 8%, as OREO increased $3.0 million. The growth in OREO was primarily the result of foreclosure on the collateral securing one large nonperforming relationship that was shared between each of the three charters. Management continues to proactively manage its OREO portfolio in an effort to sell timely and prudently. Accruing troubled debt restructurings fell $1.1 million, as the result of improved performance.

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

DEPOSITS

Deposits grew $201.0 million, or 12%, during 2015. For 2014, deposits grew $32.7 million, or 2%. The table below presents the composition of the Company’s deposit portfolio.

	As of December 31,					
	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
Noninterest-bearing demand deposits	$615,292	33 %	$511,992	31 %	$542,566	33 %
Interest-bearing demand deposits	886,294	47 %	778,570	46 %	713,533	43 %
Time deposits	309,974	16 %	306,364	18 %	326,852	20 %
Brokered deposits*	69,106	4 %	82,742	5 %	64,040	4 %
	$1,880,666	100%	$1,679,668	100%	$1,646,991	100%

*Includes brokered money market balances of $15.0 million, $13.5 million and $2.1 million as of December 31, 2015, 2014 and 2013, respectively.

The Company has been successful in growing its noninterest-bearing deposit portfolio over the past several years, growing average balances 12% in 2015 and 11% in 2014. Year-end balances can fluctuate a great deal due to large customer and correspondent bank activity. Trends have shown that this fluctuation is 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,		
	2015	2014	2013
	(dollars in thousands)		
Overnight repurchase agreements with customers	$73,873	$137,252	$98,823
Federal funds purchased	70,790	131,100	50,470
	$144,663	$268,352	$149,293

In 2015, 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 8 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 2015, FHLB advances decreased $52.5 million, or 26%, as several prepayments of advances were included in balance sheet restructurings throughout the year. See Notes 9 and 12 of the Consolidated Financial Statements for additional details. For 2014, FHLB advances decreased $27.9 million, or 12%, as QCBT had $20.4 million of advances mature without replacement during the year.

	As of December 31,		
	2015	2014	2013
	(dollars in thousands)		
Amount Due	$151,000	$203,500	$231,350
Weighted Average Interest Rate at Year-End	1.37 %	2.83 %	2.86 %

See Note 9 to the Consolidated Financial Statements for additional information regarding FHLB advances.

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,		
	2015	2014	2013
	(dollars in thousands)		
Wholesale structured repurchase agreements	$110,000	$130,000	$130,000
Term note	-	17,625	9,800
Series A subordinated notes	-	2,657	2,648
	$110,000	$150,282	$142,448

In 2015, other borrowings decreased $40 million. In 2014, other borrowings increased $7.8 million.

See Notes 9, 10 and 12 to the Consolidated Financial Statements for additional information regarding FHLB advances, other borrowings and the balance sheet restructuring that occurred in 2015.

It is management's intention to continue to reduce its reliance on wholesale funding, including FHLB advances, wholesale structured repurchase agreements, and brokered time 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, including the common and preferred equity components.

	As of December 31,					
	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
Common stock	$11,761		$8,074		$8,006	
Additional paid in capital - common	123,283		61,669		60,360	
Retained earnings	92,966		77,877		64,637	
AOCI	(2,124)		(1,935)		(13,644)	
Less: Treasury stock	-		(1,606)		(1,606)	
Total common stockholders' equity	225,886	100%	144,079	100%	117,753	80 %
Preferred stock	-		-		30	
Additional paid in capital - preferred	-		-		29,794	
Total preferred stockholders' equity	-	0 %	-	0 %	29,824	20 %
Total stockholders' equity	$225,886	100%	$144,079	100%	$147,577	100%
Tangible common equity* / total tangible assets	8.55 %		5.52 %		4.71 %	

*Tangible common equity is defined as total common stockholders' equity excluding equity of noncontrolling interests and excluding goodwill and other intangible assets. This ratio is a non-GAAP financial measure. Management included this ratio as it is considered by many investors and analysts to be a metric with which to analyze and evaluate the equity composition. Other companies may calculate this ratio differently.

As of December 31, 2015 and 2014, no preferred stock was outstanding. At December 31, 2013, preferred stock consisted solely of Senior Non-Cumulative Perpetual Preferred Stock, Series F, and totaled $29.8 million.

The Series E Preferred Stock was converted into the Company's common stock on December 23, 2013. Pursuant to the terms of the Series E Preferred Stock, because the Company's common stock price exceeded $17.22 for at least 20 trading days in a period of 30 consecutive trading days, the Company's Board of Directors approved the conversion and the preferred stockholders were notified by mail on November 21, 2013. Each share of Series E Preferred Stock was converted into the number of shares of common stock that resulted from dividing $1,000 (the issuance price per share of the Series E Preferred Stock) by $12.15 (the conversion price per share). As a result of the conversion, the Company issued 2,057,502 shares of common stock.

