PFIZER INC
Form 424B3
December 06, 2007

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not offers to sell nor solicitations of offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

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PROSPECTUS SUPPLEMENT, Subject to Completion, dated December 6, 2007

(To Prospectus dated March 30, 2007)

Pfizer Inc.

% NOTES DUE 2014

The notes will mature on December , 2014, will be our senior unsecured debt obligations and will not be subject to any sinking fund. Interest will be payable annually on the notes on December of each year. The notes are redeemable in whole or in part at our option at a make whole premium, or in whole at par if certain events occur involving changes in United States taxation, as set forth in this prospectus supplement.

We will apply to have the notes listed on the New York Stock Exchange.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discount	Proceeds to us, before Expenses
Per Note	%	%	%
Total			

The underwriters expect to deliver the notes to purchasers only through The Depository Trust Company, Clearstream or Euroclear, as the case may be, on December , 2007.

Joint Book Running Managers

Barclays Capital **JPMorgan**

December , 2007

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus is not an offer to sell or buy any securities in any jurisdiction where it is unlawful. Neither the delivery of this prospectus supplement or the accompanying prospectus, nor any sale of Notes made under these documents, will, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus supplement or the accompanying prospectus or that the information contained or incorporated by reference is correct as of any time subsequent to the date of such information. Our business, financial condition, results of operation and prospects may have changed since those dates.

The Notes are offered globally for sale in those jurisdictions in the United States, Canada, Europe, Asia and elsewhere where it is lawful to make such offers. See Underwriting.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe these restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See Offering Restrictions.

References herein to $ and dollars are to the currency of the United States. References to and euro are to the currency of the member states of the European Monetary Union that have adopted or that adopt the single currency in accordance with the treaty establishing the European Community, as amended by the Treaty on European Union. The financial information presented in this prospectus has been prepared in accordance with Generally Accepted Accounting Principles in the United States.

DISCLOSURE NOTICE: FORWARD LOOKING INFORMATION

The information contained in this prospectus supplement is accurate only as of the date hereof, and will not be updated as a result of new information or future events or developments.

This prospectus supplement and accompanying prospectus contain or incorporate forward-looking statements within the meaning of the securities laws about our financial results and estimates, business prospects and products in research that involve substantial risks and uncertainties. You can identify these statements by the fact that they use words such as anticipate, estimate, expect, project, intend, plan, and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. A list and description of these risks, uncertainties and other matters can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and Quarterly Reports on Form 10-Q for the quarterly periods ended April 1, 2007, July 1, 2007 and September 30, 2007.

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratio of earnings to fixed charges for each of the fiscal years ended December 31, 2002 through 2006 and for the nine month period ended September 30, 2007 are set forth below. For the purpose of computing these ratios, earnings consist of income from continuing operations before provision for taxes on income, minority interests and cumulative effect of a change in accounting principle less minority interests and less undistributed earnings (losses) of unconsolidated subsidiaries adjusted for fixed charges, excluding capitalized interest. Fixed charges consist of interest expense, (which includes amortization of debt discount and expenses), capitalized interest and, one-third of rental expense which we believe to be a conservative estimate of an interest factor in our leases. It is not practicable to calculate the interest factor in a material portion of our leases. The ratio was calculated by dividing the sum of the fixed charges into the sum of the earnings from continuing operations before taxes and fixed charges.

	Year Ended December 31,					Nine Month Period Ended September 30,
	2006	2005	2004	2003	2002	2007
Ratio of earnings to fixed charges	20.4	17.9	26.9	7.0	33.5	15.2

USE OF PROCEEDS

We will use the net proceeds before expenses from the sale of the Notes of approximately for general corporate purposes, including the refinancing of existing debt. We may temporarily invest funds that are not immediately needed for these purposes in short-term marketable securities.

CURRENCY CONVERSION AND FOREIGN EXCHANGE RISKS

Currency Conversions/ Payments on the Notes

Initial investors will be required to pay for the Notes in euro. The Bank of New York, as trustee (the Representative), will arrange for the conversion of U.S. dollars into euro to facilitate payment for the Notes by U.S. purchasers. Each conversion will be made by the Representative on the terms and subject to the conditions, limitations and charges as the Representative may from time to time establish in accordance with its regular foreign exchange practices, and subject to United States laws and regulations. All costs of conversion will be borne by investors in the Notes.

Principal and interest payments in respect of the Notes are payable by Pfizer Inc. in euro, but holders of beneficial interests in Global Notes (as defined below under Description of the Notes) held through The Depository Trust Company (also known as DTC), other than Euroclear and Clearstream, will receive payments in U.S. dollars unless they elect to receive payments in euro. If a holder through DTC has not made such an election, payments to the holder will be converted to U.S. dollars by the exchange agent (as

defined below under Description of the Notes). All costs of conversion will be borne by the holder by deduction from the payments. The U.S. dollar amount of any payment in respect of principal or interest received by a holder not electing payment in euro will be the amount of euro otherwise payable exchanged into U.S. dollars at the euro/ U.S.$ rate of exchange prevailing as at 11:00 a.m. (New York City time) on the day which is two Business Days (as defined below) prior to relevant payment date, less any costs incurred by the exchange agent for the conversion (to be shared pro rata among the holders of beneficial interests in the Global Notes accepting U.S. dollar payments in the proportion of their respective holdings), all in accordance with the indenture and the Notes (as defined below under Description of the Notes).

If an exchange rate bid quotation is not available, the trustee will obtain a bid quotation from a leading foreign exchange bank in The City of New York, which may be the trustee or selected by the trustee for that purpose after consultation with Pfizer. If no bid quotation from a leading foreign exchange bank is available, payment will be in euro to the account or accounts specified by DTC to the trustee unless euro is unavailable due to the imposition of exchange controls or other circumstances beyond our control. If payment in respect of a Note is required to be made in a currency other than U.S. dollars and such currency is unavailable to Pfizer due to the imposition of exchange controls or other circumstances beyond Pfizer s control or is no longer used by the government of the relevant country or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of such Note will be made in U.S. dollars until such currency is again available to Pfizer or so used. The amount payable on any date in such currency will be converted into U.S. dollars on the basis of the most recently available market exchange rate for such currency. Any payment in respect of such Note so made in U.S. dollars will not constitute an event of default under the indenture.

The holder of a beneficial interest in the Global Notes held through a participant of DTC (other than Euroclear or Clearstream) may elect to receive payment or payments under a Global Note in euro by notifying the DTC Participant (as defined below under Description of the Notes) through which its Notes are held on or prior to the applicable Record Date (as defined below) of (1) the investor s election to receive all or a portion of the payment in euro and (2) wire transfer instructions to a euro account located outside of the United States. DTC must be notified of an election and wire transfer instructions (1) on or prior to the third New York Business Day (as defined below) after the Record Date for any payment of interest and (2) on or prior to the fifth New York Business Day prior to the date for any payment of principal. DTC will notify the trustee of an election and wire transfer instructions (1) on or prior to 5:00 p.m. New York City time on the fifth New York Business Day after the Record Date for any payment of interest and (2) on or prior 5:00 p.m. New York City time on the third New York Business Day prior to the date for any payment of principal. If complete instructions are forwarded to and received by DTC through DTC Participants and forwarded by DTC to the trustee and received on or prior to such dates, such investor will receive payment in euro outside DTC; otherwise, only U.S. dollar payments will be made by the trustee to DTC. All costs of conversion will be borne by holders of beneficial interests in the Global Notes receiving U.S. dollars by deduction from those payments.

The term Business Day means any day on which commercial banks and foreign exchange markets settle payments in The City of New York, which is also a Target Settlement Day.

The term New York Business Day means any day other than a Saturday or Sunday or a day on which banking institutions in The City of New York are authorized or required by law or executive order to close.

The term Record Date means each .

Investors will be subject to foreign exchange risks as to payments of principal and interest that may have important economic and tax consequences to them. See Foreign Exchange Risks below.

As of December 5, 2007, the euro/ U.S.$ rate of exchange was euro 0.6818/ U.S.$1.

Foreign Exchange Risk

An investment in the Notes which are denominated in, and all payments in respect of which are to be made in, a currency other than the currency of the country in which the purchaser is resident or the currency in which the purchaser conducts its business or activities (the home currency), entails significant risks not associated with a similar investment in a security denominated in the home currency. These include the possibility of:

- significant changes in rates of exchange between the home currency and the euro, and
- the imposition or modification of foreign exchange controls with respect to the euro.

We have no control over a number of factors affecting this type of note, including economic, financial and political events that are important in determining the existence, magnitude and longevity of these risks and their results. In recent years, rates of exchange for certain currencies, including the euro, have been highly volatile and this volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative of fluctuations in the rate that may occur during the term of the Notes. Depreciation of the euro against the home currency could result in a decrease in the effective yield of the Notes below the coupon rate, and in certain circumstances, could result in a loss to you on a home currency basis.

This description of foreign currency risks does not describe all the risks of an investment in securities denominated in a currency other than the home currency. You should consult your own financial and legal advisors as to the risks involved in an investment in the Notes.

DESCRIPTION OF NOTES

The Notes are a series of debt securities described in the accompanying prospectus. Reference should be made to the accompanying prospectus for a detailed summary of additional provisions of the Notes and of the indenture dated as of January 30, 2001 between Pfizer Inc. and The Bank of New York, as successor to JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, as trustee, under which the Notes are issued. The following description is a summary of selected portions of the indenture. It does not restate the indenture because it, and not this description, defines your rights as a holder of the Notes.

Principal, Maturity and Interest

The Notes will initially be limited to aggregate principal amount. The Notes will mature on December , 2014. We will issue the Notes in denominations of 50,000 and integral multiples of 50,000.

Interest on the Notes will accrue at the annual rate of %. Interest will accrue from and including December , 2007, and is payable on December of each year, commencing December , 2008. We will make each interest payment to the holders of record of Notes at the close of business on the next preceding December , payable in equal annual installments.

Interest will be computed on the basis of the actual number of days in the period for which interest is being calculated and the actual number of days from and including the last date on which interest was paid on the Notes (or December , 2007 if no interest has been paid on the Notes), to but excluding the next scheduled interest payment date. This payment convention is referred to as ACTUAL/ACTUAL (ICMA) as defined in the rulebook of the International Capital Market Association.

Ranking

The Notes will be unsecured general obligations of Pfizer and will rank equally with all other unsecured and unsubordinated indebtedness of Pfizer from time to time outstanding.

Further Issues

Pfizer may, without the consent of the holders of Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Notes. Any additional notes having such similar terms, together with the Notes, will constitute a single series of notes under the indenture. No additional notes of this series may be issued if an event of default has occurred with respect to the Notes. Pfizer will not issue any additional notes intended to form a single series with the Notes unless the further notes will be fungible with all notes of the same series for U.S. Federal income tax purposes.

