BUNZL PLC
Form 6-K
March 11, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 or 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For March 11, 2004

BUNZL PLC
(Exact name of Registrant as specified in its charter)

ENGLAND
(Jurisdiction of incorporation or organisation)

110 Park Street, London W1K 6NX
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F..X..   Form 40-F.....

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes .....   No ..X..

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):)

NOT APPLICABLE

INDEX

Description

1. Press release dated March 11, 2004 - Holding(s) in Company

SCHEDULE 10

NOTIFICATION OF MAJOR INTERESTS IN SHARES

1. Name of company

BUNZL PLC

2. Name of shareholder having a major interest

PRUDENTIAL PLC

3. Please state whether notification indicates that it is in respect of holding of the shareholder named in 2 above or in respect of a non-beneficial interest or in the case of an individual holder if it is a holding of that person's spouse or children under the age of 18

NON-BENEFICIAL INTERESTS REPRESENTING FUNDS UNDER MANAGEMENT HELD ON BEHALF OF CLIENTS

4. Name of the registered holder(s) and, if more than one holder, the number of shares held by each of them

N/A

5. Number of shares / amount of stock acquired

N/A

6. Percentage of issued class

N/A

7. Number of shares / amount of stock disposed

N/A

8. Percentage of issued class

N/A

9. Class of security

ORDINARY SHARES OF 25P

10. Date of transaction

10 MARCH 2004

11. Date company informed

11 MARCH 2004

12. Total holding following this notification

NO NOTIFABLE INTEREST

13. Total percentage holding of issued class following this notification

N/A

14. Any additional information

N/A

15. Name of contact and telephone number for queries

MISS A MARTIN - 020 7495 4950

16. Name and signature of authorised company official responsible for making this notification

MR P N HUSSEY, COMPANY SECRETARY & GROUP LEGAL ADVISER

Date of notification

11 MARCH 2004

The FSA does not give any express or implied warranty as to the accuracy of this document or material and does not accept any liability for error or omission. The FSA is not liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this document, or any material contained in it, or from any action or decision taken as a result of using this document or any such material.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BUNZL PLC

Date: March 11, 2004

By:__/s/ Anthony Habgood__

Title: Chairman

bsp;

Total revenue

$18,026,215 $10,065,032 $2,675,741 $4,232,205 $2,284,577 $8,463,636 $(8,507,270) $37,240,136

Net interest income

$11,225,414 $7,594,557 $2,191,862 $3,056,989 $- $(438,045) $- $23,630,777

Net income

$3,596,469 $3,286,724 $188,608 $944,781 $398,859 $6,107,492 $(8,415,432) $6,107,501

Total assets

$1,407,733,009 $887,592,695 $580,210,270 $393,191,774 $- $368,990,749 $(356,732,388) $3,280,986,109

Provision

$1,137,986 $- $270,000 $200,000 $- $- $- $1,607,986

Goodwill

$3,222,688 $- $10,408,938 $- $- $- $- $13,631,626

Core deposit intangible

$- $1,321,775 $6,291,818 $- $- $- $- $7,613,593

Three Months Ended September 30, 2015

Total revenue

$14,143,548 $10,047,658 $- $3,922,304 $2,314,406 $7,937,087 $(8,821,205) $29,543,798

Net interest income

$10,728,143 $6,956,027 $- $2,771,214 $- $(317,858) $- $20,137,526

Net income (loss)

$3,786,289 $2,893,397 $- $847,709 $373,801 $6,488,988 $(7,901,197) $6,488,987

Total assets

$1,328,053,105 $867,064,041 $- $360,348,002 $- $277,001,408 $(256,611,839) $2,575,854,717

Provision

$910,263 $550,000 $- $175,000 $- $- $- $1,635,263

Goodwill

$3,222,688 $- $- $- $- $- $- $3,222,688

Core deposit intangible

$- $1,521,287 $- $- $- $- $- $1,521,287

Nine Months Ended September 30, 2016

Total revenue

$45,706,061 $31,342,345 $2,675,741 $11,945,081 $6,723,690 $23,567,906 $(23,720,471) $98,240,353

Net interest income

$33,394,620 $21,755,270 $2,191,862 $8,914,380 $- $(1,019,020) $- $65,237,112

Net income

$10,326,508 $9,366,441 $188,608 $2,334,735 $1,232,831 $19,157,447 $(23,449,113) $19,157,457

Total assets

$1,407,733,009 $887,592,695 $580,210,270 $393,191,774 $- $368,990,749 $(356,732,388) $3,280,986,109

Provision

$3,108,821 $700,000 $270,000 $800,000 $- $- $- $4,878,821

Goodwill

$3,222,688 $- $10,408,938 $- $- $- $- $13,631,626

Core deposit intangible

$- $1,321,775 $6,291,818 $- $- $- $- $7,613,593

Nine Months Ended September 30, 2015

Total revenue

$39,893,713 $28,396,380 $- $11,095,899 $6,927,453 $14,487,857 $(15,556,437) $85,244,865

Net interest income

$29,745,080 $19,836,835 $- $8,089,626 $- $(1,260,962) $- $56,410,579

Net income

$6,578,479 $4,645,136 $- $1,895,933 $1,271,661 $10,143,059 $(14,391,210) $10,143,058

Total assets

$1,328,053,105 $867,064,041 $- $360,348,002 $- $277,001,408 $(256,611,839) $2,575,854,717

Provision

$3,466,384 $1,650,000 $- $578,000 $- $- $- $5,694,384

Goodwill

$3,222,688 $- $- $- $- $- $- $3,222,688

Core deposit intangible

$-	$1,521,287	$-	$-	$-	$-	$-	$1,521,287

35

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 8 – REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and subsidiary banks' financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the subsidiary banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiary banks to maintain minimum amounts and ratios (set forth in the following table) of total common equity Tier 1 and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets, each as defined by regulation. Management believes, as of September 30, 2016 and December 31, 2015, that the Company and the subsidiary banks met all capital adequacy requirements to which they are subject.

Under the regulatory framework for prompt corrective action, to be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and common equity Tier 1 ratios as set forth in the following tables. The Company and the subsidiary banks' actual capital amounts and ratios as of September 30, 2016 and December 31, 2015 are also presented in the following table (dollars in thousands). As of September 30, 2016 and December 31, 2015, each of the subsidiary banks met the requirements to be "well capitalized".

	Actual		For Capital Adequacy Purposes With Capital Conservation Buffer*		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30,						

2016:														
Company:														
Total risk-based capital	$	316,063	11.33	%	$	240,629	≥	8.625	%	$	278,991	≥	10.0	%
Tier 1 risk-based capital		287,015	10.29	%		184,831	≥	6.625			223,192	≥	8.0	
Tier 1 leverage		287,015	10.09	%		113,737	≥	4.000			142,172	≥	5.0	
Common equity Tier 1		257,119	9.22	%		142,983	≥	5.125			181,344	≥	6.5	
Quad City Bank & Trust:														
Total risk-based capital	$	138,333	11.71	%	$	101,861	≥	8.625	%	$	118,100	≥	10.0	%
Tier 1 risk-based capital		125,410	10.62	%		78,241	≥	6.625			94,480	≥	8.0	
Tier 1 leverage		125,410	8.86	%		56,628	≥	4.000			70,785	≥	5.0	
Common equity Tier 1		125,410	10.62	%		60,526	≥	5.125			76,765	≥	6.5	
Cedar Rapids Bank & Trust:														
Total risk-based capital	$	104,206	13.13	%	$	68,474	≥	8.625	%	$	79,390	≥	10.0	%
Tier 1 risk-based capital		94,266	11.87	%		52,596	≥	6.625			63,512	≥	8.0	
Tier 1 leverage		94,266	10.36	%		36,407	≥	4.000			45,509	≥	5.0	
Common equity Tier 1		94,266	11.87	%		40,687	≥	5.125			51,604	≥	6.5	
Community State Bank:														
Total risk-based capital	$	67,008	14.09	%	$	41,031	≥	8.625	%	$	47,572	≥	10.0	%
Tier 1 risk-based capital		66,735	14.03	%		31,516	≥	6.625			38,058	≥	8.0	
Tier 1 leverage		66,735	11.74	%		22,745	≥	4.000			28,431	≥	5.0	
Common equity Tier 1		66,735	14.03	%		24,381	≥	5.125			30,922	≥	6.5	
Rockford Bank & Trust:														
	$	41,130	11.95	%	$	29,680	≥	8.625	%	$	34,412	≥	10.0	%

Total risk-based capital								
Tier 1 risk-based capital	36,821	10.70	%	22,798	≥	6.625	27,529	≥	8.0
Tier 1 leverage	36,821	9.45	%	15,587	≥	4.000	19,484	≥	5.0
Common equity Tier 1	36,821	10.70	%	17,636	≥	5.125	22,367	≥	6.5

36

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

	Actual		For Capital Adequacy Purposes*		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Company:						
Total risk-based capital	$ 280,273	13.11 %	$ 170,969	≥ 8.0 %	$ 213,711	≥ 10.0 %
Tier 1 risk-based capital	253,891	11.88 %	128,227	≥ 6.0	170,969	≥ 8.0
Tier 1 leverage	253,891	9.75 %	104,163	≥ 4.0	130,203	≥ 5.0
Common equity Tier 1	220,800	10.33 %	96,170	> 4.5	138,912	> 6.5
Quad City Bank & Trust:						
Total risk-based capital	$ 135,477	12.50 %	$ 86,726	≥ 8.0 %	$ 108,407	≥ 10.0 %
Tier 1 risk-based capital	123,498	11.39 %	65,044	≥ 6.0	86,726	≥ 8.0
Tier 1 leverage	123,498	8.87 %	55,718	≥ 4.0	69,648	≥ 5.0
Common equity Tier 1	123,498	11.39 %	48,783	> 4.5	70,465	> 6.5
Cedar Rapids Bank & Trust:						
Total risk-based capital	$ 105,285	14.39 %	$ 58,537	≥ 8.0 %	$ 73,172	≥ 10.0 %
Tier 1 risk-based capital	96,118	13.14 %	43,903	≥ 6.0	58,537	≥ 8.0
Tier 1 leverage	96,118	10.96 %	35,079	≥ 4.0	43,848	≥ 5.0
Common equity Tier 1	96,118	13.14 %	32,927	≥ 4.5	47,562	≥ 6.5
Rockford Bank & Trust:						
Total risk-based capital	$ 38,544	11.96 %	$ 25,772	≥ 8.0 %	$ 32,216	≥ 10.0 %

Tier 1 risk-based capital	34,514	10.71	%	19,329	≥	6.0	25,772	≥	8.0
Tier 1 leverage	34,514	9.59	%	14,401	≥	4.0	18,001	≥	5.0
Common equity Tier 1	34,514	10.71	%	14,497	≥	4.5	20,940	≥	6.5

*The minimums under Basel III phase in higher by .625% (the capital conservation buffer) annually until 2019. The fully phased-in minimums are 10.5% (Total risk-based capital), 8.5% (Tier 1 risk-based capital), and 7.0% (Common equity Tier 1). At December 31, 2015, the New Basel III minimums mirrored the minimums required for capital adequacy purposes. The first phase-in of the Basel III capital conservation buffer occurred in 2016.