In 2015, the Company announced and closed an underwritten public offering of 3,680,000 shares of its common stock at a price of $18.25 per share. This offering significantly increased common stock and additional paid in capital – common in comparison to the prior year. Proceeds from the issuance (net of costs) totaled $63.5 million. Refer to Note 12 of the Consolidated Financial Statements for additional information.

The following table presents the rollforward of stockholders' equity for the years ended December 31, 2015 and 2014, respectively.

	For the Years Ended December 31,	
	2015	2014
	(dollars in thousands)	
Beginning balance	$144,079	$147,577
Net income	16,928	14,953
Other comprehensive income (loss), net of tax	(189)	11,709
Preferred and common cash dividends declared	(935)	(1,713)
Proceeds from issuance of 3,680,000 shares of common stock, net of costs	63,484	-
Redemption of 29,867 shares of Series F Preferred Stock	-	(29,824)
Other *	2,519	1,377
Ending balance	$225,886	$144,079

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

The available for sale portion of the securities portfolio experienced a significant increase in fair value during 2014 as the result of the decrease in longer term interest rates. The fair value stayed relatively flat during 2015. See previous discussion in the Investment Securities section.

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 $129.5 million during 2015, $118.8 million during 2014 and $102.8 million during 2013. 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 time 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 monthly payments on its residential mortgage-backed securities portfolio.

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.

At December 31, 2014, the subsidiary banks had 35 lines of credit totaling $351.6 million, of which $17.1 million was secured and $334.5 million was unsecured. At December 31, 2014, $237.6 million was available as $114.0 million was utilized for short-term borrowing needs at QCBT and RB&T.

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 $40.0 million secured revolving credit note with a variable interest rate and a maturity of June 30, 2016. At December 31, 2015, the Company had not borrowed on this revolving credit note and had the full amount available. See Note 10 to the Consolidated Financial Statements for additional information.

Investing activities used cash of $65.9 million during 2015 compared to $129.9 million during 2014, and $164.6 million during 2013. Proceeds from calls, maturities, paydowns, and sales of securities were $308.8 million for 2015 compared to $137.3 million for 2014, and $230.8 million for 2013. Purchases of securities used cash of $232.1 million for 2015 compared to $76.3 million for 2014, and $313.0 million for 2013. The net increase in loans/leases used cash of $172.8 million for 2015 compared to $180.3 million for 2014, and $55.3 million for 2013. The Company paid cash of $30.4 million on sales of certain branches of CNB in 2013.

Financing activities provided cash of $39.5 million for 2015 compared to $100.6 million for 2014, and $112.9 million for 2013. Net increases in deposits totaled $201.0 million, $32.7 million, and $108.9 million for 2015, 2014, and 2013, respectively. Net short-term borrowings decreased $123.7 million in 2015, while they increased $119.1 million in 2014 and decreased $21.8 million in 2013. In 2015, the Company used $119.0 million to prepay select FHLB advances and other borrowings. In the same period, 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 $30.1 million for 2015, compared to $25.6 million for 2014, and $32.0 million for 2013.

Throughout its history, the Company has secured additional capital through various resources, including the issuance of trust preferred securities. See Notes 11 to the Consolidated Financial Statements for information on the issuance of trust preferred securities.

On August 27, 2015, the Company filed a universal shelf registration statement on Form S-3 with the SEC, as amended on September 24, 2015. This registration statement, declared effective by the SEC on October 5, 2015, will allow the Company to issue various types of securities, including common stock, preferred stock, debt securities or warrants, from time to time, up to an aggregate amount of $100.0 million. The specific terms and prices of the securities 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, 2015 and 2014, 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, 2015 and 2014, no amounts had been recorded as liabilities for the banks' potential obligations under these guarantees.

As of December 31, 2015 and 2014, commitments to extend credit aggregated $480.5 million and $499.3 million, respectively. As of December 31, 2015 and 2014, standby letters of credit aggregated $13.1 million and $12.9 million, 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, 2015, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Description	Financial Statement Note Reference	Payments Due by Period Total	One Year or Less	2 - 3 Years	4 - 5 Years	After 5 Years
		(dollars in thousands)				
Deposits without a stated maturity	N/A	$1,516,599	$1,516,599	$-	$-	$-
Certificates of deposit	7	364,067	274,389	62,722	23,293	3,663
Short-term borrowings	8	144,663	144,663	-	-	-
FHLB advances	9	151,000	103,000	48,000	-	-
Other borrowings	10	110,000	-	20,000	90,000	-
Junior subordinated debentures	11	38,499	-	-	-	38,499
Rental commitments	5	838	240	435	163	-
Operating contracts	N/A	20,213	6,544	9,086	4,583	-
Total contractual cash obligations		$2,345,879	$2,045,435	$140,243	$118,039	$42,162