Redemption; Sinking Fund

At our option, we may redeem the Notes, in whole or in part, at any time or from time to time. The redemption price will be equal to the greater of the following amounts:

- 100% of the principal amount of the Notes being redeemed on the redemption date; and
- the Optional Redemption Price;

plus, in each case, accrued and unpaid interest on the Notes to, but excluding, the redemption date.

Notwithstanding the foregoing, installments of interest on Notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the Notes and the indenture.

We will mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each registered holder of the Notes to be redeemed. Once notice of redemption is mailed, the Notes called for redemption will become due and payable on the redemption date at the applicable redemption price, plus accrued and unpaid interest to, but excluding, the redemption date.

Optional Redemption Price means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield (as calculated by the trustee) on the Notes, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, would be equal to the gross redemption yield on such dealing day of the Reference Bond on the basis of the middle market price of the Reference Bond prevailing at 11:00 a.m. (Central European time) on such dealing day as determined by the Calculation Agent.

Reference Bond means, in relation to any Optional Redemption Price calculation, at the discretion of the trustee, a European government bond whose maturity is closest to the maturity of the Notes, or if the trustee in its discretion considers that such similar bond is not in issue, such other European government bond as the trustee may, with the advice of three brokers of, and/or market makers in, European government bonds selected by the trustee, determine to be appropriate for determining the Optional Redemption Price.

On and after the redemption date, interest will cease to accrue on the Notes or any portion of the Notes called for redemption (unless we default in the payment of the redemption price and accrued and unpaid interest). On or before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of and accrued and unpaid interest on the Notes to be redeemed on that date. If fewer than all of the Notes are to be redeemed, the Notes to be redeemed shall be selected by the trustee by a method the trustee deems to be fair and appropriate.

The Notes are also subject to redemption prior to maturity if certain events occur involving United States taxation. If any of these special tax events do occur, the Notes will be redeemed at a redemption price of 100% of their principal amount plus accrued and unpaid interest to the date of redemption. See Description of Notes Redemption for Tax Reasons.

The Notes are not entitled to the benefit of a sinking fund. The Notes will be subject to defeasance and covenant defeasance as provided in Description of the Debt Securities Defeasance in the accompanying Prospectus.

Payments of Additional Amounts

We will, subject to the exceptions and limitations set forth below, pay as additional interest on the Notes such additional amounts as are necessary in order that the net payment by us or a paying agent of the principal of and interest on the Notes to a holder who is not a United States person (as defined below), after deduction for any present or future tax, assessment or other governmental charge of the United States or a political subdivision or taxing authority of or in the United States, imposed by withholding with respect to the payment, will not be less than the amount provided in the Notes to be then due and payable; provided, however, that the foregoing obligation to pay additional amounts shall not apply:

(1) to any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the holder, or a fiduciary, settlor, beneficiary, member or shareholder of the holder if the holder is an estate, trust, partnership or corporation, or a person holding a power over an estate or trust administered by a fiduciary holder, being considered as:

(a) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment in the United States;

(b) having a current or former relationship with the United States, including a relationship as a citizen or resident of the United States;

(c) being or having been a foreign or domestic personal holding company, a passive foreign investment company or a controlled foreign corporation with respect to the United States or a corporation that has accumulated earnings to avoid United States federal income tax;

(d) being or having been a 10-percent shareholder of us as defined in section 871(h)(3) of the United States Internal Revenue Code or any successor provision; or

(e) being a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into the ordinary course of its trade or business;

(2) to any holder that is not the sole beneficial owner of the Notes, or a portion of the Notes, or that is a fiduciary or partnership, but only to the extent that a beneficiary or settlor with respect to the fiduciary, a beneficial owner or member of the partnership would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment;

(3) to any tax, assessment or other governmental charge that is imposed or otherwise withheld solely by reason of a failure of the holder or any other person to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of the Notes, if compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such tax, assessment or other governmental charge;

(4) to any tax, assessment or other governmental charge that is imposed otherwise than by withholding by us or a paying agent from the payment;

(5) to any tax, assessment or other governmental charge that is imposed or withheld solely by reason of a change in law, regulation, or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

(6) to any estate, inheritance, gift, sales, excise, transfer, wealth or personal property tax or similar tax, assessment or other governmental charge; or

(7) in the case of any combination of items (1), (2), (3), (4), (5) and (6).

The Notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation applicable to the Notes. Except as specifically provided under this heading Payments of Additional Amounts and under the heading Redemption for Tax Reasons, we will not be required to make any payment for any tax, assessment or other governmental charge imposed by any government or a political subdivision or taxing authority of or in any government or political subdivision.

We will not pay additional amounts on any Note

where withholding or deduction is imposed on a payment and is required to be made pursuant to European Union Directive 2003/48/ EC or any law implementing or complying with, or introduced in order to conform to, that Directive, or

presented for payment by or on behalf of a beneficial owner who would have been able to avoid the withholding or deduction by presenting the relevant global note to another paying agent in a Member State of the EU.

Directive 2003/48/ EC of the Council of the European Union, relating to the taxation of savings income, became effective on July 1, 2005. Under this directive, if a paying agent for interest on a debt claim is resident in one member state of the European Union and an individual who is the beneficial owner of the interest is a resident of another member state, then the former member state will be required to provide information (including the identity of the recipient) to authorities of the latter member state. Paying agent is defined broadly for this purpose and generally includes any agent of either the payor or the payee. Belgium, Luxembourg and Austria have opted instead to withhold tax on the interest during a transitional period (initially at a rate of 15% but rising in steps to 35% after six years), subject to the ability of the individual to avoid withholding tax through voluntary disclosure of the investment to the individual s member state. In addition, certain non-members of the European Union (Switzerland, Liechtenstein, Andorra, Monaco and San Marino), as well as dependent and associated territories of the United Kingdom and the Netherlands, have adopted equivalent measures effective on the same date, and some (including Switzerland) have exercised the option to apply withholding taxes as described above.

As used under this heading Payments of Additional Amounts and under the heading Redemption for Tax Reasons , the term United States means the United States of America (including the states and the District of Columbia) and its territories, possessions and other areas subject to its jurisdiction, United States person means any individual who is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, any state of the United States or the District of Columbia (other than a partnership that is not treated as a United States person under any applicable Treasury regulations), or any estate or trust the income of which is subject to United States federal income taxation regardless of its source.

Redemption for Tax Reasons

If, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated under the laws) of the United States (or any political subdivision or taxing authority of or in the United States), or any change in, or amendments to, an official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment is announced or becomes effective on or after the date of this prospectus supplement, we become or, based upon a written opinion of independent counsel selected by us, will become obligated to pay additional amounts as described herein under the heading Payments of Additional Amounts with respect to the Notes, then we may at our option redeem, in whole, but not in part, the Notes on not less than 30 nor more than 60 days prior notice, at a redemption price equal to 100% of their principal amount, together with interest accrued but unpaid on those Notes to the date fixed for redemption.

Global Clearance and Settlement

The Notes will be issued in the form of two or more global notes, (the Global Notes) in fully registered form, without coupons, one or more of which (the DTC Global Notes) will be deposited on or about December , 2007 (the Closing Date) with The Bank of New York as custodian for, and registered in the name of Cede & Co. as nominee of The Depository Trust Company (DTC) and one of which (the International Global Note) will be deposited on the Closing Date with a common depositary for, and in respect of interests held through, Euroclear Bank, as operator of the Euroclear System (Euroclear) and Clearstream Banking, societe anonyme (Clearstream). Except as described herein, certificates will not be issued in exchange for beneficial interests in the Global Notes.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to DTC, Euroclear or Clearstream or their respective nominees.

Beneficial interests in the Global Notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in DTC, Euroclear or Clearstream. Those beneficial interests will be in denominations of 50,000 and integral multiples of 50,000 in excess thereof. Investors may hold Notes directly through DTC, Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Except as provided below, under Definitive Notes , owner of beneficial interests in the Global Notes will not be entitled to have Notes registered in their names, and will not receive or be entitled to receive physical delivery of Notes in definitive form. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the indenture, including for purposes of receiving any reports delivered by Pfizer or the trustee pursuant to the indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture. Pfizer understands that, under existing industry practices, if Pfizer requests any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in certificated form. These limits and laws may impair the ability to transfer beneficial interests in Global Notes.

Persons who are not DTC participants may beneficially own Notes held by DTC only through direct or indirect participants in DTC (including Euroclear and Clearstream). So long as Cede & Co., as the nominee of DTC, is the registered owner of the DTC Global Note, Cede & Co. for all purposes will be considered the sole holder of the DTC Notes under the indenture and the DTC Notes. Persons who are not Euroclear or Clearstream participants may beneficially own Notes held by Euroclear or Clearstream only through direct or indirect participants in Euroclear or Clearstream. So long as the common depositary for Euroclear and Clearstream, is the registered owner of the International Global Note, the common depositary for all purposes will be considered the sole holder of the Notes represented by the International Global Note (International Notes) under the indenture and the International Notes.

Clearing Systems

DTC

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the uniform

Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations such as the underwriters. Indirect access to the DTC system also is available to indirect DTC participants such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Transfers of ownership or other interest in Notes in DTC may be made only through DTC participants. Indirect DTC participants are required to effect transfers through a DTC participant. DTC has no knowledge of the actual beneficial owners of the Notes. DTC s records reflect only the identity of the DTC participants to whose accounts the Notes are credited, which may not be the beneficial owners. DTC participants will remain responsible for keeping account of their holdings on behalf of their customers and for forwarding all notices concerning the Notes to their customers.

So long as DTC, or its nominee, is a registered owner of the Global Notes, United States dollar payments of principal and interest payments on the Notes will be made in immediately available funds to DTC. DTC s practice is to credit DTC participants accounts on the applicable payment date in accordance with their respective holdings shown on the depository s records, unless DTC has reason to believe that it will not receive payment on that date. Payments by DTC participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name , and will be the responsibility of the DTC participants and not of DTC, the trustee or Pfizer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of Pfizer or the trustee. Disbursement of payments to DTC participants will be DTC s responsibility, and disbursement of payments to the beneficial owners will be the responsibility of DTC participants and indirect DTC participants.

Because DTC can act only on behalf of DTC participants, who in turn act on behalf of indirect DTC participants and certain banks, the ability of an owner of a beneficial interest in the DTC Global Notes to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for such interest. In addition, beneficial owners of Notes through the DTC system will receive distributions of principal and interest on the Notes only through DTC participants.