On October 27, 2016, the Company filed a universal shelf registration statement on Form S-3 with the SEC. When declared effective by the SEC, the registration statement will allow the Company to offer and sell various types of securities, including common stock, preferred stock, debt securities and/or warrants, from time to time up to an aggregate amount of $100 million. The Company utilized $30.1 million of its previous $100 million shelf registration filing through the offer and sale of its common stock in the second quarter of 2016 to help fund the acquisition of CSB. This Form S-3 filing will replenish the amount available to the previous level of $100 million. The specific terms and prices of any securities offered pursuant to the registration statement will be determined at the time of any future offering and described in a separate prospectus supplement, which would be filed with the SEC at the time of the particular offering, if any.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 9 – ACQUISITION OF COMMUNITY STATE BANK AND COMMON STOCK OFFERING

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

The acquisition of CSB allowed the Company to expand its footprint into the Des Moines market. CSB has an experienced and capable leadership team that is committed to leading the Company's efforts in the Des Moines MSA. CSB has demonstrated significant improvement in earnings and asset quality during the last three years. Additionally, CSB has a strong core deposit base and retail franchise. Although CSB already has strong earnings with an expected ROAA of 1.00% in 2016, the Company has identified several opportunities for enhanced future earnings performance. With $581 million of assets acquired, the Company believes this acquisition is large enough to provide meaningful impact on the financial results, but is not too large to overstrain existing infrastructure. Lastly, financial metrics related to the transaction were favorable, as measured by EPS accretion and earn-back of tangible book value dilution.

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

Cash received from the common stock offering was used to help finance the purchase price of the acquisition. Additionally, the Company drew $5.0 million on its $10.0 million revolving line of credit and fully funded its $30.0 million term facility. Both of these facilities are described further in Note 4 to the Consolidated Financial Statements. Cash dividends of $15.2 million from QCBT and CRBT were used to fund the remainder of the purchase price.

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

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

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	As of August 31, 2016
ASSETS	
Cash and due from banks	$10,094,645
Federal funds sold	698,000
Interest-bearing deposits at financial institutions	14,730,157
Securities	102,640,029
Loans/leases receivable, net	419,029,277
Premises and equipment	20,684,880
Core deposit intangible	6,352,653
Restricted investment securities	1,512,900
Other real estate owned	650,000
Other assets	4,763,224
Total assets acquired	$581,155,765
LIABILITIES	
Deposits	$486,298,262
FHLB advances	20,368,877
Other liabilities	4,897,564
Total liabilities assumed	$511,564,703
Net assets acquired	$69,591,062
CONSIDERATION PAID:	
Cash	$80,000,000
Total consideration paid	$80,000,000
Goodwill	$10,408,938

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

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

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	PCI Loans	Performing Loans	Total
Contractually required principal payments	$3,662,431	$428,552,119	$432,214,550
Nonaccretable discount	(991,685)	-	(991,685)
Principal cash flows expected to be collected	$2,670,746	$428,552,119	$431,222,865
Accretable discount	(277,579)	(11,916,009)	(12,193,588)
Fair Value of acquired loans	$2,393,167	$416,636,110	$419,029,277

Changes in accretable yield for the loans acquired were as follows for the three and nine months ended September 30, 2016:

	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	(277,579)	(11,916,009)	(12,193,588)
Accretion recognized	29,317	366,293	395,610
Balance at the end of the period	$(248,262)	$(11,549,716)	$(11,797,978)

During the current quarter, there was also $89 thousand of nonaccretable discount that was accelerated due to the early repayment of PCI loans.

Premises and equipment acquired with a fair value of $20,684,880 includes ten branch locations with a fair value of $19,735,000, including a write-up of $8,334,437. The fair value was determined with the assistance of a third party appraiser. The write-up of these properties will be recognized as an increase in depreciation expense over 39 years.

The Company recorded a core deposit intangible totaling $6,352,653 which is the portion of the acquisition purchase price which represents the value assigned to the existing deposit base. The core deposit intangible has a finite life and

is amortized using an accelerated method over the estimated useful life of the deposits (estimated to be ten years).

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

	September 30, 2016
Balance at the beginning of the period	$6,352,653
Amortization expense	(60,834)
Balance at the end of the period	$6,291,819
Gross carrying amount	$6,352,653
Accumulated amortization	(60,834)
Net book value	$6,291,819

40

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Years ending December 31,	Amount
2016	$182,503
2017	723,955
2018	710,751
2019	694,374
2020	674,819
Thereafter	3,305,417
	$6,291,819

*There is another core deposit intangible on the balance sheet totaling $1,321,774 that is related to a previous acquisition.

During the first nine months of 2016, the Company incurred $2.4 million of expenses related to the acquisition, comprised primarily of legal, accounting, investment banking costs and personnel costs. These acquisition costs are presented on their own line within the consolidated statements of income. CSB results are included in the consolidated statements of income effective on the acquisition date. For the period 8/31/16 to 9/30/16, CSB reported revenues of $2.7 million and net income of $189 thousand, which included $473 thousand of after tax acquisition costs.

Unaudited pro forma combined operating results for the three and nine months ended September 30, 2016 and 2015, giving effect to the CSB acquisition as if it had occurred as of January 1, 2015, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands, except for per share data)			

Interest income	$27,615	$25,685	$80,755	$73,051
Noninterest income	$11,415	$8,074	$27,744	$23,167
Net income	$7,301	$8,216	$23,813	$15,324
Earnings per common share:				
Basic	$0.56	$0.64	$1.85	$1.38
Diluted	$0.55	$0.63	$1.82	$1.36

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

NOTE 10 – RELATED PARTY TRANSACTIONS

Management reviews transactions with related parties on a quarterly basis, as part of Disclosure Committee procedures.

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

The project total is estimated at $3.5 million. This is the full contract price, as subcontractors will be utilized to complete the work. It is estimated that the company will receive $2.1 million for their work as the general contractor, including payments for a portion of the actual construction costs as the company is completing a portion of the subcontracting work in addition to being the general contractor.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This section reviews the financial condition and results of operations of the Company and its subsidiaries for the three and nine months ending September 30, 2016. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends. When reading this discussion, also refer to the Consolidated Financial Statements and related notes in this report. The page locations and specific sections and notes that are referred to are presented in the table of contents.

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

GENERAL

QCR Holdings, Inc. is a financial holding company and the parent company of QCBT, CRBT, CSB and RB&T.

QCBT, CRBT and CSB are Iowa-chartered commercial banks, and RB&T is an Illinois-chartered commercial bank. QCBT, CRBT and RB&T are members of the Federal Reserve system with depository accounts insured to the maximum amount permitted by law by the FDIC. CSB is not a Federal Reserve system member at this time, however, CSB intends to file a membership application as soon as possible. CSB's depository accounts are insured to the maximum amount permitted by law by the FDIC.

QCBT commenced operations in 1994 and provides full-service commercial and consumer banking, and trust and asset management services to the Quad City area and adjacent communities through its five offices that are located in

Bettendorf and Davenport, Iowa and Moline, Illinois. QCBT also provides leasing services through its wholly-owned subsidiary, m2, located in Brookfield, Wisconsin. In addition, QCBT owns 100% of Quad City Investment Advisors, LLC, which is an investment management and advisory company.

CRBT commenced operations in 2001 and provides full-service commercial and consumer banking, and trust and asset management services to Cedar Rapids, Iowa and adjacent communities through its main office located on First Avenue in downtown Cedar Rapids, Iowa and its branch facility located on Council Street in northern Cedar Rapids. Cedar Falls and Waterloo, Iowa and adjacent communities are served through three additional CRBT offices (two in Waterloo and one in Cedar Falls).

CSB was acquired in the third quarter of 2016, as further described in Note 9 to the Consolidated Financial Statements. CSB provides full-service commercial and consumer banking to the Des Moines, Iowa area and adjacent communities through its 10 branch locations, including its main office located on North Ankeny Boulevard in Ankeny, Iowa.

RB&T commenced operations in January 2005 and provides full-service commercial and consumer banking, and trust and asset management services to Rockford, Illinois and adjacent communities through its main office located on Guilford Road at Alpine Road in Rockford and its branch facility in downtown Rockford.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

EXECUTIVE OVERVIEW

The Company reported net income of $6.1 million and diluted EPS of $0.46 for the quarter ended September 30, 2016. This included $1.5 million of acquisition costs (after-tax) related to the acquisition of CSB. By comparison, for the quarter ended June 30, 2016, the Company reported net income of $6.7 million and diluted EPS of $0.53. This included $231 thousand of acquisition costs (after-tax) related to CSB. For the third quarter of 2015, the Company reported net income of $6.5 million and diluted EPS of $0.55.

For the nine months ended September 30, 2016, the Company reported net income of $19.2 million and diluted EPS of $1.52. This included $1.7 million of acquisition costs (after-tax) related to the acquisition of CSB. By comparison, for the nine months ended September 30, 2015, the Company reported net income of $10.1 million and diluted EPS of $1.01. This included several nonrecurring items, including $4.5 million of losses on debt extinguishments (after-tax) related to the balance sheet restructuring that took place in the second quarter of 2015.

The third quarter of 2016 was highlighted by several significant items:

- The successful closing of the acquisition of CSB, headquartered in Ankeny, Iowa;
- Loan and lease growth at an annualized rate of 10.6% through the first nine months of the year (excluding the acquisition of CSB);
- Strong swap fee income and gains on the sale of government guaranteed portions of loans, totaling $4.1 million year-to-date;
- Further reductions in wholesale borrowings totaling $60 million in the third quarter; and
- NIM improvement of 9 basis points quarter-over-quarter.

Following is a table that represents the various net income measurements for the Company.

	For the three months ended			For the nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	$6,107,501	$6,676,467	$6,488,987	$19,157,457	$10,143,058
Diluted earnings per common share	$0.46	$0.53	$0.55	$1.52	$1.01
Weighted average common and common equivalent shares outstanding*	13,269,703	12,516,474	11,875,930	12,580,042	10,024,441

*The increase in the weighted average common and common equivalent shares outstanding was primarily due to the common stock issuance discussed in Note 9 to the Consolidated Financial Statements.

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

	For the three months ended			For the nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net interest income	$23,630,777	$21,008,813	$20,137,526	$65,237,112	$56,410,579
Provision expense	1,607,986	1,197,850	1,635,263	4,878,821	5,694,384
Noninterest income	10,423,401	6,762,401	6,402,686	24,008,275	18,151,411
Noninterest expense	24,480,483	17,743,753	15,947,091	59,178,734	57,318,599
Federal and state income tax expense	1,858,208	2,153,144	2,468,871	6,030,375	1,405,949
Net income	$6,107,501	$6,676,467	$6,488,987	$19,157,457	$10,143,058

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

In comparing quarter-over-quarter, following are some noteworthy changes in the Company's financial results:

Net interest income increased 12% compared to the second quarter of 2016 and increased 17% from the same period in 2015. Much of this increase was the result of the acquisition of CSB, which reported net interest income of $2.2 million for the partial quarter.

Provision increased 34% compared to the second quarter of 2016. Provision was flat from the same period of 2015. The increase in the third quarter was primarily the result of the acquisition of CSB, which reported provision expense of $270 thousand for the partial quarter.