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 no purchase obligations at December 31, 2015. 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," "sugge "project," "appear," "plan," "intend," "estimate," "may," "will," "would," "could," "should," "likely," or other similar expressi Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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

- The 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.
- 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 has been increased to 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, 2015, 2014 and 2013 demonstrated the following:

INTEREST RATE SCENARIO	POLICY LIMIT	NET INTEREST INCOME EXPOSURE in YEAR 1 As of December 31, 2015	As of December 31, 2014	As of December 31, 2013
100 basis point downward shift	-10.0 %	-2.1 %	-1.7 %	-1.0 %
200 basis point upward shift	-10.0 %	-2.7 %	-5.0 %	-4.8 %

300 basis point upward shock	-25.0 %	-7.1 %	-11.9 %	-11.0 %

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, 2015 were 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

Financial Statements

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Consolidated statements of changes in stockholders' equity for the years ended December 31, 2015, 2014, and 2013

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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, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, 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 11, 2016 expressed an unqualified opinion on the effectiveness of QCR Holdings, Inc. and subsidiaries' internal control over financial reporting.

Davenport, Iowa

March 11, 2016

QCR Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2015 and 2014

Assets	**2015**	**2014**
Cash and due from banks	$41,957,855	$38,235,019
Federal funds sold	19,850,000	46,780,000
Interest-bearing deposits at financial institutions	36,098,431	35,334,682
Securities held to maturity, at amortized cost	253,674,159	199,879,574
Securities available for sale, at fair value	323,434,982	451,659,630
Total securities	577,109,141	651,539,204
Loans receivable, held for sale	565,850	553,000
Loans/leases receivable, held for investment	1,797,456,825	1,629,450,070
Gross loans/leases receivable	1,798,022,675	1,630,003,070
Less allowance for estimated losses on loans/leases	(26,140,906)	(23,074,365)
Net loans/leases receivable	1,771,881,769	1,606,928,705
Bank-owned life insurance	55,485,655	53,723,548
Premises and equipment, net	37,350,352	36,021,128
Restricted investment securities	14,835,925	15,559,575
Other real estate owned, net	7,150,658	12,767,636
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,471,409	1,670,921
Other assets	26,784,392	23,174,994
Total assets	**$2,593,198,275**	**$2,524,958,100**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$615,292,211	$511,991,864
Interest-bearing	1,265,373,973	1,167,676,149
Total deposits	**1,880,666,184**	**1,679,668,013**
Short-term borrowings	144,662,716	268,351,670
Federal Home Loan Bank advances	151,000,000	203,500,000
Other borrowings	110,000,000	150,282,492
Junior subordinated debentures	38,499,052	40,423,735
Other liabilities	42,484,573	38,653,681
Total liabilities	**2,367,312,525**	**2,380,879,591**

Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $1 par value; shares authorized 250,000		
December 2015 and 2014 - No shares issued or outstanding	-	-
Common stock, $1 par value; shares authorized 20,000,000	11,761,083	8,074,443
December 2015 - 11,761,083 shares issued and outstanding		
December 2014 - 8,074,443 shares issued and 7,953,197 outstanding		
Additional paid-in capital	123,282,851	61,668,968
Retained earnings	92,965,645	77,876,824
Accumulated other comprehensive loss:		
Securities available for sale	(1,324,408)	(1,535,849)
Interest rate cap derivatives	(799,421)	(399,367)
Less treasury stock, at cost	-	(1,606,510)
December 2015 - 0 common shares		
December 2014 - 121,246 common shares		
Total stockholders' equity	**225,885,750**	**144,078,509**
Total liabilities and stockholders' equity	**$2,593,198,275**	**$2,524,958,100**

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31, 2015, 2014, and 2013

	2015	**2014**	**2013**
Interest and dividend income:			
Loans/leases, including fees	$74,615,499	$69,423,001	$66,810,952
Securities:			
Taxable	6,772,244	9,618,436	10,061,066
Nontaxable	7,782,370	6,074,896	4,147,050
Interest-bearing deposits at financial institutions	304,602	299,227	275,352
Restricted investment securities	503,764	528,660	558,946
Federal funds sold	24,774	21,036	18,592
Total interest and dividend income	**90,003,253**	**85,965,256**	**81,871,958**
Interest expense:			
Deposits	4,495,538	4,508,921	4,714,306
Short-term borrowings	210,306	233,930	293,020
Federal Home Loan Bank advances	3,511,541	6,025,749	6,863,216
Other borrowings	4,233,193	4,890,909	4,753,260
Junior subordinated debentures	1,255,951	1,234,619	1,142,719
Total interest expense	**13,706,529**	**16,894,128**	**17,766,521**
Net interest income	**76,296,724**	**69,071,128**	**64,105,437**
Provision for loan/lease losses	6,870,900	6,807,000	5,930,420
Net interest income after provision for loan/lease losses	**69,425,824**	**62,264,128**	**58,175,017**
Noninterest income:			