According to DTC, the foregoing information with respect to DTC has been provided to the industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Euroclear

Euroclear advises that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. All operations are conducted by Euroclear Bank, S.A./ N.V. and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with Euroclear Bank, not the cooperative. The cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters (Euroclear participants). Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with Euroclear Bank are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System,

and applicable Belgian laws (collectively, the Euroclear Terms and Conditions). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payment with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. Euroclear Bank acts under the Euroclear Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Bank and by Euroclear.

Clearstream

Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for Clearstream participants and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are financial institutions around the world including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

DTC, Euroclear and Clearstream Arrangements

So long as DTC or its nominee or Euroclear or Clearstream or their nominee or their common depositary is the registered holder of the Global Notes, DTC, Euroclear, Clearstream or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Notes for all purposes under the indenture and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the Global Notes will be made to DTC, Euroclear, Clearstream or such nominee, as the case may be, as registered holder thereof. None of Pfizer, the trustee, any underwriter and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to the International Global Note will be credited, in euro to the extent received by Euroclear or Clearstream from the trustee to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system s rules and procedures.

Holders of book-entry interests in the DTC Global Notes will receive, to the extent received by DTC from the trustee, all distributions of principal and interest with respect to the DTC Global Notes in United States dollars, unless an election is made to receive euro. See Currency Conversions and Foreign Exchange Risks. Distributions in the United States will be subject to relevant United States tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holders shown on the Register (as defined below) at the close of business on the related Record Date. Trading between the

DTC Global Notes and the International Global Note will therefore be net of accrued interest from the Record Date to the relevant interest payment date.

Because DTC, Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Global Notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Global Notes through DTC, Euroclear and Clearstream will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of the Global Notes on the register for the accounts (i) the common depositary and (ii) Cede & Co. (the Register) to reflect the amounts of Notes held through DTC and Euroclear and Clearstream, respectively.

Initial Settlement

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) will follow the settlement practices applicable to U.S. corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same-day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear and Clearstream holders on the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser s and seller s accounts are located to ensure that settlement can be made on the desired value date.

Trade between DTC Participants. Secondary market sales of book-entry interests in the DTC Global Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

Trade between Euroclear and/or Clearstream Participants. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream to purchasers of book-entry interests in the International Note through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional eurobonds in same-day funds.

Trading Between DTC Seller and Euroclear or Clearstream Purchaser. When book-entry interests in the Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the DTC Global Notes to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in the International Global Note, the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream accountholder to DTC by 12:00 noon, New York City time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder. On the settlement date, the custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of the Cede & Co. and evidenced by the DTC Global Notes and (ii) increase the amount of Notes registered in the name of the common depositary for Euroclear and Clearstream and evidenced by the International Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date back valued to the settlement date.

Trading Between Euroclear or Clearstream Seller and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the DTC Global Notes, the Euroclear or Clearstream participant must send to Euroclear or Clearstream delivery free of payment instructions by 7:45 p.m., Luxembourg/ Brussels time as the case may be, one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear and Clearstream accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream will (a) transmit appropriate instructions to the custodian who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the common depositary for Euroclear and Clearstream and evidenced by the International Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the DTC Global Notes.

UNITED STATES TAXATION

General

This section summarizes the material U.S. tax consequences to holders of Notes. However, the discussion is limited in the following ways:

The discussion only covers you if you buy your Notes in the initial offering at the initial offering price to the public.

The discussion only covers you if your functional currency is the U.S. dollar, you hold your Notes as a capital asset (that is, for investment purposes), and if you do not have a special tax status.

The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of Notes. We suggest that you consult your tax advisor about the consequences of holding Notes in your particular situation.

The discussion is based on current law. Changes in the law may change the tax treatment of the Notes.

The discussion does not cover state, local or foreign law.

The discussion does not apply to you if you are a Non-U.S. Holder of Notes (defined below) and if you (a) own 10% or more of the voting stock of Pfizer, (b) are a controlled foreign corporation with respect to Pfizer, or (c) are a bank making a loan in the ordinary course of its business.

We have not requested a ruling from the Internal Revenue Service (IRS) on the tax consequences of owning the Notes. As a result, the IRS could disagree with portions of this discussion.

IF YOU ARE CONSIDERING BUYING NOTES, WE SUGGEST THAT YOU CONSULT YOUR TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF HOLDING THE NOTES IN YOUR PARTICULAR SITUATION.

Tax Consequences to U.S. Holders

This section applies to you if you are a U.S. Holder . A U.S. Holder is:

an individual U.S. citizen or resident alien;

a corporation, or entity taxable as a corporation, that was created under U.S. law (federal, state or District of Columbia); or

an estate or trust whose world-wide income is subject to U.S. federal income tax.

If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding Notes, we suggest that you consult your tax advisor.

Interest

All holders of Notes will be taxable on the U.S. dollar value of euro payable as interest on the Notes, whether or not they elect to receive payments in euro. If you receive interest in the form of U.S. dollars, you will be considered to have received interest in the form of euro and to have sold those euro for U.S. dollars. For purposes of this discussion, spot rate generally means a currency exchange rate that reflects a market exchange rate available to the public for euro.

If you are a cash method taxpayer (including most individual holders), you will be taxed on the value of the euro when it is received by you (if you receive euro) or when it is deemed received by you (if you receive U.S. dollars). The value of the euro will be determined using the spot rate in effect at such time.

If you are an accrual method taxpayer, you will be taxed on the value of the euro payable as interest as the interest accrues on the Notes. In determining the value of the euro for this purpose, you may use the average foreign currency exchange rate during the relevant interest accrual period (or, if that period spans two taxable years, during the portion of the interest accrual period in the relevant taxable year). The average rate for an accrual period (or partial period) is the simple average of the spot rates for each business day of such period, or other average exchange rate for the period reasonably derived and consistently applied by you. When interest is actually paid, you will generally also recognize exchange gain or loss, taxable as ordinary income or loss, equal to the difference between (a) the value of the euro received as interest, as translated into U.S. dollars using the spot rate on the date of receipt, and (b) the U.S. dollar amount previously included in income with respect to such payment. If you receive interest in the form of U.S. dollars, clause (a) will be calculated on the basis of the value of the euro you would have received instead of U.S. dollars. If you do not wish to accrue interest income using the average exchange rate, certain alternative elections may be available.

Your tax basis in the euro you receive (or are considered to receive) as interest will be the aggregate amount reported by you as income with respect to the receipt of the euro. If you receive interest in the form of euro and subsequently sell those euro, or if you are considered to receive euro and those euro are considered to be sold for U.S. dollars on your behalf, additional tax consequences will apply as described in Sale of euro .

Sale or Retirement of Notes

On the sale or retirement of your Note:

If you receive the principal payment on your Note in the form of U.S. dollars, you will be considered to have received the principal in the form of euro and to have sold those euro for U.S. dollars at the spot rate in effect on the date of such purchase.

You will have taxable gain or loss equal to the difference between the amount received or deemed received by you and your tax basis in the Note. If you receive (or are considered to

receive) euro, those euro are valued for this purpose at the spot rate of the euro. Your tax basis in the Note is the U.S. dollar value of the euro amount paid for the Note, determined on the date of purchase.

Any such gain or loss (except to the extent attributable to foreign currency gain or loss) will be capital gain or loss, and will be long term capital gain or loss if you held the Note for more than one year.

You will realize foreign currency gain or loss to the extent the U.S. dollar value of the euro paid for the Note, based on the spot rate at the time you dispose of the Note, is greater or less than the U.S. dollar value of the euro paid for the Note, based on the spot rate at the time you acquired the Note. Any resulting foreign currency gain or loss will be ordinary income or loss. You will only recognize such foreign currency gain or loss to the extent you have gain or loss, respectively, on the overall sale or retirement of the Note.

If you sell a Note between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the Note but has not yet been paid by the sale date. That amount is treated as ordinary interest income and not as sale proceeds.

Your tax basis in the euro you receive (or are considered to receive) on sale or retirement of the Note will be the value of euro reported by you as received on the sale or retirement of the Note. If you receive euro on retirement of the Note and subsequently sell those euro, or if you are considered to receive euro on retirement of the Note and those euro are considered to be sold for U.S. dollars on your behalf, or if you sell the Note for euro and subsequently sell those euro, additional tax consequences will apply as described in Sale of euro .

Sale of Euro

If you receive (or are considered to receive) euro as principal or interest on a Note, and you later sell (or are considered to sell) those euro for U.S. dollars, you will have taxable gain or loss equal to the difference between the amount of U.S. dollars received and your tax basis in the euro. In addition, when you purchase a Note in euro, you will have taxable gain or loss if your tax basis in the euro is different from the U.S. dollar value of the euro on the date of purchase. Any such gain or loss is foreign currency gain or loss taxable as ordinary income or loss.

Information Reporting and Backup Withholding

Under the tax rules concerning information reporting to the IRS:

Assuming you hold your Notes through a broker or other securities intermediary, the intermediary must provide information to the IRS concerning interest and retirement proceeds on your Notes, unless an exemption applies.

Similarly, unless an exemption applies, you must provide the intermediary with your Taxpayer Identification Number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

If you are subject to these requirements but do not comply, the intermediary must withhold at the present rate of 28% of all amounts payable to you on the Notes (including principal payments). If the intermediary withholds payments, you may use the withheld amount as a credit against your federal income tax liability.

All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

Tax Consequences to Non-U.S. Holders

For purposes of the following discussion a Non-U.S. Holder is:

- an individual that is not a citizen or resident of the United States;
- a corporation or other entity treated as a corporation for U.S. federal income tax purposes organized or created under non-U.S. law; or
- an estate or trust that is not taxable in the U.S. on its worldwide income.

Withholding Taxes

Generally, payments of principal and interest on the Notes will not be subject to U.S. withholding taxes.

However, for the exemption from withholding taxes to apply to you, one of the following requirements must be met.

- You provide a completed Form W-8BEN (or substitute form) to the bank, broker or other intermediary who holds the Notes. The Form W-8BEN contains your name, address and a statement that you are the beneficial owner of the Notes and that you are not a U.S. Holder.
- You hold your Notes directly through a qualified intermediary , and the qualified intermediary has sufficient information in its files indicating that you are not a U.S. Holder. A qualified intermediary is a bank, broker or other intermediary that (1) is either a U.S. or non-U.S. entity, (2) is acting out of a non-U.S. branch or office and (3) has signed an agreement with the IRS providing that it will administer all or part of the U.S. withholding rules under specified procedures.
- You are entitled to an exemption from withholding tax on interest under a tax treaty between the U.S. and your country of residence. To claim this exemption, you must generally complete Form W-8BEN and claim this exemption on the form. In some cases, you may instead be permitted to provide documentary evidence of your claim to the intermediary, or a qualified intermediary may already have some or all of the necessary evidence in its files.
- The interest income on the Notes is effectively connected with the conduct of your trade or business in the U.S., and is not exempt from U.S. tax under a tax treaty. To claim this exemption, you must complete Form W-8ECI.