Noninterest income increased 54% compared to the second quarter of 2016. Noninterest income increased 63% from the third quarter of 2015. The increase in noninterest income was primarily due to a one-time gain from the sale of an equity security totaling $4.0 million.

Noninterest expense increased 38% compared to the second quarter of 2016. Noninterest expense increased 54% from the third quarter of 2015. The third quarter of 2016 included $2.0 million of pre-tax acquisition costs related to CSB, as well as $4.1 million of losses on debt extinguishment. See Note 4 to the Consolidated Financial Statements for additional details.

Federal and state income tax expense decreased 14% compared to the second quarter of 2016. Federal and state income tax decreased 25% compared to the third quarter of 2015. See the Income Taxes section of this report for additional details.

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 the Company's 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 in the range of 70 – 75%;

Improve profitability (measured by NIM and ROAA);

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

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

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

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

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Grow gains on sales of government guaranteed portions of loans and swap fee income to more than $4 million annually; and

Grow wealth management segment net income by 10% annually.

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

Goal	Key Metric	Target**	For the Quarter Ending		
			September 30, 2016	**June 30, 2016**	**September 30, 2015**
Balance sheet efficiency	Gross loans and leases to total assets	70 - 75%	72%	72%	68%
	NIM	> 3.75%	3.71%	3.62%	3.51%
Profitability	ROAA	> 1.10%	0.85%	1.01%	1.01%
	Core ROAA (non-GAAP)		1.05%	1.04%	0.97%
	NPAs to total assets	< 0.75%	0.69%	0.70%	0.80%
Asset quality	Net charge-offs to average loans and leases*	< 0.25% annually	0.15%	0.12%	0.26%
Lower reliance on wholesale funding	Wholesale funding to total assets	< 15%	13%	18%	21%
Funding mix	Noninterest bearing deposits as a percentage of total assets	> 30%	23%	23%	23%
m2 commercial loans and leases	Total loans and leases	$250 million	$206.8 million	$205.9 million	$194.9 million
Consistent, high quality noninterest income revenue streams	Gains on sales of government guaranteed portions of loans and swap fee income*	> $4 million annually	$5.4 million	$7.1 million	$2.8 million
			(3%)	(7%)	6%

Grow wealth management segment net income*	> 10% annually

* Ratios and amounts provided for these measurements represent year-to-date actual amounts for the respective period, that are then annualized for comparison.

** Targets will be re-evaluated and adjusted as appropriate.

STRATEGIC DEVELOPMENTS

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

Loan and lease growth year-to-date was 10.6% when annualized (excluding CSB). This is within the Company's target organic growth rate of 10-12%. A majority of this growth was in the C&I and CRE loan categories. Strong loan and lease growth continues to keep the Company's loan and leases to asset ratio within the targeted range of 70-75%.

The Company intends to participate as an acquirer in the consolidation taking place in our markets to further boost ROAA and improve the Company's efficiency ratio. In the third quarter of 2016, the Company acquired CSB, headquartered in Ankeny, Iowa. See Note 9 of the Consolidated Financial Statements for additional details.

The Company continued to focus on reducing the NPAs to total assets ratio and decreased this ratio from 0.74% at December 31, 2015 to 0.69% at September 30, 2016. Although NPAs increased as a result of the acquisition of CSB, the NPAs to total assets ratio decreased slightly as compared to the prior quarter and the Company remains committed to further improving asset quality ratios in 2016.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Management continued to focus on reducing the Company's reliance on wholesale funding. The restructuring executed in the first and third quarters of 2016 (as described in Note 4 of the Consolidated Financial Statements) has further reduced the Company's reliance on long-term wholesale funding. These prepayments, along with the addition of CSB, which has a very strong core funding base with minimal wholesale borrowings, assisted in lowering the Company's reliance on wholesale funding as a percentage of assets down to 13% in the current quarter. Management continues to closely evaluate opportunities for continued 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 179 downstream banks with average total noninterest bearing deposits of $343.1 million during the third quarter of 2016. This line of business provides a strong source of noninterest bearing deposits, fee income, high-quality loan participations and bank stock loans.

The Company provides commercial leasing services through its wholly-owned subsidiary, m2 Lease Funds, which has lease specialists in Iowa, Wisconsin, Minnesota, North Carolina, South Carolina, Florida, California, Colorado, Texas and Pennsylvania. Historically, this portfolio has been high yielding, with an average gross yield in 2016 approximating 8.2%. This portfolio has also shown strong asset quality throughout its history.

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

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

Wealth management is another core line of business for the Company and includes a full range of products, including trust services, brokerage and investment advisory services, asset management, estate planning and financial planning. As of September 30, 2016 the Company had $1.85 billion of total financial assets in trust (and related) accounts and $727 million of total financial assets in brokerage (and related) accounts. Continued growth in assets under management will help to drive trust and investment advisory fees. The Company offers trust and investment advisory services to the correspondent banks that it serves. As management focuses on growing fee income, expanding market share will continue to be a primary strategy.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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 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. In compliance with applicable rules of the SEC, this non-GAAP measure is reconciled to stockholders' equity and total assets, which are the most directly comparable GAAP financial measures.

The table below also includes several "core" 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. In compliance with applicable rules of the SEC, these non-GAAP measures are reconciled to net income, which is the most directly comparable GAAP financial measure.

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.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

GAAP TO NON-GAAP RECONCILIATIONS	As of September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
	(dollars in thousands, except per share data)				
TCE / TA RATIO					
Stockholders' equity (GAAP)	$280,857	$275,117	$235,143	$225,886	$221,115
Less: Intangible assets	22,755	4,595	4,645	4,694	4,744
TCE (non-GAAP)	$258,102	$270,522	$230,498	$221,192	$216,371
Total assets (GAAP)	$3,280,986	$2,683,434	$2,640,673	$2,593,198	$2,575,855
Less: Intangible assets	22,755	4,595	4,645	4,694	4,744
TA (non-GAAP)	$3,258,231	$2,678,839	$2,636,028	$2,588,504	$2,571,111
TCE / TA ratio (non-GAAP)	**7.92** %	**10.10** %	**8.74** %	**8.55** %	**8.42** %

CORE NET INCOME	For the Quarter Ended September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	For the Nine Months Ended September 30, 2016	September 30, 2015
Net income (GAAP)	$6,108	$6,676	$6,373	$6,785	$6,489	$19,157	$10,143
Less nonrecurring items (post-tax) (*):							
Income:							
Securities gains, net	$2,764	$12	$233	$211	$37	$3,009	$308
	-	-	-	-	252		252

Lawsuit settlement							
Total nonrecurring income (non-GAAP)	$2,764	$12	$233	$211	$289	$3,009	$560
Expense:							
Losses on debt extinguishment	$2,689	$-	$54	$189	$-	$2,743	$4,481
Acquisition costs	1,506	231	-	-	-	1,737	-
Other non-recurring expenses	-	-	-	-	-	-	513
Accrual adjustments	-	-	-	(487)	-	-	-
Total nonrecurring expense (non-GAAP)	$4,195	$231	$54	$(298)	$-	$4,480	$4,994
Core net income (non-GAAP)	**$7,539**	**$6,895**	**$6,194**	**$6,276**	**$6,200**	**$20,628**	**$14,577**
CORE EPS							
Core net income (non-GAAP) (from above)	$7,539	$6,895	$6,194	$6,276	$6,200	$20,628	$14,577
Weighted average common shares outstanding	13,066,777	12,335,077	11,793,620	11,744,495	11,713,993	12,398,491	9,878,88
Weighted average common and common equivalent shares outstanding	13,269,703	12,516,474	11,953,949	11,926,038	11,875,930	12,580,042	10,024,4
Core EPS (non-GAAP):							
Basic	**$0.58**	**$0.56**	**$0.53**	**$0.53**	**$0.53**	**$1.66**	**$1.48**
Diluted	**$0.57**	**$0.55**	**$0.52**	**$0.53**	**$0.52**	**$1.64**	**$1.45**

CORE ROAA

Core net income (non-GAAP) (from above)	$7,539	$6,895	$6,194	$6,276	$6,200	$20,628	$14,577
Average Assets	$2,865,947	$2,640,678	$2,602,350	$2,611,276	$2,563,739	$2,702,992	$2,529,469
Core ROAA (annualized) (non-GAAP)	**1.05 %**	**1.04 %**	**0.95 %**	**0.96 %**	**0.97 %**	**1.02 %**	**0.77**

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

48

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NET INTEREST INCOME - (TAX EQUIVALENT BASIS)

Net interest income, on a tax equivalent basis, increased 18% to $25.2 million for the quarter ended September 30, 2016, compared to the same quarter of the prior year. For the nine months ended September 30, 2016, net interest income, on a tax equivalent basis, increased 16% to $69.5 million, compared to the same period of 2015. 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 over the past twelve months, as evidenced by average gross loan/lease growth of 15% in that period;
- The recent acquisition of CSB, whose strong margin will significantly contribute to the Company's results; and
- The Company's balance sheet restructuring and deleveraging strategies executed throughout 2015 and 2016.

A comparison of yields, spread and margin from the third quarter of 2016 to the third quarter of 2015 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets increased 18 basis points.
- The average cost of interest-bearing liabilities decreased 2 basis points.
- The net interest spread increased 20 basis points from 3.29% to 3.49%.
- The NIM improved 20 basis points from 3.51% to 3.71%.

A comparison of yields, spread and margin from the first nine months of 2016 to the first nine months of 2015 is as follows (on a tax equivalent basis):

- The average yield on interest-earning assets increased 15 basis points.
- The average cost of interest-bearing liabilities decreased 15 basis points.
- The net interest spread increased 30 basis points from 3.13% to 3.43%.
- The NIM improved 28 basis points from 3.37% to 3.65%.

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 NIM. Management continually addresses this issue with pricing and other balance sheet management strategies.

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

The Company continues to place an emphasis on shifting its balance sheet mix. With a stated goal of increasing loans/leases as a percentage of assets to a range of 70-75%, the Company funded its loan/lease growth with a mixture of short-term borrowings and cash from the investment securities portfolio. Cash from called securities and the targeted sales of securities was redeployed into the loan portfolio, resulting in a significant increase in yield, while minimizing any extension of duration. Additionally, the Company 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.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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 more quickly than holding the debt until maturity.

The Company's average balances, interest income/expense, and rates earned/paid on major balance sheet categories, as well as the components of change in net interest income, are presented in the following tables:

	For the three months ended September 30,							
	2016				**2015**			
	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	$17,685	$13	0.29	%	$22,435	$8	0.14	%
Interest-bearing deposits at financial institutions	67,807	103	0.60	%	51,380	67	0.52	%
Investment securities (1)	525,417	4,826	3.65	%	591,538	4,683	3.14	%
Restricted investment securities	14,877	132	3.53	%	14,224	127	3.54	%
Gross loans/leases receivable (1) (2) (3)	2,077,376	23,330	4.47	%	1,744,043	19,564	4.45	%
Total interest earning assets	$2,703,162	$28,404	4.18	%	$2,423,620	$24,449	4.00	%
Noninterest-earning assets:								
Cash and due from banks	$52,678				$44,679			
Premises and equipment	42,986				38,318			
Less allowance	(30,927)				(26,417)			
Other	98,048				83,539			

Total assets	$2,865,947				$2,563,739			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing liabilities:								
Interest-bearing deposits	$1,116,325	717	0.26	%	$822,178	465	0.22	%
Time deposits	422,603	755	0.71	%	414,393	675	0.65	%
Short-term borrowings	30,208	12	0.16	%	147,880	64	0.17	%
FHLB advances	118,564	421	1.41	%	131,343	537	1.62	%
Junior subordinated debentures	33,430	306	3.64	%	40,510	317	3.10	%
Other borrowings	116,856	975	3.32	%	115,017	945	3.26	%
Total interest-bearing liabilities	$1,837,986	$3,186	0.69	%	$1,671,321	$3,003	0.71	%
Noninterest-bearing demand deposits	$704,469				$645,033			
Other noninterest-bearing liabilities	45,123				30,932			
Total liabilities	$2,587,578				$2,347,286			
Stockholders' equity	278,369				216,453			
Total liabilities and stockholders' equity	$2,865,947				$2,563,739			
Net interest income		$25,218				$21,446		
Net interest spread			3.49	%			3.29	%
Net interest margin			3.71	%			3.51	%
Ratio of average interest-earning assets to average interest bearing liabilities	147.07 %				145.01 %			

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

(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.

50

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Analysis of Changes of Interest Income/Interest Expense

For the three months ended September 30, 2016

	Inc./(Dec.) from Prior Period	**Components of Change (1)**	
		Rate	**Volume**
	2016 vs. 2015		
	(dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$5	$16	$(11)
Interest-bearing deposits at financial institutions	36	12	24
Investment securities (2)	143	2,551	(2,408)
Restricted investment securities	5	(3)	8
Gross loans/leases receivable (2) (3) (4)	3,766	75	3,691
Total change in interest income	$3,955	$2,651	$1,304
INTEREST EXPENSE			
Interest-bearing deposits	$252	$70	$182
Time deposits	80	67	13
Short-term borrowings	(52)	(5)	(47)
Federal Home Loan Bank advances	(116)	(66)	(50)
Junior subordinated debentures	(11)	214	(225)
Other borrowings	30	16	14
Total change in interest expense	$183	$296	$(113)
Total change in net interest income	$3,772	$2,355	$1,417

(1) The column "Inc./(Dec.) from Prior Period" 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 nontaxable loans are determined on a tax equivalent basis using a 35% tax rate.

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

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

51

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

	For the nine months ended September 30,							
	2016				**2015**			
	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	$16,364	$36	0.29	%	$18,549	$18	0.13	%
Interest-bearing deposits at financial institutions	53,063	226	0.57	%	55,528	208	0.50	%
Investment securities (1)	527,162	14,084	3.57	%	608,687	13,725	3.01	%
Restricted investment securities	14,396	396	3.67	%	15,083	378	3.35	%
Gross loans/leases receivable (1) (2) (3)	1,937,086	63,784	4.40	%	1,688,605	56,452	4.47	%
Total interest earning assets	$2,548,070	$78,526	4.12	%	$2,386,451	$70,781	3.97	%
Noninterest-earning assets:								
Cash and due from banks	$49,677				$43,924			
Premises and equipment	39,637				38,354			
Less allowance	(28,480)				(24,746)			
Other	94,087				85,485			
Total assets	$2,702,992				$2,529,469			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing liabilities:								
Interest-bearing deposits	$994,476	1,931	0.26	%	$797,892	1,357	0.23	%
Time deposits	415,808	2,175	0.70	%	391,218	1,939	0.66	%
Short-term borrowings	55,623	74	0.18	%	163,091	181	0.15	%
FHLB advances	125,319	1,278	1.36	%	170,520	2,983	2.34	%
Junior subordinated debentures	33,825	913	3.61	%	40,475	937	3.10	%
Other borrowings	106,201	2,624	3.30	%	131,278	3,286	3.35	%

Total interest-bearing liabilities	$1,731,251	$8,995	0.69 %	$1,694,474	$10,683	0.84 %
Noninterest-bearing demand deposits	$675,240			$620,089		
Other noninterest-bearing liabilities	41,499			32,771		
Total liabilities	$2,447,989			$2,347,334		
Stockholders' equity	255,002			182,134		
Total liabilities and stockholders' equity	$2,702,992			$2,529,469		
Net interest income		$69,531			$60,098	
Net interest spread			3.43 %			3.13 %
Net interest margin			3.65 %			3.37 %
Ratio of average interest-earning assets to average interest-bearing liabilities	147.18 %			140.84 %		

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

(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.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Analysis of Changes of Interest Income/Interest Expense

For the nine months ended September 30, 2016

	Inc./(Dec.) from Prior Period	**Components of Change (1)**	
		Rate	**Volume**
	2016 vs. 2015		
	(dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$18	$22	$(4)
Interest-bearing deposits at financial institutions	18	32	(14)
Investment securities (2)	359	3,051	(2,692)
Restricted investment securities	18	44	(26)
Gross loans/leases receivable (2) (3) (4)	7,332	(1,456)	8,788
Total change in interest income	$7,745	$1,693	$6,052
INTEREST EXPENSE			
Interest-bearing deposits	$574	$209	$365
Time deposits	236	109	127
Short-term borrowings	(107)	49	(156)
Federal Home Loan Bank advances	(1,705)	(1,043)	(662)
Junior subordinated debentures	(24)	194	(218)
Other borrowings	(662)	(45)	(617)
Total change in interest expense	$(1,688)	$(527)	$(1,161)
Total change in net interest income	$9,433	$2,220	$7,213

(1) The column "Inc./(Dec.) from Prior Period" 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 nontaxable loans are determined on a tax equivalent basis using a 35% tax rate.

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

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

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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. Certain critical accounting policies are described below.

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, changes in NPLs, 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 state of certain industries. Size and complexity of individual credits in relation to loan/lease structures, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology.

Management may report a materially different amount for the provision in the statement of income to change the allowance if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the section entitled "Financial Condition" of this Management's Discussion and Analysis that discusses the allowance.

Although management believes the level of the allowance as of September 30, 2016 was adequate to absorb losses 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 investment securities portfolio is another critical accounting policy due to the level of judgment required by management. Investment 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 Company's lack of intent to sell the security prior to recovery and whether it is not more-likely-than-not that the Company will be required to sell the security prior to recovery. The discussion regarding the Company's assessment of OTTI should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein.

Part I

Item 2

MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

RESULTS OF OPERATIONS

INTEREST INCOME

Interest income increased 16%, comparing the third quarter of 2016 to the same period of 2015 and increased 11%, comparing the first nine months of 2016 to the same period of 2015.

A portion of this growth was the result of the Company’s strategy to redeploy funds from the securities portfolio into higher yielding loans and leases. In addition, organic loan and lease growth has been strong over the past twelve months. The acquisition of CSB also contributed to this increase. CSB’s interest income for the partial quarter totaled $2.3 million.

Overall, the Company’s average earning assets increased 12%, comparing the third quarter of 2016 to the third quarter of 2015. During the same time period, average gross loans and leases increased 19%, while average investment securities decreased 11%.

The securities portfolio yield continued to increase (from 3.14% for the third quarter of 2015 to 3.65% for the third quarter of 2016) as the Company continued to sell low-yielding investments taking advantage of favorable market opportunities. Call activity picked up in 2016, resulting in the call of some lower-yielding callable agency securities. Additionally, the Company continued to take actions to diversify its securities portfolio, including increasing its portfolio of tax-exempt municipal securities, in an effort to increase tax equivalent interest income without additional income tax expense.

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

INTEREST EXPENSE

Interest expense for the third quarter of 2016 increased 6% from the third quarter of 2015. The acquisition of CSB contributed to this increase, as their interest expense for the partial quarter was $83 thousand. For the first nine months of 2016, interest expense decreased 16% compared to the first nine months of 2015. The Company has been successful in maintaining pricing discipline on deposits and decreasing the cost of borrowings, which has more than offset the growth impact and contributed to the net decline in interest expense.

Management has placed a strong focus on reducing the reliance on long-term wholesale funding as it tends to be higher cost than deposits. In the second quarter of 2015, the Company executed a balance sheet restructuring that is saving approximately $4.2 million of interest expense annually. Continued balance sheet restructurings in the fourth quarter of 2015 and first nine months of 2016 have further reduced interest expense. Refer to Note 4 of the Consolidated Financial Statements in this Form 10-Q and Note 12 of the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 for additional details.

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.

Part I

Item 2

MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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 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 $1.6 million for the third quarter of 2016, which was flat from the same quarter of the prior year. Notably, CSB incurred $270 thousand of provision expense in the partial quarter since acquisition. Provision for the first nine months of the year totaled $4.9 million, which was down $816 thousand, or 14%, compared to the first nine months of 2015. The decrease in provision expense was primarily due to stronger asset quality in recent periods.

The Company had provision of $1.6 million for the third quarter of 2016 which, when coupled with net charge-offs of $878 thousand, increased the Company’s allowance to $28.8 million at September 30, 2016. As of September 30, 2016, the Company’s allowance to total loans/leases was 1.22%, which was down from 1.46% at June 30, 2016 and down from 1.45% at September 30, 2015, respectively.

In accordance with generally accepted accounting principles for acquisition accounting, the loans acquired through the acquisition of CSB were recorded at market value; therefore, there was no allowance associated with CSB’s loans at acquisition. Management continues to evaluate the allowance needed on the acquired CSB loans factoring in the net remaining discount ($12.7 million at September 30, 2016). When factoring this remaining discount into the Company’s allowance to total loans and leases calculation, the Company’s allowance as a percentage of total loans and leases increases from 1.22% to 1.76%.

A more detailed discussion of the Company’s allowance can be found in the “Financial Condition” section of this report.