Even if you meet one of the above requirements, interest paid to you will be subject to withholding tax under any of the following circumstances:

- The withholding agent or an intermediary knows or has reason to know that you are not entitled to an exemption from withholding tax. Specific rules apply for this test.
- The IRS notifies the withholding agent that information that you or an intermediary provided concerning your status is false.
- An intermediary through which you hold the Notes fails to comply with the procedures necessary to avoid withholding taxes on the Notes. In particular, an intermediary is generally required to forward a copy of your Form W-8BEN (or other documentary information concerning your status) to the withholding agent for the Notes. However, if you hold your Notes through a qualified intermediary or if there is a qualified intermediary in the chain of title between yourself and the withholding agent for the Notes the qualified intermediary will not generally forward this information to the withholding agent.

Interest payments made to you will generally be reported to the IRS and to you on Form 1042-S. However, this reporting does not apply to you if one of the following conditions applies:

- You hold your Notes directly through a qualified intermediary and the applicable procedures are complied with.
- You file Form W-8ECI.

The rules regarding withholding are complex and vary depending on your individual situation. They are also subject to change. In addition, special rules apply to certain types of Non-U.S. Holders, including partnerships, trusts, and other entities treated as pass-through entities for U.S. federal income tax purposes. We suggest that you consult with your tax advisor regarding the specific methods for satisfying these requirements.

Sale or Retirement of Notes

If you sell a Note or it is redeemed, you will not be subject to federal income tax on any gain unless one of the following applies:

- The gain is connected with a trade or business that you conduct in the U.S.
- You are an individual, you are present in the U.S. for at least 183 days during the year in which you dispose of the Note, and certain other conditions are satisfied.
- The gain represents accrued interest, in which case the rules for interest would apply.

U.S. Trade or Business

If you hold your Note in connection with a trade or business that you are conducting in the U.S.:

- Any interest on the Note, and any gain from disposing of the Note, generally will be subject to income tax as if you were a U.S. Holder.
- If you are a corporation, you may be subject to the branch profits tax on your earnings that are connected with your U.S. trade or business, including earnings from the Note. This tax is 30%, but may be reduced or eliminated by an applicable income tax treaty.

Estate Taxes

If you are an individual, your Notes will not be subject to U.S. estate tax when you die. However, this rule only applies if, at your death, payments on the Notes were not connected to a trade or business that you were conducting in the U.S.

Information Reporting and Backup Withholding

U.S. rules concerning information reporting and backup withholding are described above. These rules apply to Non-U.S. Holders as follows:

- Principal and interest payments you receive will be automatically exempt from the usual rules if you are a Non-U.S. Holder exempt from withholding tax on interest, as described above. The exemption does not apply if the withholding agent or an intermediary knows or has reason to know that you should be subject to the usual information reporting or backup withholding rules. In addition, as described above, interest payments made to you may be reported to the IRS on Form 1042-S.
- Sale proceeds you receive on a sale of your Notes through a broker may be subject to information reporting and/or backup withholding if you are not eligible for an exemption. In particular, information reporting and backup withholding may apply if you use the U.S. office of a broker, and information reporting (but not backup withholding) may apply if you use the foreign office of a broker that has certain connections to the U.S. We suggest that you consult your tax advisor concerning information reporting and backup withholding on a sale.

UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement, dated December , 2007, among us and the underwriters in the table below, we have agreed to sell to each of the underwriters, and each such underwriter has severally, and not jointly, agreed to purchase from us, the aggregate principal amount of the Notes set forth opposite its name below:

Underwriter	Principal Amount of Notes
Barclays Bank PLC	
J.P.Morgan Securities Ltd.	
Total	

Under the underwriting agreement, if the underwriters take any of the Notes, then the underwriters are obligated to take and pay for all of the Notes.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters initially propose to offer part of the Notes directly to the public at the offering price described on the cover page and part to certain dealers at a price that represents a concession not in excess of % of the principal amount of the Notes. Any underwriter may allow, and any such dealer may reallow, a concession not in excess of % of the principal amount of the Notes to certain other dealers. After the initial offering of the Notes, the underwriters may from time to time vary the offering price and other selling terms.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market price of the Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Notes. If the underwriters create a short position in the Notes in connection with the offering, i.e., they sell more Notes than are on the cover page of this prospectus, the underwriters may reduce that short position by purchasing Notes in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. Neither we nor any underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any underwriter makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The underwriters and their affiliates have provided investment and commercial banking and financial advisory services from time to time for us in the ordinary course of business for which they have received customary fees. The underwriters and their affiliates may in the future engage in investment banking or other transactions of a financial nature with us or our affiliates, for which they would receive customary fees or other payments.

There is no public trading market for the Notes. We will apply to list the Notes on the New York Stock Exchange. We have been advised by the underwriters that they presently intend to make a market in the Notes after the consummation of the offering, although they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. Prior to the offering, there has been no active market for the Notes. No assurance can be given as to the liquidity of, or trading market for, the Notes or that an active public market for the Notes will develop. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely

affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and certain other factors.

We estimate that our expenses in connection with this offering, excluding underwriting discounts and commissions, will be approximately $.

We will deliver the Notes to the underwriters at the closing of this offering when the underwriters pay the purchase price of the Notes. The underwriting agreement provides that the closing will occur on December , 2007, which is 5 business days after the date of this prospectus supplement. Rule 15c6-1 under the Securities Exchange Act of 1934 generally requires that securities trades in the secondary market settle in three business days, unless the parties to a trade expressly agree otherwise.

OFFERING RESTRICTIONS

The Notes are offered for sale in the United States and in jurisdictions outside the United States, subject to applicable law.

The underwriter has agreed that it will not offer, sell, or deliver any of the Notes, directly or indirectly, or distribute this prospectus supplement or prospectus or any other offering material relating to the Notes, in or from any jurisdiction except under circumstances that will, to the best of the underwriter s knowledge and belief, result in compliance with the applicable laws and regulations and which will not impose any obligations on Pfizer except as set forth in the underwriting agreement.

Noteholders may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country in which the Notes were purchased. These taxes and charges are in addition to the issue price set forth on the cover page.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), the underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in the Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any company which has two or more of (1) an average of over 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The underwriter has represented and agreed that it and each of its affiliates:

(a) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to Pfizer; and

(b) has complied with, and will comply with, all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Republic of Italy

The underwriter represents and agrees that it has not offered, sold or delivered, will not offer, sell or deliver, has not distributed and will not distribute and has not made and will not make available in Italy any Notes, the prospectus nor any other offering material relating to the Notes other than:

(a) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of Commissione Nazionale per la Societá e la Borsa (CONSOB) Regulation No. 11522 of July 1, 1998, as amended; or

(b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the prospectus or any other document relating to the Notes in Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act and the Legislative Decree No. 385 of September 1, 1993, as amended (the **Banking Act**);

(ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy; and

(iii) in accordance with any other applicable laws and regulations.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the SEL) and the underwriter and each of its affiliates has represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Notes in or to residents of Japan or to any persons for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of the SEL available thereunder and otherwise in compliance with the SEL and the other relevant laws, regulations and guidelines of Japan.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be

accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

LEGAL MATTERS

Margaret M. Foran, our Senior Vice President-Corporate Governance, Associate General Counsel and Corporate Secretary, will pass upon the validity of the Notes. Cravath, Swaine & Moore LLP, New York, New York will pass upon various legal matters for the underwriters relating to the offering.

PROSPECTUS

PFIZER INC.

DEBT SECURITIES

COMMON STOCK
PREFERRED STOCK
WARRANTS
DEPOSITARY SHARES
PURCHASE CONTRACTS
UNITS

We may from time to time offer to sell debt securities, common stock, preferred stock, warrants, depositary shares, purchase contracts, guarantees or units. Each time we sell securities pursuant to this prospectus, we will provide a supplement to this prospectus that contains specific information about the offering and the specific terms of the securities offered. You should read this prospectus and the applicable prospectus supplements carefully before you invest.

Our Common Stock is listed on the New York Stock Exchange under the symbol PFE .

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is March 30, 2007

If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document, unless the information specifically indicates that another date applies.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we filed with the SEC using a shelf registration process. We may sell any combination of the securities described in this prospectus from time to time.

The types of securities that we may offer and sell from time to time pursuant to this prospectus are:

- debt securities;
- common stock;
- preferred stock;
- warrants;
- depositary shares;
- purchase contracts;
- guarantees; and
- units consisting of any of the securities listed above.

Each time we sell securities pursuant to this prospectus, we will describe in a prospectus supplement, which will be delivered with this prospectus, specific information about the offering and the terms of the particular securities offered. In each prospectus supplement we will include the following information, if applicable:

- the type and amount of securities that we propose to sell;
- the initial public offering price of the securities;
- the names of any underwriters or agents through or to which we will sell the securities;
- any compensation of those underwriters or agents; and
- information about any securities exchanges or automated quotations systems on which the securities will be listed or traded.

In addition, the prospectus supplement may also add, update or change the information contained in this prospectus.

Wherever references are made in this prospectus to information that will be included in a prospectus supplement, to the extent permitted by applicable law, rules or regulations, we may instead include such information or add, update or change the information contained in this prospectus by means of a post-effective amendment to the registration statement of which this prospectus is a part, through filings we make with the SEC that are incorporated by reference into this prospectus or by any other method as may then be permitted under applicable law, rules or regulations.

THE COMPANY

We are a research-based global pharmaceutical company. We discover, develop, manufacture and market leading prescription medicines for humans and animals.

We operate in one business segment, pharmaceuticals, which includes:

Prescription pharmaceuticals for treating cardiovascular diseases, infectious diseases, central nervous system disorders, diabetes, urogenital conditions, allergies, arthritis and other disorders;

Products for food animals and companion animals; and

The manufacture of empty gelatin capsules.

All references to us in this prospectus include Pfizer Inc. and its subsidiaries, unless the context clearly indicates otherwise.

Our principal executive offices are located at 235 East 42nd Street, New York, NY 10017 and our telephone number is (212) 573-2323.