56

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NONINTEREST INCOME

The following tables set forth the various categories of noninterest income for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended			
	September 30, 2016	September 30, 2015	$ Change	% Change
Trust department fees	$1,518,600	$1,531,964	$(13,364)	(0.9)%
Investment advisory and management fees	765,977	782,442	(16,465)	(2.1)
Deposit service fees	1,150,869	984,631	166,238	16.9
Gains on sales of residential real estate loans, net	144,105	84,609	59,496	70.3
Gains on sales of government guaranteed portions of loans, net	218,785	759,668	(540,883)	(71.2)
Swap fee income	333,772	62,700	271,072	432.3
Securities gains, net	4,251,773	56,580	4,195,193	7,414.6
Earnings on bank-owned life insurance	450,251	407,018	43,233	10.6
Debit card fees	475,182	333,144	142,038	42.6
Correspondent banking fees	253,823	310,759	(56,936)	(18.3)
Participation service fees on commercial loan participations	237,456	201,822	35,634	17.7
Fee income from early termination of leases	95,129	89,332	5,797	6.5
Credit card issuing fees	137,620	133,904	3,716	2.8
Lawsuit award	-	387,045	(387,045)	(100.0)
Other	390,059	277,068	112,991	40.8
Total noninterest income	$10,423,401	$6,402,686	$4,020,715	62.8 %

	Nine Months Ended			
	September 30, 2016	September 30, 2015	$ Change	% Change
Trust department fees	$4,606,590	$4,676,535	$(69,945)	(1.5)%

Investment advisory and management fees	2,117,100	2,250,918	(133,818)	(5.9)
Deposit service fees	3,028,758	2,790,456	238,302	8.5
Gains on sales of residential real estate loans	288,904	266,284	22,620	8.5
Gains on sales of government guaranteed portions of loans	2,701,203	899,987	1,801,216	200.1
Swap fee income	1,358,312	1,182,630	175,682	14.9
Securities gains, net	4,628,283	473,513	4,154,770	877.4
Earnings on bank-owned life insurance	1,324,380	1,318,909	5,471	0.4
Debit card fees	1,126,581	912,030	214,551	23.5
Correspondent banking fees	800,892	915,759	(114,867)	(12.5)
Participation service fees on commercial loan participations	694,175	647,598	46,577	7.2
Fee income from early termination of leases	172,922	250,892	(77,970)	(31.1)
Credit card issuing fees	413,348	403,713	9,635	2.4
Lawsuit award	-	387,045	(387,045)	(100.0)
Other	746,827	775,142	(28,315)	(3.7)
Total noninterest income	$24,008,275	$18,151,411	$5,856,864	32.3 %

In recent years, the Company has been successful in expanding its wealth management customer base, which has helped drive increases in fee income. While trust department fees continue to be a significant contributor to noninterest income, due to poor market conditions early in 2016, coupled with a large amount of distributions to clients and beneficiaries, trust department fees decreased 1% compared to the third quarter of 2015 and decreased 2% when comparing the first nine months of 2016 to the same period of the prior year. Income is generated primarily from fees charged based on assets under administration for corporate and personal trusts and for custodial services. The majority of the trust department fees are determined based on the value of the investments within the fully managed trusts. Additionally, the Company recently started offering trust operations services to correspondent banks.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Management has placed a strong emphasis on growing its investment advisory and management services. Part of this initiative has been to restructure the Company's Wealth Management Division to allow for more efficient delivery of products and services through selective additions of talent as well as leverage of and collaboration among existing resources (including the aforementioned trust department). Similar to trust department fees, these fees are largely determined based on the value of the investments managed. And, similar to the trust department, the Company has had some success in expanding its customer base. However, due to poor market conditions early in 2016, investment advisory fees decreased 2% from the third quarter of 2015 to the third quarter of 2016 and they decreased 6% when comparing the first nine months of 2015 to the first nine months of 2016.

Deposit service fees expanded 17%, comparing the third quarter of 2016 to the same period in 2015, and expanded 9% when comparing the first nine months of 2016 to the same period of the prior year. The majority of this increase is the result of the addition of CSB. Its deposit service fees for the partial quarter were $152 thousand. Additionally, the Company continues its emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits across all its markets. With this shift in mix, the Company has increased the number of demand deposit accounts, which tend to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to further focus on growing deposit service fees.

Gains on sales of residential real estate loans increased 70%, comparing the third quarter of 2016 to the third quarter of 2015 and increased 9% when comparing the first nine months of 2016 to the same period of the prior year. With the sustained historically low interest rate environment, refinancing activity has slowed, as many of the Company's existing and prospective customers have already executed a refinancing. Therefore, this area has become a much smaller contributor to overall noninterest income. Nearly half of the increase in the third quarter was attributable to the addition of CSB, which recognized $27 thousand of gains on the sales of residential real estate in the partial quarter.

The Company's gains on the sale of government-guaranteed portions of loans for the third quarter were down 71% from the prior year but were up 200% when comparing the first nine months of 2016 to the same period of 2015. Given the nature of these gains, large fluctuations can happen from quarter-to-quarter. Year-to-date results for the current year are reflective of the strong demand for these types of loans in 2016. As one of its core strategies, the Company continues to leverage its expertise by taking advantage of programs offered by the SBA and the USDA. The Company's portfolio of government-guaranteed loans has grown as a direct result of the Company's strong expertise in

SBA and USDA lending. In some cases, it is more beneficial for the Company to sell the government-guaranteed portion on the secondary market for a premium rather than retain the loans in the Company's portfolio. Sales activity for government-guaranteed portions of loans tends to fluctuate depending on the demand for loans that fit the criteria for the government guarantee. Further, the size of the transactions can vary and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can vary. Lastly, a strategy for improved pricing is packaging loans together for sale. From time to time, the Company may execute on this strategy, which may delay the gains on sales of some loans to achieve better pricing. The Company has added additional talent and is executing on strategies in an effort to make this a more consistent and larger source of revenue. The pipelines for SBA and USDA lending are strong, and management believes that the Company will continue to have success in this category.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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 $334 thousand in third quarter of 2016, as compared to $63 thousand in third quarter of 2015. Swap fee income totaled $1.4 million for the first nine months of 2016, compared to $1.2 million in the first nine months of 2015. Future levels of swap fee income are dependent upon prevailing interest rates.

Securities gains were $4.3 million for the third quarter of 2016, as compared to $57 thousand in the third quarter of 2015. Securities gains totaled $4.6 million for the first nine months of 2016, compared to $474 thousand for the first nine months of 2015. The Company took advantage of market opportunities by selling approximately $115.8 million of investments that were low-yielding during the nine months ended September 30, 2016. Proceeds were then used to purchase higher-yielding tax-exempt municipal bonds with a modest duration extension and to fund loan and lease growth. In the third quarter of 2016, the Company had the opportunity to sell an equity investment and recognize a gain of $4.0 million, which was then used to reduce wholesale borrowings and further de-lever the balance sheet.

Earnings on BOLI increased 11% from the third quarter of 2015 to the third quarter of 2016 and increased less than 1% comparing the first nine months of 2015 to the first nine months of 2016. There were no purchases of BOLI within the last twelve months. Notably, a small portion of the Company's BOLI is variable in nature 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. CSB has not invested in BOLI as of September 30, 2016.

Debit card fees are the interchange fees paid on certain debit card customer transactions. Debit card fees increased 43% comparing the third quarter of 2016 to the third quarter of 2015, and increased 24% comparing the first nine months of 2016 to the first nine months of 2015. The primary reason for this increase in debit card fees was the addition of CSB, which had debit card fees totaling $122 thousand for the partial quarter. Additionally, these fees can vary based on customer debit card usage, so fluctuations from period to period may occur. As an opportunity to

maximize fees, the Company offers a deposit product with a modestly increased interest rate that incentivizes debit card activity.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Correspondent banking fees decreased 18%, comparing the third quarter of 2016 to the third quarter of 2015 and decreased 13% when comparing the first nine months of 2016 to the first nine months of 2015. As correspondent bank deposit balances rise, they receive a higher earnings credit, which then reduces the direct fees that the Company receives. There was an earnings credit rate increase implemented in the first quarter of 2016. Correspondent banking continues to be a core strategy for the Company, as this line of business provides a high level of noninterest bearing deposits that can be used to fund loan growth as well as a steady source of fee income. The Company now serves approximately 179 banks in Iowa, Illinois and Wisconsin.

Participation service fees on commercial loan participations represent fees paid to the Company by the participant(s) to cover servicing expenses incurred by the Company. The fee is generally 0.25% of the participated loan amount. Additionally, the Company receives a mandated 1.00% servicing fee on the sold portion of government-guaranteed loans. Participation service fees increased 18%, comparing the third quarter of 2016 to the third quarter of 2015, and grew 7%, comparing the first nine months of 2016 to the first nine months of 2015.

The Company recognized $387 thousand of non-recurring income during the third quarter of 2015 from the favorable conclusion of a lawsuit.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NONINTEREST EXPENSE

The following tables set forth the various categories of noninterest expense for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended			
	September 30, 2016	September 30, 2015	$ Change	% Change
Salaries and employee benefits	$11,202,460	$10,583,361	$619,099	5.8 %
Occupancy and equipment expense	2,086,331	1,863,648	222,683	11.9
Professional and data processing fees	1,931,329	1,742,268	189,061	10.9
Acquisition costs	2,046,036	-	2,046,036	100.0
FDIC insurance, other insurance and regulatory fees	582,835	702,136	(119,301)	(17.0)
Loan/lease expense	102,678	90,415	12,263	13.6
Net cost of operations of other real estate	133,055	(1,117,671)	1,250,726	(111.9)
Advertising and marketing	547,768	460,411	87,357	19.0
Postage and communications	237,569	220,895	16,674	7.5
Stationery and supplies	167,887	144,967	22,920	15.8
Bank service charges	415,401	392,352	23,049	5.9
Losses on debt extinguishment, net	4,137,310	-	4,137,310	100.0
Correspondent banking expense	205,998	176,977	29,021	16.4
Other	683,826	687,332	(3,506)	(0.5)
Total noninterest expense	$24,480,483	$15,947,091	$8,533,392	53.5 %

	Nine Months Ended			
	September 30, 2016	September 30, 2015	$ Change	% Change
Salaries and employee benefits	$32,920,840	$32,709,765	$211,075	0.6 %
Occupancy and equipment expense	5,797,875	5,507,533	290,342	5.3

Professional and data processing fees	4,921,064	4,683,480	237,584	5.1
Acquisition costs	2,401,005	-	2,401,005	100.0
FDIC insurance, other insurance and regulatory fees	1,866,804	2,151,756	(284,952)	(13.2)
Loan/lease expense	419,846	601,888	(182,042)	(30.2)
Net cost of operations of other real estate	513,149	(1,088,696)	1,601,845	(147.1)
Advertising and marketing	1,367,478	1,368,152	(674)	(0.0)
Postage and communications	711,226	683,993	27,233	4.0
Stationery and supplies	490,682	424,330	66,352	15.6
Bank service charges	1,246,682	1,088,806	157,876	14.5
Losses on debt extinguishment, net	4,220,507	6,894,185	(2,673,678)	(38.8)
Correspondent banking expense	564,763	517,770	46,993	9.1
Other	1,736,813	1,775,637	(38,824)	(2.2)
Total noninterest expense	$59,178,734	$57,318,599	$1,860,135	3.2 %

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

Salaries and employee benefits, which is the largest component of noninterest expense, increased from the third quarter of 2015 to the third quarter of 2016 by 6%. This increase is related to the acquisition of CSB. CSB's salaries and benefits for the partial quarter totaled $759 thousand. Salaries and employee benefits increased only 1% when comparing the first nine months of 2016 to the first nine months of 2015.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Occupancy and equipment expense increased 12%, comparing the third quarter of 2016 to the same period of the prior year and increased 5% when comparing the first nine months of 2016 to the same period of the prior year. The increased expense was mostly due to the addition of CSB for the partial quarter.

Professional and data processing fees increased 11%, comparing the third quarter of 2016 to the same period in 2015 and increased 5% comparing the first nine months of 2016 to the same period in 2015. This increased expense was mostly due to the addition of CSB for the partial quarter. CSB's professional and data processing fees totaled $200 thousand for the period since acquisition. Generally, professional and data processing fees can fluctuate depending on certain one-time project costs. Management will continue to focus on minimizing such one-time costs and driving recurring costs down through contract renegotiation or managed reduction in activity where costs are determined on a usage basis.

Acquisition costs for the third quarter of 2016 were $2.0 million. For the first nine months of 2016, acquisition costs totaled $2.4 million. These costs were related to the acquisition of CSB, as described in Note 9 to the Consolidated Financial Statements.

FDIC and other insurance expense decreased 17%, comparing the third quarter of 2016 to the third quarter of 2015, and decreased 13% comparing the first nine months of 2016 to the same period of 2015. The decrease in expense was due to a decrease in the assessment rate designated by the FDIC. Partially offsetting this was the acquisition of CSB, which has $45 thousand of FDIC and other insurance expense.

Loan/lease expense increased 14%, comparing the third quarter of 2016 to the same quarter of 2015 and decreased 30% when comparing the first nine months of 2016 to the same period of 2015. The Company incurred elevated levels of expense during 2015 for certain existing NPLs in connection with the work-out of these loans. Generally, loan/lease expense has a direct relationship with the level of NPLs; however, it may deviate depending upon the individual NPLs.

Net cost of operations of other real estate includes gains/losses on the sale of OREO, write-downs of OREO and all income/expenses associated with OREO. Net costs of operations of other real estate totaled $133 thousand for the third quarter of 2016, compared to ($1.1) million for the third quarter of 2015. Net costs of operations of other real estate totaled $513 thousand for the first nine months of 2016, compared to ($1.1) million for the first nine months of 2015. The third quarter of 2015 included a large gain on the sale of an OREO property.

Bank service charges, a large portion of which includes indirect costs incurred to provide services to QCBT's correspondent banking customer portfolio, increased 6% from the third quarter of 2015 to the third quarter of 2016 and increased 15% from the first nine months of 2015 to the first nine months of 2016. The increase was due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio. As transactions volumes continue to increase and the number of correspondent banking clients increases, the associated expenses will also increase. This may not directly correlate to correspondent banking balances, as quarter-end balances can fluctuate.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

In the first nine months of 2016, the Company incurred $4.2 million of losses on debt extinguishment, net. This amount included $5.4 million of losses related to the prepayment of certain FHLB advances and whole structured repurchase agreements, as well as a $1.2 million gain recognized through the repurchase of trust preferred securities. For further details, please refer to Note 4 of the Consolidated Financial Statements. In the first nine months of 2015, the Company incurred $6.9 million of losses on debt extinguishment, net, due to the prepayment of certain FHLB advances and structured repurchase agreements, as described in detail within Note 12 of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Correspondent banking expense was up 16% when comparing the third quarter of 2016 to the third quarter of 2015 and up 9% when comparing the first nine months of 2016 to the same period of 2015. These are direct costs incurred to provide services to QCBT's correspondent banking customer portfolio, including safekeeping and cash management services.

INCOME TAXES

In the third quarter of 2016, the Company incurred income tax expense of $1.9 million. For the first nine months of the year, the Company incurred income tax expense of $6.0 million. Following is a reconciliation of the expected income tax expense to the income tax expense included in the consolidated statements of income for the three and nine months ended September 30, 2016 and 2015.

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income

Computed "expected" tax expense	$2,787,998	35.0	%	$3,135,250	35.0	%	$8,815,741	35.0	%	$4,042,152	35.0	%
Tax exempt income, net	(1,180,470)	(14.8)		(832,287)	(9.3)		(3,135,276)	(12.5)		(2,541,017)	(22.0)	
Bank-owned life insurance	(157,587)	(2.0)		(142,456)	(1.6)		(463,532)	(1.8)		(461,618)	(4.0)	
State income taxes, net of federal benefit, current year	289,287	3.6		284,346	3.2		853,325	3.4		369,563	3.2	
Other	118,980	1.5		24,018	0.3		(39,883)	(0.2)		(3,131)	(0.0)	
Federal and state income tax expense	$1,858,208	23.3	%	$2,468,871	27.6	%	$6,030,375	23.9	%	$1,405,949	12.2	%

The effective tax for the quarter ended September 30, 2016 was 23.3% which was a decrease from the effective tax rate of 27.6% for the quarter ended September 30, 2015. The effective tax rate for the nine months ended September 30, 2016 was 23.9%, which was an increase over the effective tax rate of 12.2% for the nine months ended September 30, 2015.

During the third quarter ended September 30, 2016, the Company incurred $2.0 million of acquisition costs (of which $1.5 million was deductible for income taxes) which contributed to a decline in pre-tax income comparing the third quarter of 2016 to the third quarter of 2015. In addition, the Company increased its income from tax exempt sources mostly from growth in tax-exempt municipal bonds and loans. Combining the impact of the acquisition costs and the increase in tax exempt income during the third quarter of 2016, the result is a larger portion of tax exempt income of the total pre-tax income which led to the reduced effective tax rate. Comparing the nine months ended September 30, 2016 to the same period in 2015, the Company's pre-tax income more than doubled. In the first half of 2015, the Company incurred elevated deductible expenses (including $6.9 million of losses on debt extinguishment, net) which led to a significantly reduced effective tax rate for the first nine months of 2015.

Part I

Item 2

MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

FINANCIAL CONDITION

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

	As of September 30, 2016		June 30, 2016		December 31, 2015		September 30, 2015	
	(dollars in thousands)							
	Amount	%	Amount	%	Amount	%	Amount	%
Cash and due from banks	$61,213	2 %	$49,581	2 %	$41,742	2 %	$41,053	2 %
Federal funds sold and interest-bearing deposits	96,047	3 %	68,432	3 %	56,164	2 %	66,606	3 %
Securities	564,930	17 %	510,959	19 %	577,109	22 %	590,775	23 %
Net loans/leases	2,331,774	71 %	1,894,676	70 %	1,771,882	68 %	1,730,138	67 %
Other assets	227,022	7 %	159,786	6 %	146,301	6 %	147,283	6 %
Total assets	$3,280,986	100%	$2,683,434	100%	$2,593,198	100%	$2,575,855	100%
Total deposits	$2,594,913	79 %	$1,973,594	74 %	$1,880,666	72 %	$1,855,319	71 %
Total borrowings	312,104	10 %	381,875	14 %	444,162	17 %	456,091	18 %
Other liabilities	93,112	3 %	52,848	2 %	42,484	2 %	43,330	2 %
Total stockholders' equity	280,857	8 %	275,117	10 %	225,886	9 %	221,115	9 %
Total liabilities and stockholders' equity	$3,280,986	100%	$2,683,434	100%	$2,593,198	100%	$2,575,855	100%

During the third quarter of 2016, the Company’s total assets increased $597.6 million, or 22%, to a total of $3.3 billion. Most of this growth was attributable to CSB, which had $580.2 million in total assets as of September 30, 2016. Total gross loans and leases grew $437.8 million. Of the $437.8 million of loan growth, $419.5 million related to CSB, while the remaining $18.3 million was organic growth. The loan and lease growth was funded primarily by deposits, which increased $140.1 million in the third quarter, excluding the acquisition of CSB. This deposit growth allowed the Company to further reduce borrowings. Total borrowings decreased $69.8 million, or 18%, in the third quarter of

2016. Stockholders’ equity increased $5.7 million, or 2%, in the current quarter due to net income.

INVESTMENT SECURITIES

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

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Following is a breakdown of the Company's securities portfolio by type, the percentage of unrealized gains (losses) to carrying value on the total portfolio, and the portfolio duration:

	As of September 30, 2016		June 30, 2016		December 31, 2015		September 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)							
U.S. govt. sponsored agency securities	$67,885	12 %	$88,321	25 %	$213,537	37 %	$247,625	43 %
Municipal securities	360,330	64 %	302,689	53 %	280,203	49 %	265,293	42 %
Residential mortgage-backed and related securities	133,173	24 %	116,765	22 %	80,670	14 %	74,901	14 %
Other securities	3,542	1 %	3,184	0 %	2,699	0 %	2,956	1 %
	$564,930	100%	$510,959	100%	$577,109	100%	$590,775	100%
Securities as a % of Total Assets	17.22 %		19.04 %		22.25 %		22.94 %	
Net Unrealized Gains (Losses) as a % of Amortized Cost	1.53 %		1.95 %		(0.03 %)		0.41 %	
Duration (in years)	5.7		5.1		5.1		4.5	
Yield on investment securities (tax equivalent)	3.65 %		3.64 %		3.07 %		3.14 %	

As a result of fluctuations in longer-term interest rates, the fair value of the Company's securities portfolio went from a net unrealized gain position of 1.95% of amortized cost at June 30, 2016 to a net unrealized gain position of 1.53% of amortized cost at September 30, 2016. Management performs an evaluation of the portfolio quarterly to understand the current market value as well as projections of market value in a variety of rising and falling interest rate scenarios. In addition, management has evaluated those securities with an unrealized loss position to determine whether the loss is derived from credit deterioration or the movement in interest rates. The evaluation determined that there were no securities in the portfolio with OTTI. See the "Critical Accounting Policies" section of this report for further discussion of this evaluation.

The duration of the securities portfolio has increased slightly during the current quarter. Duration was extended from the strong growth in longer term fixed rate municipal securities. Additionally, some shorter-duration agency securities were sold during the quarter, increasing the average duration of the overall portfolio.

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 2 to the Consolidated Financial Statements for additional information regarding the Company's investment securities.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

LOANS/LEASES

Total loans/leases grew 10.6% on an annualized basis during the first nine months of 2016 when excluding CSB. The mix of the loan/lease types within the Company's loan/lease portfolio is presented in the following table.

	As of September 30, 2016		June 30, 2016		December 31, 2015		September 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)							
C&I loans	$804,308	34 %	$706,261	37 %	$648,160	36 %	$647,398	36 %
CRE loans	1,070,305	45 %	784,379	41 %	724,369	40 %	692,569	41 %
Direct financing leases	166,924	7 %	169,928	9 %	173,656	10 %	173,304	10 %
Residential real estate loans	229,081	10 %	180,482	9 %	170,433	10 %	165,061	9 %
Installment and other consumer loans	81,918	3 %	73,658	4 %	73,669	4 %	69,863	4 %
Total loans/leases	$2,352,536	100%	$1,914,708	100%	$1,790,287	100%	$1,748,195	100%
Plus deferred loan/lease origination costs, net of fees	8,065		8,065		7,736		7,477	
Less allowance	(28,827)		(28,097)		(26,141)		(25,534)	
Net loans/leases	$2,331,774		$1,894,676		$1,771,882		$1,730,138	

As CRE loans have historically been the Company's largest portfolio segment, management places a strong emphasis on monitoring the composition of the Company's CRE loan portfolio. For example, management tracks the level of

owner-occupied CRE loans relative to non owner-occupied loans. Owner-occupied loans are generally considered to have less risk. As of September 30, 2016 and June 30, 2016, respectively, approximately 30% and 33% of the CRE loan portfolio was owner-occupied. The decrease in this percentage in the third quarter was mostly due to the addition of CSB, which had a slightly lower owner-occupied percentage as compared to the other three charters. CSB's percentage of owner-occupied loans was 17% of their CRE portfolio, while the other three charters were collectively at 34%.