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratio of earnings to fixed charges for each of the fiscal years ended December 31, 2002 through 2006 is set forth below. For the purpose of computing these ratios, earnings consists of income from continuing operations before provision for taxes on income, minority interests and cumulative effect of a change in accounting principle less minority interests adjusted for fixed charges, excluding capitalized interest. Fixed charges consists of interest expense (which includes amortization of debt discount and expenses) capitalized interest and one-third of rental expense which we believe to be a conservative estimate of an interest factor in our leases. It is not practicable to calculate the interest factor in a material portion of our leases. The ratio was calculated by dividing the sum of the fixed charges into the sum of the earnings from continuing operations before taxes and fixed charges.

	Year Ended December 31				
	2006	**2005**	**2004**	**2003**	**2002**
Ratio of earnings to fixed charges	20.4	17.9	26.9	7.0	33.5

USE OF PROCEEDS

Unless the applicable prospectus supplement indicates otherwise, we intend to use net proceeds from the sale of the debt securities for general corporate purposes, including the refinancing of existing debt. We may temporarily invest funds that are not immediately needed for these purposes in short-term marketable securities.

DESCRIPTION OF DEBT SECURITIES

The debt securities covered by this prospectus will be our direct unsecured obligations. The debt securities will be issued in one or more series under an indenture dated as of January 30, 2001, between us and The Bank of New York Trust Company, N.A., as successor to JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as trustee.

This prospectus briefly outlines some of the indenture provisions. The indenture has been filed as an exhibit to the registration statement and you should read the indenture carefully for provisions that may be important to you.

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We may issue the debt securities as original issue discount securities, which will be offered and sold at a substantial discount below their stated principal amount. A prospectus supplement relating to original issue discount securities will describe Federal income tax consequences and other special considerations applicable to them. The debt securities may also be issued as indexed securities or securities denominated in foreign currencies or currency units, as described in more detail in a prospectus supplement relating to any of these types of debt securities. A prospectus supplement relating to indexed debt securities or foreign currency debt securities will also describe any additional tax consequences or other special considerations applicable to these types of debt securities.

In addition, the material specific financial, legal and other terms particular to debt securities of each series will be described in the prospectus supplement relating to the debt securities of that series.

General

The debt securities will rank equally with all of our other unsecured and unsubordinated debt. The indenture does not limit the amount of debt we may issue under the indenture or otherwise. We may issue the debt securities in one or more series with the same or various maturities, at par or a premium or with original issue discount. We may reopen a previous issue of debt securities and issue additional debt securities of the series.

The prospectus supplement relating to any debt securities being offered will include specific terms relating to the offering. These terms will include some or all of the following:

- the title and type of the debt securities;
- the total principal amount of the debt securities;
- the percentage of the principal amount at which the debt securities will be issued and any payments due if the maturity of the debt securities is accelerated;
- the date or dates on which the principal of the debt securities will be payable;
- whether the debt securities will be denominated in, and whether the principal of and any premium and any interest on the debt securities will be payable in, U.S. dollars or any foreign currency or foreign currency units;
- the interest rate or rates, if any, which the debt securities will bear, the date or dates from which any interest will accrue, the interest payment dates for the debt securities and the regular record date for any interest payable on any interest payment date;
- any index or other special method we will use to determine the amount of principal or any premium or interest we will pay on the debt securities of the series;
- any optional or mandatory redemption periods;
- any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;
- whether the debt securities are to be issued in individual certificates to each holder or in the form of global securities held by a depositary on behalf of holders;
- any addition to, or modification or deletion of, any event of default or any covenant specified in the indenture;
- any special tax implications of the debt securities, including provisions for original issue discount securities, if offered;

any terms upon which the debt securities may be convertible into or exchanged for other debt securities or indebtedness or other securities of any other issuer or obligor; and

any other specific terms of the debt securities.

The prospectus supplement relating to the debt securities of the series will be attached to the front of this prospectus.

We may issue debt securities other than the debt securities described in this prospectus. There is no requirement that any other debt securities that we issue be issued under the indenture. Thus, any other debt securities that we issue may be issued under other indentures or documentation, containing provisions different from those included in the indenture or applicable to one or more issues of the debt securities described in this prospectus.

Consolidation, Merger or Sale

We have agreed not to consolidate with or merge into any other corporation or convey or transfer or lease substantially all of our properties and assets to any person, unless:

(a) the successor corporation expressly assumes by a supplemental indenture the due and punctual payment of the principal of and any premium or any interest on all the debt securities and the performance of every covenant in the indenture that we would otherwise have to perform as if it were an original party to the indenture; and

(b) we deliver to the trustee an officer s certificate and an opinion of counsel, each stating that the consolidation, merger, conveyance or transfer and the supplemental indenture comply with these provisions.

The successor corporation will assume all our obligations under the indenture as if it were an original party to the indenture. After assuming such obligations, the successor corporation will have all our rights and powers under the indenture.

Modification of Indenture

Under the indenture our rights and obligations and the rights of the holders may be modified if the holders of a majority in aggregate principal amount of the outstanding debt securities of each series affected by the modification consent to it. No modification of the maturity date or principal or interest payment terms, no modification of the currency for payment, no impairment of the right to sue for the enforcement of payment at the maturity of the debt security, no modification of any conversion rights and no modification reducing the percentage required for modifications or modifying the foregoing requirements or redoing the percentage required to waive certain specified covenants, is effective against any holder without its consent.

Events of Default

When we use the term Event of Default in the indenture, here are some examples of what we mean.

An Event of Default occurs if:

we fail to make the principal or any premium payment on any debt security when due;

we fail to make any sinking fund payment for 60 days after payment was due;

we fail to pay interest on any debt security for 60 days after payment was due;

we fail to perform any other covenant in the indenture and this failure continues for 90 days after we receive written notice of it; or

we or a court take certain actions relating to the bankruptcy, insolvency or reorganization of our company.

The supplemental indenture or the form of security for a particular series of debt securities may include additional Events of Default or changes to the Events of Default described above. The Events of Default applicable to a particular series of debt securities will be discussed in the prospectus supplement relating to such series. A default under our other indebtedness will not be a default under the indenture for the debt securities covered by this prospectus, and a default under one series of debt securities will not necessarily be a default under another series. The trustee may withhold notice to the holders of debt securities of any default (except for defaults that involve our failure to pay principal or interest) if it considers such withholding of notice to be in the best interests of the holders.

If an Event of Default with respect to outstanding debt securities of any series occurs and is continuing, then the trustee or the holders of at least 33% in principal amount of outstanding debt securities of that series may declare, in a written notice, the principal amount (or specified amount) plus accrued and unpaid interest on all debt securities of that series to be immediately due and payable. At any time after a declaration of acceleration with respect to debt securities of any series has been made, the holders of a majority in principal amount of the outstanding debt securities may rescind and annul the acceleration if:

the holders act before the trustee has obtained a judgment or decree for payment of the money due;

we have paid or deposited with the trustee a sum sufficient to pay overdue interest and overdue principal other than the accelerated interest and principal; and

we have cured or the holders have waived all Events of Default, other than the non-payment of accelerated principal and interest with respect to debt securities of that series, as provided in the indenture.

We refer you to the prospectus supplement relating to any series of debt securities that are discount securities for the particular provisions relating to acceleration of a portion of the principal amount of the discount securities upon the occurrence of an Event of Default.

If a default in the performance or breach of the indenture shall have occurred and be continuing, the holders of not less than a majority in principal amount of the outstanding securities of all series, by notice to the trustee, may waive any past Event of Default or its consequences under the indenture. However, an Event of Default cannot be waived with respect to any series of securities in the following two circumstances:

a failure to pay the principal of, and premium, if any, or interest on any security or in the payment of any sinking fund installment; or

a covenant or provision that cannot be modified or amended without the consent of each holder of outstanding securities of that series.

Other than its duties in case of a default, the trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders, unless the holders offer the trustee reasonable indemnity. If they provide this reasonable indemnity, the holders of a majority in principal amount outstanding of any series of debt securities may, subject to certain limitations, direct the time, method and place of conducting any proceeding or any remedy available to the trustee, or exercising any power conferred upon the trustee, for any series of debt securities.

We are required to deliver to the trustee an annual statement as to our fulfillment of all of our obligations under the indenture.

Payment and Transfer

We will pay principal, interest and any premium on fully registered securities at the place or places designated by us for such purposes. We will make payment to the persons in whose names the debt securities are registered on the close of business on the day or days specified by us. Any other payments will be made as set forth in the applicable prospectus supplement. Holders may transfer or exchange fully registered securities at the corporate trust office of the trustee or at any other office or agency maintained by us for such purposes, without the payment of any service charge except for any tax or governmental charge.

Global Securities

We may issue the securities in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depositary identified in the applicable prospectus supplement. We may issue the global securities in either registered or bearer form in either temporary or permanent form. We will describe the specific terms of the depositary arrangement with respect to a series of securities in the applicable prospectus supplement.

You may transfer or exchange certificated securities at any office we maintain for this purpose in accordance with the terms of the indenture. We will not charge a service fee for any transfer or exchange of certificated securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge we are required to pay in connection with a transfer or exchange.

You may effect the transfer of certificated securities and the right to receive the principal, premium and interest on certificated securities only by surrendering the certificate representing those certificated securities and either reissuance by us or the trustee of the certificate to the new holder or the issuance by us or the trustee of a new certificate to the new holder.

We are not required to:

register, transfer or exchange securities of any series during a period beginning at the opening of business 15 days before the day we transmit a notice of redemption of securities of the series selected for redemption and ending at the close of business on the day of the transmission, or

to register, transfer or exchange any security so selected for redemption in whole or in part, except the unredeemed portion of any security being redeemed in part.

The applicable prospectus supplement will describe the specific terms of the depositary arrangement with respect to the applicable securities of that series. We anticipate that the following provisions will apply to all depositary arrangements.

Once a global security is issued, the depositary will credit on its book-entry system the respective principal amounts of the individual securities represented by that global security to the accounts of institutions that have accounts with the depositary. These institutions are known as participants. The underwriters for the securities will designate the accounts to be credited. However, if we have offered or sold the securities either directly or through agents, we or the agents will designate the appropriate accounts to be credited.

Ownership of beneficial interest in a global security will be limited to participants or persons that may hold beneficial interests through participants. Ownership of beneficial interest in a global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depositary s participants or persons that hold through participants. The laws of some states require that certain purchasers of securities take physical delivery of securities. Such limits and such laws may limit the market for beneficial interests in a global security.

So long as the depositary for a global security, or its nominee, is the registered owner of a global security, the depositary or nominee will be considered the sole owner or holder of the securities represented by the

global security for all purposes under the indenture. Except as provided in the applicable prospectus supplement, owners of beneficial interests in a global security:

- will not be entitled to have securities represented by global securities registered in their names;
- will not receive or be entitled to receive physical delivery of securities in definitive form; and
- will not be considered owners or holders of these securities under the indenture.