Over the past several quarters, the Company has been successful in shifting the mix of its commercial loan portfolio by adding more C&I loans. C&I loans grew $156.9 million, or 24% over the past twelve months. A portion of this growth was attributable to the acquisition of CSB, which had $101.0 million of C&I loans as of September 30, 2016.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Following is a listing of significant industries within the Company's CRE loan portfolio:

	As of September 30, 2016		As of June 30, 2016		As of December 31, 2015		As of September 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)							
Lessors of Nonresidential Buildings	$333,100	32 %	$285,522	36 %	$264,133	37 %	$250,202	36 %
Lessors of Residential Buildings	141,051	13 %	104,395	13 %	89,189	12 %	92,986	13 %
New Single-Family Housing Construction	86,560	8 %	7,024	1 %	5,406	1 %	7,717	1 %
Lessors of Other Real Estate Property	23,521	2 %	21,803	3 %	22,009	3 %	18,056	3 %
Hotels	24,509	2 %	19,804	3 %	19,228	3 %	19,190	3 %
Land Subdivision	31,690	3 %	18,034	2 %	17,839	2 %	15,537	2 %
Nursing Care Facilities	21,823	2 %	15,070	2 %	17,288	2 %	10,689	2 %
Other *	408,051	38 %	312,727	40 %	289,277	40 %	278,192	40 %
Total CRE Loans	$1,070,305	100%	$784,379	100%	$724,369	100%	$692,569	100%

* "Other" consists of all other industries. None of these had concentrations greater than $15.0 million, or approximately 2% of total CRE loans in the most recent period presented.

The changes in concentrations in the current quarter were primarily attributable to the addition of CSB.

The Company's residential real estate loan portfolio consists of the following:

- Certain loans that do not meet the criteria for sale into the secondary market. These are often structured as adjustable rate mortgages with maturities ranging from three to seven years to avoid the long-term interest rate risk.
- A limited amount of 15-year fixed rate residential real estate loans that meet certain credit guidelines.

The remaining residential real estate loans originated by the Company were sold on the secondary market to avoid the interest rate risk associated with longer term fixed rate loans. Loans originated for this purpose were classified as held for sale and are included in the residential real estate loans above. In addition, the Company has not originated any subprime, Alt-A, no documentation, or stated income residential real estate loans throughout its history.

See Note 3 to the Consolidated Financial Statements for additional information regarding the Company's loan/lease portfolio.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

ALLOWANCE FOR ESTIMATED LOSSES ON LOANS/LEASES

Changes in the allowance for the three and nine months ended September 30, 2016 and 2015 are presented as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(dollars in thousands)		*(dollars in thousands)*	
Balance, beginning	$ 28,097	$ 26,146	$ 26,141	$ 23,074
Provisions charged to expense	1,608	1,635	4,879	5,694
Loans/leases charged off	(987)	(2,476)	(2,489)	(4,119)
Recoveries on loans/leases previously charged off	109	229	296	885
Balance, ending	$ 28,827	$ 25,534	$ 28,827	$ 25,534

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

The Company's levels of criticized and classified loans are reported in the following table.

Internally Assigned Risk Rating *	As of September 30, 2016	June 30, 2016	December 31, 2015	September 30, 2015
	(dollars in thousands)			
Special Mention (Rating 6)	$19,572	$ 16,231	$ 37,289	$ 30,463
Substandard (Rating 7)	51,029	44,636	27,962	23,217
Doubtful (Rating 8)	-	-	-	-
	$70,601	$ 60,867	$ 65,251	$ 53,680
Criticized Loans **	$70,601	$ 60,867	$ 65,251	$ 53,680
Classified Loans ***	$51,029	$ 44,636	$ 27,962	$ 23,217
Criticized Loans as a % of Total Loans/Leases	2.99 %	3.17 %	3.63 %	3.06 %
Classified Loans as a % of Total Loans/Leases	2.16 %	2.32 %	1.56 %	1.32 %

* Amounts above include the government guaranteed portion, if any. For the calculation of allowance, the Company assigns internal risk ratings of Pass (Rating 2) for the government guaranteed portion.

** Criticized loans are defined as commercial and industrial and commercial real estate loans with internally assigned risk ratings of 6, 7, or 8, regardless of performance.

*** Classified loans are defined as commercial and industrial and commercial real estate loans with internally assigned risk ratings of 7 or 8, regardless of performance.

The Company experienced an increase in both criticized and classified loans during the first nine months of 2016. The increases during the first nine months of 2016 were primarily due to a limited number of relationship downgrades. A portion of the third quarter increase was due to the addition of CSB (approximately $2.6 million). The Company continues its strong focus on improving credit quality in an effort to limit NPLs.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The following table summarizes the trend in the allowance as a percentage of gross loans/leases and as a percentage of NPLs.

	As of September 30, 2016	June 30, 2016	December 31, 2015	September 30, 2015
Allowance / Gross Loans/Leases	1.22 %	1.46 %	1.45 %	1.45 %
Allowance / NPLs *	173.78 %	223.42 %	223.33 %	207.39 %

*NPLs consist of nonaccrual loans/leases, accruing loans/leases past due 90 days or more, and accruing TDRs.

Although management believes that the allowance at September 30, 2016 was at a level adequate to absorb 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 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 further 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 leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

In accordance with generally accepted accounting principles for acquisition accounting, the loans acquired through the acquisition of CSB were recorded at market value; therefore, there was no allowance associated with CSB's loans at acquisition. Management continues to evaluate the allowance needed on the acquired CSB loans factoring in the net remaining discount ($12.7 million at September 30, 2016). When factoring this remaining discount into the Company's allowance to total loans and leases calculation, the Company's allowance as a percentage of total loans and leases increases from 1.22% to 1.76%. This elimination of CSB's allowance also resulted in a decrease of the allowance to

NPLs ratio, as CSB's nonperforming loans no longer have reserves allocated to them and instead, have a loan discount amount that is separate from the allowance.

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

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NONPERFORMING ASSETS

The table below presents the amounts of NPAs.

	As of September 30, 2016		As of June 30, 2016		As of December 31, 2015		As of September 30, 2015	
	(dollars in thousands)							
Nonaccrual loans/leases (1) (2)	$14,371		$ 10,737		$ 10,648		$ 11,269	
Accruing loans/leases past due 90 days or more	392		86		3		3	
TDRs - accruing	1,825		1,753		1,054		1,040	
Total NPLs	16,588		12,576		11,705		12,312	
OREO	5,808		6,179		7,151		8,140	
Other repossessed assets	353		154		246		194	
Total NPAs	$22,749		$ 18,909		$ 19,102		$ 20,646	
NPLs to total loans/leases	0.70	%	0.65	%	0.65	%	0.70	%
NPAs to total loans/leases plus repossessed property	0.96	%	0.98	%	1.06	%	1.17	%
NPAs to total assets	0.69	%	0.70	%	0.74	%	0.80	%
Texas ratio (3)	7.81	%	6.28	%	7.62	%	8.45	%

(1) Includes government guaranteed portion of loans, as applicable.

(2) Includes TDRs of $4.9 million at September 30, 2016, $1.6 million at June 30, 2016, $1.5 million at December 31, 2015, and $3.9 million at September 30, 2015.

(3) Texas Ratio = Nonperforming Assets (excluding Other Repossessed Assets) / Tangible Equity plus Allowance. Texas 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 asset quality. Other companies may calculate this ratio differently.

NPAs at September 30, 2016 were $22.7 million, which were up $3.8 million from June 30, 2016 and up $2.1 million from September 30, 2015. The increase in the current quarter is primarily due to the acquisition of CSB. In addition, the ratio of NPAs to total assets was 0.69% at September 30, 2016, which was down from 0.70% at June 30, 2016, and down from 0.80% at September 30, 2015.

The large majority of the NPAs consist of nonaccrual loans/leases, accruing TDRs, and OREO. For nonaccrual loans/leases and accruing TDRs, management has thoroughly reviewed these loans/leases and has provided specific allowances as appropriate.

OREO is carried at the lower of carrying amount or fair value less costs to sell.

Additionally, a portion of several of the nonaccrual loans are guaranteed by the government. At September 30, 2016, government guaranteed amounts of nonaccrual loans totaled approximately $1.9 million, or 13% of the $14.4 million of total nonaccrual loans/leases.

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

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

DEPOSITS

Deposits increased $621.3 million during the third quarter of 2016. Of this, $481.2 million was the result of CSB and $140.1 million was organic growth. The table below presents the composition of the Company's deposit portfolio.

	As of September 30, 2016		June 30, 2016		December 31, 2015		September 30, 2015	
	(dollars in thousands)							
	Amount	%	Amount	%	Amount	%	Amount	%
Noninterest bearing demand deposits	$764,615	30 %	$615,764	31 %	$615,292	33 %	$585,300	34 %
Interest bearing demand deposits	1,298,781	50 %	918,036	47 %	886,294	47 %	884,163	43 %
Time deposits	420,470	16 %	337,584	17 %	309,974	16 %	302,978	18 %
Brokered deposits	111,047	4 %	102,210	5 %	69,106	4 %	82,878	5 %
	$2,594,913	100%	$1,973,594	100%	$1,880,666	100%	$1,855,319	100%

Strong organic growth of $140.1 million was driven by the Company's strong focus on core deposit growth. Of the $140.1 million in growth in the third quarter, $28.9 million was noninterest bearing, $94.2 million was interest bearing, $8.1 million was time deposits and $8.8 million was brokered deposits. The noninterest bearing deposit growth was led by the correspondent banking area, which grew deposits $22.6 million.

Quarter-end balances can greatly fluctuate due to large customer and correspondent bank activity. 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.

BORROWINGS

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

	As of September 30, 2016	June 30, 2016	December 31, 2015	September 30, 2015
	(dollars in thousands)			
Overnight repurchase agreements with customers	$8,265	$21,441	$73,873	$74,404
Federal funds purchased	51,750	30,120	70,790	93,160
	$60,015	$51,561	$144,663	$167,564

The Company is nearing the end of transitioning its overnight repurchase agreements with customers into a comparable interest bearing demand deposit product that offers full FDIC insurance. This transition freed up securities that were previously pledged as collateral to the overnight repurchase agreements with customers. This enhanced the Company's ability to further rotate its earning assets from securities to loans.

As a result of their memberships in either the FHLB of Des Moines or Chicago, the subsidiary banks have the ability to borrow funds for short or long-term purposes under a variety of programs. FHLB advances are utilized for loan matching as a hedge against the possibility of rising interest rates, and when these advances provide a less costly or more readily available source of funds than customer deposits.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The table below presents the Company's term FHLB advances and overnight FHLB advances.

	As of September 30, 2016	June 30, 2016	December 31, 2015	September 30, 2015
	(dollars in thousands)			
Term FHLB advances	$ 83,343	$ 78,000	$ 97,000	$ 102,000
Overnight FHLB advances	55,300	118,900	54,000	31,000
	$ 138,643	$ 196,900	$ 151,000	$ 133,000

Term FHLB advances increased in the current quarter, due to the addition of CSB, which had $15.3 million of FHLB advances as of September 30, 2016.

Other borrowings consist of structured repos which are utilized as an alternative funding source to FHLB advances and customer deposits. Structured repos are collateralized by certain U.S. government agency securities and residential mortgage backed and related securities. Structured repos totaled $45 million, $100 million, $110 million and $115 million as of September 30, 2016, June 30, 2016, December 31, 2015 and September 30, 2015, respectively.