Payments of principal, any premium and interest on the individual securities registered in the name of the depositary or its nominee will be made to the depositary or its nominee as the holder of that global security. Neither we nor the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a global security, or for maintaining, supervising or reviewing any records relating to beneficial ownership interests and each of us and the trustee may act or refrain from acting without liability on any information provided by the depositary.

We expect that the depositary, after receiving any payment of principal, any premium or interest in respect of a global security, will immediately credit the accounts of the participants with payment in amounts proportionate to their respective holdings in principal amount of beneficial interest in a global security as shown on the records of the depositary. We also expect that payments by participants to owners of beneficial interests in a global security will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participants.

Debt securities represented by a global security will be exchangeable for debt securities in definitive form of like tenor in authorized denominations only if the depositary notifies us that it is unwilling or unable to continue as the depositary and a successor depositary is not appointed by us within 90 days or we, in our discretion, determine not to require all of the debt securities of a series to be represented by a global security and notify the trustee of our decision.

Defeasance

When we use the term defeasance, we mean discharge from some or all of our obligations under the indenture. If we deposit with the trustee sufficient cash or government securities to pay the principal, interest, any premium and any other sums due to the stated maturity date or a redemption date of the debt securities of a particular series, then at our option:

- we will be discharged from our obligations with respect to the debt securities of such series; or
- we will no longer be under any obligation to comply with certain restrictive covenants under the indenture, and certain Events of Default will no longer apply to us.

If this happens, the holders of the debt securities of the affected series will not be entitled to the benefits of the indenture except for registration of transfer and exchange of debt securities and replacement of lost, stolen or mutilated debt securities. Such holders may look only to such deposited funds or obligations for payment.

To exercise our defeasance option, we must deliver to the trustee an opinion of counsel to the effect that the deposit and related defeasance would not cause the holders of the debt securities to recognize income, gain or loss for Federal income tax purposes.

Concerning the Trustee

The trustee, JPMorgan Chase Bank, has provided banking and investment services to us in the past and may do so in the future as a part of its regular business.

DESCRIPTION OF CAPITAL STOCK

General

Common Stock

Under Pfizer s restated certificate of incorporation (the certificate of incorporation), Pfizer is authorized to issue up to 12 billion shares of common stock. The common stock is not redeemable, does not have any conversion rights and is not subject to call. Holders of shares of common stock have no preemptive rights to maintain their percentage of ownership in future offerings or sales of stock of Pfizer. Holders of shares of common stock have one vote per share in all elections of directors and on all other matters submitted to vote of stockholders of Pfizer. The holders of common stock are entitled to receive dividends, if any, as and when declared from time to time by the board of directors of Pfizer out of funds legally available therefore. Upon liquidation, dissolution or winding up of the affairs of Pfizer, the holders of common stock will be entitled to participate equally and ratably, in proportion to the number of shares held, in the net assets of Pfizer available for distribution to holders of common stock. The shares of common stock currently outstanding are fully paid and nonassessable. As of February 20, 2007, there were approximately 7,086,916,026 shares of common stock issued and outstanding.

Preferred Stock

Under the certificate of incorporation, Pfizer is authorized to issue up to 27 million shares of preferred stock. The preferred stock my be issued in one or more series, and the board of directors of Pfizer is expressly authorized (i) to fix the descriptions, powers, preferences, rights, qualifications, limitations, and restrictions with respect to any series of preferred stock and (ii) to specify the number of shares of any series of preferred stock. As of February 20, 2007, there were 7,500 shares of preferred stock issued and outstanding.

DESCRIPTION OF OTHER SECURITIES

We will set forth in the applicable prospectus supplement a description of any warrants, depositary shares, purchase contracts, guarantees or units that may be offered pursuant to this prospectus.

PLAN OF DISTRIBUTION

We may sell the offered securities

- through underwriters or dealers;
- through agents;
- directly to one or more purchasers; or
- through a number of direct sales or auctions performed by utilizing the Internet or a bidding or ordering system.

We may distribute the securities from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to the prevailing market prices or at negotiated prices.

Sale Through Underwriters

If we use underwriters in the sale, such underwriters will acquire the debt securities for their own account. The underwriters may resell the securities in one or more transactions, including negotiated transactions, at a

fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase the securities will be subject to certain conditions. The underwriters will be obligated to purchase all the securities of the series offered if any of the securities are purchased. The underwriters may change from time to time any initial public offering price and any discounts or concessions allowed or re-allowed or paid to dealers.

Sale Through Agents

We may sell offered debt securities through agents designated by us. Unless indicated in the prospectus supplement, the agents have agreed to use their reasonable best efforts to solicit purchases for the period of their appointment.

Direct Sales

We may also sell offered debt securities directly. In this case, no underwriters or agents would be involved.

Sale Through the Internet

We may from time to time offer debt securities directly to the public, with or without the involvement of agents, underwriters or dealers, and may utilize the Internet or another electronic bidding or ordering system for the pricing and allocation of such debt securities. Such a system may allow bidders to directly participate, through electronic access to an auction site, by submitting conditional offers to buy that are subject to acceptance by us, and which may directly affect the price or other terms at which such securities are sold.

Such a bidding or ordering system may present to each bidder, on a real-time basis, relevant information to assist you in making a bid, such as the clearing spread at which the offering would be sold, based on the bids submitted, and whether a bidder s individual bids would be accepted, prorated or rejected. Typically the clearing spread will be indicated as a number of basis points above an index treasury note. Other pricing methods may also be used. Upon completion of such an auction process securities will be allocated based on prices bid, terms of bid or other factors.

The final offering price at which debt securities would be sold and the allocation of debt securities among bidders, would be based in whole or in part on the results of the Internet bidding process or auction. Many variations of Internet auction or pricing and allocation systems are likely to be developed in the future, and we may utilize such systems in connection with the sale of debt securities. The specific rules of such an auction would be distributed to potential bidders in an applicable prospectus supplement.

If an offering is made using such bidding or ordering system you should review the auction rules, as described in the prospectus supplement, for a more detailed description of such offering procedures.

General Information

Underwriters, dealers and agents that participate in the distribution of the offered securities may be underwriters as defined in the Securities Act of 1933, and any discounts or commissions received by them from us and any profit on the resale of the offered securities by them may be treated as underwriting discounts and commissions under the Securities Act. We will identify any underwriters or agents, and describe their compensation, in a prospectus supplement.

We may have agreements with the underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act, or to contribute with respect to payments which the underwriters, dealers or agents may be required to make. Underwriters, dealers and agents may engage in transactions with, or perform services for, us or our subsidiaries in the ordinary course of their businesses.

VALIDITY OF SECURITIES

Margaret M. Foran, our Senior Vice President-Corporate Governance, Associate General Counsel and Corporate Secretary, will pass upon the validity of the securities for us.

EXPERTS

The consolidated balance sheets of Pfizer Inc. and Subsidiary Companies as of December 31, 2006 and 2005 and the related consolidated statements of income, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2006, have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent accountants, also incorporated by reference in this prospectus, and upon the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information on file at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC filings are also available to the public from commercial document retrieval services. These filings are also available at the Internet website maintained by the SEC at http://www.sec.gov.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

THIS PROSPECTUS INCORPORATES DOCUMENTS BY REFERENCE WHICH ARE NOT PRESENTED IN OR DELIVERED WITH THIS PROSPECTUS. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS AND IN THE DOCUMENTS THAT WE HAVE INCORPORATED BY REFERNCE INTO THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM OR IN ADDITION TO THE INFORMATION CONTAINED IN THIS DOCUMENT AND INCORPORATED BY REFERENCE INTO THIS PROSPECTUS.

We incorporate information into this prospectus by reference, which means that we disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except to the extent superseded by information contained herein or by information contained in documents filed with or furnished to the SEC after the date of this prospectus. This prospectus incorporates by reference the documents set forth below that have been previously filed with the SEC. These documents contain important information about us and our financial condition.

Pfizer s Annual report on Form 10-K (including the portions of our proxy statement for our 2006 annual meeting of stockholders incorporated by reference therein) for the year ended December 31, 2006;

Pfizer s Current reports on Form 8-K filed January 22, 2007 and February 27, 2007.

We also incorporate by reference into this prospectus additional documents that we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus to the end of the offering of the securities. These documents may include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy statements. We are not incorporating by reference any information furnished under items 2.02 or 7.01 (or corresponding information furnished under

item 9.01 or included as an exhibit) in any past or future current report on Form 8-K that we may file with the SEC, unless otherwise specified in such current report.

You may obtain copies of any of these filings through Pfizer as described below, through the SEC or through the SEC s Internet website as described above. Documents incorporated by reference are available without charge, excluding all exhibits unless an exhibit has been specifically incorporated by reference into this prospectus, by requesting them in writing, by telephone or via the Internet at:

Corporate Secretary

Pfizer Inc.
235 East 42nd Street
New York, NY 10017
(212) 573-2323
www.pfizer.com

THE INFORMATION CONTAINED IN OUR WEBSITE DOES NOT CONSTITUTE A PART OF THIS PROSPECTUS.

ight; BACKGROUND-COLOR: #cceeff">9,929,656 $3,352,303 $1,720,135 $1,123,040 $26,146,000

Provisions charged to expense

520,058 573,119 361,071 130,742 50,273 1,635,263

Loans/leases charged off

(145,665) (1,813,973) (483,420) (25,928) (6,837) (2,475,823)

Recoveries on loans/leases previously charged off

136,909 19,913 18,679 4,107 49,296 228,904

Balance, ending

$10,532,168 $8,708,715 $3,248,633 $1,829,056 $1,215,772 $25,534,344

	Nine Months Ended September 30, 2016					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	$10,484,080	$9,375,117	$3,395,088	$1,790,150	$1,096,471	$26,140,906
Provisions (credits) charged to expense	1,357,262	1,644,008	1,580,677	336,865	(39,991)	4,878,821
Loans/leases charged off	(388,879)	(23,101)	(1,983,322)	(72,261)	(22,018)	(2,489,581)
Recoveries on loans/leases previously charged off	105,503	6,500	49,519	900	134,267	296,689
Balance, ending	$11,557,966	$11,002,524	$3,041,962	$2,055,654	$1,168,729	$28,826,835

	Nine Months Ended September 30, 2015					
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total

Balance, beginning	$8,750,317	$8,353,386	$3,442,915	$1,525,952	$1,001,795	$23,074,365
Provisions charged to expense	1,513,430	2,490,766	1,238,505	324,925	126,758	5,694,384
Loans/leases charged off	(391,303)	(2,165,049)	(1,496,010)	(25,928)	(40,886)	(4,119,176)
Recoveries on loans/leases previously charged off	659,724	29,612	63,223	4,107	128,105	884,771
Balance, ending	$10,532,168	$8,708,715	$3,248,633	$1,829,056	$1,215,772	$25,534,344