It is management's intention to continue to reduce its reliance on wholesale funding, including FHLB advances, structured repos, and brokered deposits. Replacement of this funding with core deposits helps to reduce interest expense as the wholesale funding tends to be higher cost. However, the Company may choose to utilize advances and/or brokered deposits to supplement funding needs, as this is a way for the Company to effectively and efficiently manage interest rate risk. The table below presents the maturity schedule including weighted average interest cost for the Company's combined wholesale funding portfolio.

Maturity:	September 30, 2016 Amount Due	Weighted Average Interest Rate		December 31, 2015 Amount Due	Weighted Average Interest Rate	
Year ending December 31:	*(dollar amounts in thousands)*					
2016	$159,883	0.59	%	$125,038	0.59	%
2017	54,398	2.02		49,055	2.07	
2018	38,459	2.70		57,283	2.87	
2019	16,950	2.65		50,089	3.14	
2020	25,000	2.66		45,000	2.66	
Thereafter	-	-		3,641	2.51	
Total Wholesale Funding	$294,690	1.38	%	$330,106	1.89	%

During the first nine months of 2016, wholesale funding decreased $35.4 million. Year-to-date, the Company has prepaid $80.0 million of borrowings and repaid $28.1 million of borrowings at maturity throughout the year. Offsetting these reductions in wholesale borrowings was a net increase in brokered funding of $56.1 million and the addition of CSB, which had $15.3 million of outstanding advance as of September 30, 2016. Short-term borrowings from the FHLB increased $1.3 million since December 31, 2015.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

STOCKHOLDERS' EQUITY

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

	As of September 30, 2016 Amount	June 30, 2016 Amount	December 31, 2015 Amount	September 30, 2015 Amount
	(dollars in thousands)			
Common stock	$13,075	$13,057	$11,761	$11,729
Additional paid in capital	155,951	155,454	123,283	122,574
Retained earnings	110,610	105,024	92,966	86,649
AOCI (loss)	1,221	1,582	(2,124)	163
Total stockholders' equity	$280,857	$275,117	$225,886	$221,115
TCE* / TA	7.92 %	10.10 %	8.55 %	8.42 %

*TCE is defined as total common stockholders' equity excluding goodwill and other intangibles. This ratio is a non-GAAP financial measure.

The decrease in TCE/TA in the third quarter was due to the addition of CSB.

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 $138.2 million during the third quarter of 2016 and $129.5 million during 2015. 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, wholesale structured repurchase agreements, brokered deposits, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities AFS, 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 securities portfolio (both residential mortgage-backed securities and municipal securities).

At September 30, 2016, the subsidiary banks had 34 lines of credit totaling $393.6 million, of which $37.6 million was secured and $356.0 million was unsecured. At September 30, 2016, $354.6 million was available as $39.0 million was utilized for short-term borrowings needs at QCBT.

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

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

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 a $10.0 million secured revolving credit note with a variable interest rate and a maturity of June 30, 2017. At September 30, 2016, the Company had borrowed $5.0 million on this revolving credit note and the remaining $5.0 million is available.

The Company currently has $320.7 million in correspondent banking deposits spread over 179 relationships. While the Company feels that these funds are very stable, there is the potential for large fluctuations that can impact liquidity. Seasonality and the liquidity needs of these correspondent banks can impact balances. Management closely monitors these fluctuations and runs stress scenarios to measure the impact on liquidity and interest rate risk with various levels of correspondent deposit run-off.

Investing activities used cash of $132.1 million during the first nine months of 2016, compared to $46.2 million for the same period of 2015. Proceeds from calls, maturities, paydowns, and sales of securities were $219.1 million for the first nine months of 2016, compared to $264.8 million for the same period of 2015. Purchases of securities used cash of $111.6 million for the first nine months of 2016, compared to $200.2 million for the same period of 2015. The net increase in loans/leases used cash of $144.6 million for the first nine months of 2016 compared to $129.4 million for the same period of 2015. The net cash paid for the acquisition of CSB was $69.9 million.

Financing activities provided cash of $125.7 million for the first nine months of 2016, compared to $25.9 million for same period of 2015. Net increases in deposits totaled $227.9 million for the first nine months of 2016, compared to $175.7 million for the same period of 2015. During the first nine months of 2016, the Company's short-term borrowings decreased $84.6 million, while they decreased $100.8 million for the same period of 2015. During the first nine months of 2016, the Company used $64.8 million to prepay select FHLB advances and other borrowings, compared to $110.4 million for the same period of 2015. In the first nine months of 2016, the Company received $29.8 million of proceeds from the common stock offering of 1.2 million shares of common stock. During the first nine months of 2015, the Company received $63.5 million of proceeds from the common stock offering of 3.7 million shares of common stock. In the first nine months of 2016, the Company received $35.0 million in cash from the proceeds of other borrowings.

Total cash provided by operating activities was $25.8 million for the first nine months of 2016, compared to $23.2 million for the same period of 2015.

Throughout its history, the Company has secured additional capital through various sources, including the issuance of common and preferred stock, as well as trust preferred securities. Trust preferred securities are reported on the Company's balance sheet as liabilities, but currently qualify for treatment as regulatory capital.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The following table presents the details of the trust preferred securities outstanding as of September 30, 2016 and December 31, 2015.

Name	Date Issued	Amount Outstanding September 30, 2016	Amount Outstanding December 31, 2015	Interest Rate	Interest Rate as of September 30, 2016		Interest Rate as of December 31, 2015	
QCR Holdings Statutory Trust II	February 2004	$ 10,310,000	$ 10,310,000	2.85% over 3-month LIBOR	3.48	%	3.18	%
QCR Holdings Statutory Trust III	February 2004	8,248,000	8,248,000	2.85% over 3-month LIBOR	3.48	%	3.18	%
QCR Holdings Statutory Trust IV	May 2005	-	5,155,000	1.80% over 3-month LIBOR	N/A		2.12	%
QCR Holdings Statutory Trust V	February 2006	10,310,000	10,310,000	1.55% over 3-month LIBOR	2.23	%	1.87	%
Community National Statutory Trust II	September 2004	3,093,000	3,093,000	2.17% over 3-month LIBOR	3.03	%	2.74	%
Community National Statutory Trust III	March 2007	3,609,000	3,609,000	1.75% over 3-month LIBOR	2.60	%	2.26	%
		$ 35,570,000	$ 40,725,000		2.99	%	2.60	%

Weighted
Average
Rate

The Company assumed the trust preferred securities originally issued by Community National in connection with its acquisition in May 2013. As a result of acquisition accounting, the liabilities were recorded at fair value upon acquisition with the resulting discount being accreted as interest expense on a level yield basis over the expected term. The original discount totaled $2.6 million. As of September 30, 2016, the remaining discount was $2.1 million.

QCR Holdings Statutory Trust IV was extinguished in the first quarter of 2016. Refer to Note 4 of the Consolidated Financial Statements for additional information.

On October 27, 2016, the Company filed a universal shelf registration statement on Form S-3 with the SEC. When declared effective by the SEC, the registration statement will allow the Company to offer and sell various types of securities, including common stock, preferred stock, debt securities and/or warrants, from time to time up to an aggregate amount of $100 million. The Company utilized $30.1 million of its $100 million previous shelf registration filing through the offer and sale of its common stock in the second quarter of 2016 to help fund the acquisition of CSB. This Form S-3 filing will replenish the amount available to the previous level of $100 million. The specific terms and prices of any securities offered pursuant to the registration statement will be determined at the time of any future offering and described in a separate prospectus supplement, which would be filed with the SEC at the time of the particular offering, if any.

The Company (on a consolidated basis) and the subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and subsidiary banks' financial statements. Refer to Note 8 of the Consolidated Financial Statements for additional information regarding regulatory capital.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995. This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "bode," "predict," "suggest," "project," "appear," "plan," "intend," "estimate," "may," "will," "would," "could," "should," "likely," or other similar expressions. Addit 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 which could have a material adverse effect on the Company's operations and future prospects are detailed in the "Risk Factors" sections included under Item 1A of Part I of the Company's Annual Report on Form 10-K and Item 1A of Part II of this report. In addition to the risk factors described in that section, there are other factors that may impact any public company, including the Company, which could have a material adverse effect on the Company's operations and future prospects of the Company and its subsidiaries. One should not consider the risk factors to be a complete discussion of risks, uncertainties and assumptions.

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

Part I

Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 an 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 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.

Part I

Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Further, in recent years, the Company added additional interest rate scenarios where interest rates experience a parallel and instantaneous shift upward 100, 200, 300, and 400 basis points and a parallel and instantaneous shift downward 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 the most recent quarter-end available is presented in the following table:

		NET INTEREST INCOME EXPOSURE in YEAR 1		
INTEREST RATE SCENARIO	POLICY LIMIT	As of June 30, 2016	As of December 31, 2015	As of December 31, 2014
100 basis point downward shift	-10.0 %	-1.1 %	-2.1 %	-1.7 %
200 basis point upward shift	-10.0 %	-2.3 %	-2.7 %	-5.0 %
300 basis point upward shock	-25.0 %	-4.6 %	-7.1 %	-11.9 %

The simulation is within the board-established policy limits for all three scenarios. Additionally, for all of the various interest rate scenarios modeled and measured by management (as described above), the results at June 30, 2016 (the most recent quarter available) 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.

Part I

Item 4

CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act of 1934) as of September 30, 2016. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed in the reports filed and submitted under the Exchange Act was recorded, processed, summarized and reported as and when required.

Changes in Internal Control over Financial Reporting. There have been no significant changes to the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1 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 1A Risk Factors

There have been no material changes in the risk factors applicable to the Company from those disclosed in Part I, Item 1.A. "Risk Factors," in the Company's 2015 Annual Report on Form 10-K. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

Not applicable

Item 5 Other Information

None

Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION - continued

Item 6 Exhibits

10.1 Form of QCR Holdings, Inc. 2016 Equity Incentive Plan Nonqualified Stock Option Award Agreement incorporated by reference to the registrant's Form S-8 filed with the Commission on October 27, 2016 (SEC file no. 333-214282).

10.2 Form of QCR Holdings, Inc. 2016 Equity Incentive Plan Restricted Stock Award Agreement incorporated by reference to the registrant's Form S-8 filed with the Commission on October 27, 2016 (SEC file no. 333-214282).

10.3 Form of QCR Holdings, Inc. 2016 Equity Incentive Plan Restricted Stock Unit Award Agreement incorporated by reference to the registrant's Form S-8 filed with the Commission on October 27, 2016 (SEC file no. 333-214282).

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2016 and September 30, 2015; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and September 30, 2015; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2016 and September 30, 2015; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and September 30, 2015; and (vi) Notes to the Consolidated

Financial Statements.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QCR HOLDINGS, INC.

(Registrant)

Date November 8, 2016	/s/ Douglas M. Hultquist Douglas M. Hultquist, President Chief Executive Officer
Date November 8, 2016	/s/ Todd A. Gipple Todd A. Gipple, Executive Vice President Chief Operating Officer Chief Financial Officer
Date November 8, 2016	/s/ Elizabeth A. Grabin Elizabeth A. Grabin, Vice President Controller & Director of Financial Reporting Principal Accounting Officer