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance by impairment evaluation and by portfolio segment as of September 30, 2016 and December 31, 2015 is presented as follows:

	As of September 30, 2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for impaired loans/leases	$1,114,680	$175,743	$739,207	$169,147	$148,320	$2,347,097
Allowance for nonimpaired loans/leases	10,443,286	10,826,781	2,302,755	1,886,507	1,020,409	26,479,738
	$11,557,966	$11,002,524	$3,041,962	$2,055,654	$1,168,729	$28,826,835
Impaired loans/leases	$5,874,093	$3,495,386	$2,925,205	$2,230,829	$368,924	$14,894,437
Nonimpaired loans/leases	798,433,469	1,066,809,375	163,998,872	226,849,771	81,548,808	2,337,640,295
	$804,307,562	$1,070,304,761	$166,924,077	$229,080,600	$81,917,732	$2,352,534,732
Allowance as a percentage of impaired loans/leases	18.98 %	5.03 %	25.27 %	7.58 %	40.20 %	15.76 %
Allowance as a	1.31 %	1.01 %	1.40 %	0.83 %	1.25 %	1.13 %

percentage of nonimpaired loans/leases						
Total allowance as a percentage of total loans/leases	1.44 %	1.03 %	1.82 %	0.90 %	1.43 %	1.22 %

	As of December 31, 2015					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for impaired loans/leases	$2,592,270	$76,934	$306,193	$185,801	$143,089	$3,304,287
Allowance for nonimpaired loans/leases	7,891,810	9,298,183	3,088,895	1,604,349	953,382	22,836,619
	$10,484,080	$9,375,117	$3,395,088	$1,790,150	$1,096,471	$26,140,906
Impaired loans/leases	$5,286,482	$2,029,035	$1,701,341	$1,418,787	$587,742	$11,023,387
Nonimpaired loans/leases	642,873,410	722,339,730	171,954,264	169,013,743	73,081,751	1,779,262,898
	$648,159,892	$724,368,765	$173,655,605	$170,432,530	$73,669,493	$1,790,286,285
Allowance as a percentage of impaired loans/leases	49.04 %	3.79 %	18.00 %	13.10 %	24.35 %	29.98 %
Allowance as a percentage of nonimpaired loans/leases	1.23 %	1.29 %	1.80 %	0.95 %	1.30 %	1.28 %
Total allowance as a percentage of total loans/leases	1.62 %	1.29 %	1.96 %	1.05 %	1.49 %	1.45 %

Part I

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the nine months ended September 30, 2016 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$1,846,140	$1,987,082	$-	$3,864,852	$ 8,644	$ 8,644
CRE						
Owner-Occupied CRE	767,032	860,806	-	621,553	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	2,042,391	2,042,391	-	1,789,571	-	-
Direct Financing Leases	1,860,773	1,860,773	-	1,755,969	52,595	52,595
Residential Real Estate	1,418,957	1,458,158	-	1,455,159	2,992	2,992
Installment and Other Consumer	208,916	208,916	-	430,322	-	-
	$8,144,209	$8,418,126	$-	$9,917,426	$ 64,231	$ 64,231
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$4,027,953	$4,031,792	$1,114,680	$2,195,524	$ -	$ -

CRE						
Owner-Occupied CRE	322,148	322,148	57,398	401,050	-	-
Commercial Construction, Land Development, and Other Land	186,681	186,681	77,611	190,208	-	-
Other Non Owner-Occupied CRE	177,134	177,134	40,734	67,571	-	-
Direct Financing Leases	1,064,432	1,064,432	739,207	653,884	-	-
Residential Real Estate	811,872	886,004	169,147	799,427	5,409	5,409
Installment and Other Consumer	160,008	160,008	148,320	145,962	4,426	4,426
	$6,750,228	$6,828,199	$2,347,097	$4,453,626	$ 9,835	$ 9,835
Total Impaired Loans/Leases:						
C&I	$5,874,093	$6,018,874	$1,114,680	$6,060,376	$ 8,644	$ 8,644
CRE						
Owner-Occupied CRE	1,089,180	1,182,954	57,398	1,022,603	-	-
Commercial Construction, Land Development, and Other Land	186,681	186,681	77,611	190,208	-	-
Other Non Owner-Occupied CRE	2,219,525	2,219,525	40,734	1,857,142	-	-
Direct Financing Leases	2,925,205	2,925,205	739,207	2,409,853	52,595	52,595
Residential Real Estate	2,230,829	2,344,162	169,147	2,254,586	8,401	8,401
Installment and Other Consumer	368,924	368,924	148,320	576,284	4,426	4,426
	$14,894,437	$15,246,325	$2,347,097	$14,371,052	$ 74,066	$ 74,066

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended September 30, 2016 and 2015, respectively, are presented as follows:

Classes of Loans/Leases	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	$1,677,527	$ 3,301	$ 3,301	$365,798	$ 1,870	$ 1,870
CRE						
Owner-Occupied CRE	767,032	-	-	451,851	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	9,968	-	-
Other Non Owner-Occupied CRE	1,969,034	-	-	2,868,950	-	-
Direct Financing Leases	2,008,095	21,095	21,095	634,378	325	325
Residential Real Estate	1,481,340	941	941	900,938	1,362	1,362
Installment and Other Consumer	322,738	-	-	328,669	3,912	3,912
	$8,225,766	$ 25,337	$ 25,337	$5,560,552	$ 7,469	$ 7,469
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	$4,188,621	$ -	$ -	$4,735,149	$ -	$ -
CRE						
Owner-Occupied CRE	363,911	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	187,831	-	-	335,707	-	-

Other Non Owner-Occupied CRE	135,141	-	-	-	-	-
Direct Financing Leases	793,769	-	-	488,860	-	-
Residential Real Estate	807,827	1,503	1,503	984,558	1,981	1,981
Installment and Other Consumer	160,301	1,458	1,458	723,674	1,391	1,391
	$6,637,401	$ 2,961	$ 2,961	$7,267,948	$ 3,372	$ 3,372
Total Impaired Loans/Leases:						
C&I	$5,866,148	$ 3,301	$ 3,301	$5,100,947	$ 1,870	$ 1,870
CRE						
Owner-Occupied CRE	1,130,943	-	-	451,851	-	-
Commercial Construction, Land Development, and Other Land	187,831	-	-	345,675	-	-
Other Non Owner-Occupied CRE	2,104,175	-	-	2,868,950	-	-
Direct Financing Leases	2,801,864	21,095	21,095	1,123,238	325	325
Residential Real Estate	2,289,167	2,444	2,444	1,885,496	3,343	3,343
Installment and Other Consumer	483,039	1,458	1,458	1,052,343	5,303	5,303
	$14,863,167	$ 28,298	$ 28,298	$12,828,500	$ 10,841	$ 10,841

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2015 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
C&I	$234,636	$346,072	$-
CRE			
Owner-Occupied CRE	256,761	350,535	-
Commercial Construction, Land Development, and Other Land	-	228,818	-
Other Non Owner-Occupied CRE	1,578,470	1,578,470	-
Direct Financing Leases	871,884	871,884	-
Residential Real Estate	613,486	649,064	-
Installment and Other Consumer	377,304	377,304	-
	$3,932,541	$4,402,147	$-
Impaired Loans/Leases with Specific Allowance Recorded:			
C&I	$5,051,846	$5,055,685	$2,592,270
CRE			
Owner-Occupied CRE	-	-	-
Commercial Construction, Land Development, and Other Land	193,804	205,804	76,934
Other Non Owner-Occupied CRE	-	-	-
Direct Financing Leases	829,457	829,457	306,193
Residential Real Estate	805,301	805,301	185,801
Installment and Other Consumer	210,438	210,438	143,089
	$7,090,846	$7,106,685	$3,304,287
Total Impaired Loans/Leases:			
C&I	$5,286,482	$5,401,757	$2,592,270
CRE			
Owner-Occupied CRE	256,761	350,535	-

Commercial Construction, Land Development, and Other Land	193,804	434,622	76,934
Other Non Owner-Occupied CRE	1,578,470	1,578,470	-
Direct Financing Leases	1,701,341	1,701,341	306,193
Residential Real Estate	1,418,787	1,454,365	185,801
Installment and Other Consumer	587,742	587,742	143,089
	$11,023,387	$11,508,832	$3,304,287

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of September 30, 2016 and December 31, 2015:

	As of September 30, 2016					
		CRE				
Internally Assigned Risk Rating	C&I	Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total
Pass (Ratings 1 through 5)	$770,822,390	$307,017,431	$153,401,738	$572,769,744	$1,804,011,303	96.24 %
Special Mention (Rating 6)	10,160,760	1,737,127	1,780,000	5,894,259	19,572,146	1.04 %
Substandard (Rating 7)	23,324,412	9,144,453	5,345,356	13,214,653	51,028,874	2.72 %
Doubtful (Rating 8)	-	-	-	-	-	-
	$804,307,562	$317,899,011	$160,527,094	$591,878,656	$1,874,612,323	100.00 %

Delinquency Status *	As of September 30, 2016 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$163,597,576	$226,908,556	$81,580,220	$472,086,352	98.78 %
Nonperforming	3,326,501	2,172,044	337,512	5,836,057	1.22 %
	$166,924,077	$229,080,600	$81,917,732	$477,922,409	100.00 %

Internally Assigned Risk Rating	As of December 31, 2015 C&I	CRE Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total
Pass (Ratings 1 through 5)	$616,200,797	$238,119,608	$46,929,876	$406,027,442	$1,307,277,723	95.24 %
Special Mention (Rating 6)	18,031,845	8,630,658	1,780,000	8,846,286	37,288,789	2.72 %
Substandard (Rating 7)	13,927,250	5,772,898	373,968	7,888,029	27,962,145	2.04 %
Doubtful (Rating 8)	-	-	-	-	-	-
	$648,159,892	$252,523,164	$49,083,844	$422,761,757	$1,372,528,657	100.00 %

Delinquency Status *	As of December 31, 2015 Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	$171,951,421	$169,013,743	$73,081,751	$414,046,915	99.11 %
Nonperforming	1,704,184	1,418,787	587,742	3,710,713	0.89 %
	$173,655,605	$170,432,530	$73,669,493	$417,757,628	100.00 %

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of September 30, 2016 and December 31, 2015, TDRs totaled $6,684,905 and $2,587,413, respectively.

For each class of financing receivable, the following presents the number and recorded investment of TDRs, by type of concession, that were restructured during the three and nine months ended September 30, 2016 and 2015. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring.

Classes of Loans/Leases	For the three months ended September 30, 2016				For the three months ended September 30, 2015			
	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Significant Payment Delay								
Direct Financing Leases	2	$ 461,643	$ 461,643	$ -			$ -	$ -
	2	$ 461,643	$ 461,643	$ -	-	$ -	$ -	$ -
CONCESSION - Interest Rate Adjusted Below Market								
Installment and Other Consumer	-	$ -	$ -	$ -	1	$ 14,203	$ 14,203	$ -
	-	$ -	$ -	$ -	1	$ 14,203	$ 14,203	$ -
TOTAL	2	$ 461,643	$ 461,643	$ -	1	$ 14,203	$ 14,203	$ -

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015

Classes of Loans/Leases	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Extension of Maturity								
C&I	1	$ 52,286	$ 52,286	$ -	-	$ -	$ -	$ -
Direct Financing Leases	4	410,653	410,653	-	-	-	-	-
	5	$ 462,939	$ 462,939	$ -	-	$ -	$ -	$ -
CONCESSION - Significant Payment Delay								
C&I	1	$ 62,140	$ 62,140	$ -	-	$ -	$ -	$ -
Direct Financing Leases	6	771,672	771,672	-	-	-	-	-
	7	$ 833,812	$ 833,812	$ -	-	$ -	$ -	$ -
CONCESSION - Interest Rate Adjusted Below Market								
CRE - Other	1	$ 1,233,740	$ 1,233,740	$ -	-	$ -	$ -	$ -
Installment and Other Consumer	-	-	-	-	1	14,203	14,203	-
	1	$ 1,233,740	$ 1,233,740	$ -	1	$ 14,203	$ 14,203	$ -
TOTAL	13	$ 2,530,491	$ 2,530,491	$ -	1	$ 14,203	$ 14,203	$ -

Of the TDRs reported above, two with a post-modification recorded balance of $1,384,680 were on nonaccrual as of September 30, 2016. Not included in the table above, the Company had one TDR that was restructured and charged off in 2016, totaling $236,545.

For the three and nine months ended September 30, 2016 and 2015, none of the Company's TDRs had redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 – BORROWINGS

Maturity and interest rate information on advances from FHLB as of September 30, 2016 and December 31, 2015 is as follows:

	September 30, 2016			
	Amount Due	Weighted Average Interest Rate at Quarter-End	Amount Due with Putable Option *	Weighted Average Interest Rate at Quarter-End
Maturity:				
Year ending December 31:				
2016	$90,300,000	0.55 %	$ -	- %
2017	23,342,549	2.59	-	-
2018	25,000,000	2.70	-	-
Total FHLB advances	$138,642,549	1.68 %	$ -	- %

	December 31, 2015			
	Amount Due	Weighted Average Interest Rate at Year-End	Amount Due with Putable Option *	Weighted Average Interest Rate at Year-End
Maturity:				

Year ending December 31:						
2016	$103,000,000	0.56	%	$2,000,000	4.00	%
2017	18,000,000	2.89		-	-	
2018	30,000,000	3.27		5,000,000	2.84	
Total FHLB advances	$151,000,000	1.37	%	$7,000,000	3.17	%

Other borrowings as of September 30, 2016 and December 31, 2015 are summarized as follows:

	As of September 30, 2016	As of December 31, 2015
Wholesale structured repurchase agreements	$45,000,000	$110,000,000
Term note	30,000,000	-
Revolving line of credit	5,000,000	-
	$80,000,000	$110,000,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	September 30, 2016			December 31, 2015		
	Amount Due	Weighted Average Interest Rate at Quarter-End		Amount Due	Weighted Average Interest Rate at Year-End	
Maturity:						
Year ending December 31:						
2016	$-	0.00	%	$-	0.00	%
2017	10,000,000	3.07		10,000,000	3.00	
2018	-	-		10,000,000	3.97	
2019	10,000,000	3.44		45,000,000	3.40	
2020	25,000,000	2.48		45,000,000	2.66	
Total Wholesale Structured Repurchase Agreements	$45,000,000	2.83	%	$110,000,000	3.11	%

During the first quarter of 2016, the Company executed balance sheet restructuring strategies at QCBT and CRBT, which included the repayment of $10.0 million of wholesale structured repurchase agreements and $10.0 million of FHLB advances with a combined weighted average interest rate of 3.92%. As a result of this restructuring, the Company incurred $1.3 million (pre-tax) in losses on debt extinguishment that are included in the statements of income. The weighted average duration of this combined debt was 2.17 years, with $10.0 million maturing in 2017 and $10.0 maturing in 2018. This funding was replaced with short-term borrowings at an average interest rate of 0.50%.

During the third quarter of 2016, the Company executed further balance sheet restructuring at QCBT which included the repayment of $55.0 million of wholesale structured repurchase agreements and $5.0 million of FHLB advances with a combined weighted average interest rate of 3.24%. As a result of this restructuring, the Company incurred $4.1 million (pre-tax) in losses on debt extinguishment that are included in the statements of income. The weighted average duration of this combined debt was 2.95 years, with $5.0 million maturing in 2018, $35.0 million maturing in 2019, and $20.0 million maturing in 2020. This funding was replaced partially with proceeds from the sale of bonds

previously pledged as collateral for the wholesale structured repurchase agreements ($27.8 million) and the rest with short-term borrowings at an average interest rate of 0.50%.

As of December 31, 2015, the Company maintained a $40.0 million revolving line of credit note, with interest calculated at the effective LIBOR rate plus 2.50% per annum (3.10% at December 31, 2015). At December 31, 2015, the Company had not borrowed on this revolving credit note and had the full amount available. At the renewal date in June 2016, the note was amended to provide a $10.0 million revolving line of credit note and a $30.0 million term note commitment with a five-year term. Interest on the revolving line of credit is calculated at the effective LIBOR rate plus 2.50% per annum (3.34% at September 30, 2016). Interest on the term note is calculated at the effective LIBOR rate plus 3.00% per annum (3.84% at September 30, 2016). Upon closing of the acquisition of CSB, the Company utilized the full $30.0 million term note commitment and borrowed $5.0 million on the revolving line of credit note. At September 30, 2016, the Company had $35.0 million in borrowings outstanding. For the term note, the Company is required to make quarterly principal payments of $1.5 million with maturity information as of September 30, 2016, summarized as follows:

	As of September 30, 2016
2017	6,000,000
2018	6,000,000
2019	6,000,000
2020	6,000,000
2021	6,000,000
	$30,000,000

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Similar to the previous revolving note agreement, the amended agreement contains covenants that place restrictions on additional debt and stipulate minimum capital and various operating ratios.

In October 2016, the Company executed new agreements with the creditor on both the term note and the revolving line of credit, adjusting the rate index from 3-month LIBOR to 1-month LIBOR.

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

NOTE 5 - EARNINGS PER SHARE

The following information was used in the computation of EPS on a basic and diluted basis:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$6,107,501	$6,488,987	$19,157,457	$10,143,058
Basic EPS	$0.47	$0.55	$1.55	$1.03
Diluted EPS	$0.46	$0.55	$1.52	$1.01

Weighted average common shares outstanding*	13,066,777	11,713,993	12,398,491	9,878,882
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	202,926	161,937	181,551	145,559
Weighted average common and common equivalent shares outstanding	13,269,703	11,875,930	12,580,042	10,024,441

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 – FAIR VALUE

Accounting guidance on fair value measurement uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;
Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis comprise the following at September 30, 2016 and December 31, 2015:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**

September 30, 2016:					
Securities AFS:					
U.S. govt. sponsored agency securities	$67,884,949	$-	$67,884,949	$	-
Residential mortgage-backed and related securities	133,172,804	-	133,172,804		-
Municipal securities	54,640,462	-	54,640,462		-
Other securities	2,491,866	1,107	2,490,759		-
Interest rate caps	221,233	-	221,233		-
Interest rate swaps - assets	9,386,262	-	9,386,262		-
Total assets measured at fair value	$267,797,576	$1,107	$267,796,469	$	-
Interest rate swaps - liabilities	$9,386,262	$-	$9,386,262	$	-
Total liabilities measured at fair value	$9,386,262	$-	$9,386,262	$	-
December 31, 2015:					
Securities AFS:					
U.S. govt. sponsored agency securities	$213,537,379	$-	$213,537,379	$	-
Residential mortgage-backed and related securities	80,670,135	-	80,670,135		-
Municipal securities	27,578,588	-	27,578,588		-
Other securities	1,648,880	411	1,648,469		-
Interest rate caps	856,024	-	856,024		-
Interest rate swaps - assets	3,044,525	-	3,044,525		-
Total assets measured at fair value	$327,335,531	$411	$327,335,120	$	-
Interest rate swaps - liabilities	$3,044,525	$-	$3,044,525	$	-
Total liabilities measured at fair value	$3,044,525	$-	$3,044,525	$	-

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the three and nine months ended September 30, 2016 or 2015.

A small portion of the securities available for sale portfolio consists of common stock issued by various unrelated bank holding companies. The fair values used by the Company are obtained from an independent pricing service and represent quoted market prices for the identical securities (Level 1 inputs).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The remainder of the securities available for sale portfolio consists of securities whereby the Company obtains fair values from an independent pricing service. The fair values are determined by pricing models that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2 inputs).

Interest rate caps are used for the purpose of hedging interest rate risk. The fair values are determined by pricing models that consider observable market data for derivative instruments with similar structures (Level 2 inputs).

Interest rate swaps are executed for select commercial customers. The interest rate swaps are further described in Note 1 of the Company's annual report filed on form 10-K as of December 31, 2015. The fair values are determined by comparing the contract rate on the swap with the then-current market rate for the remaining term of the transaction (Level 2 inputs).

Certain financial assets are measured at fair value on a non-recurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Assets measured at fair value on a non-recurring basis comprise the following at September 30, 2016 and December 31, 2015:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
September 30, 2016:				
Impaired loans/leases	$7,870,032	$-	$ -	$7,870,032
OREO	6,272,211	-	-	6,272,211

	$14,142,243	$-	$ -	$14,142,243
December 31, 2015:				
Impaired loans/leases	$4,545,966	$-	$ -	$4,545,966
OREO	7,722,711	-	-	7,722,711
	$12,268,677	$-	$ -	$12,268,677

Impaired loans/leases are evaluated and valued at the time the loan/lease is identified as impaired, at the lower of cost or fair value, and are classified as Level 3 in the fair value hierarchy. Fair value is measured based on the value of the collateral securing these loans/leases. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values are discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

OREO in the table above consists of property acquired through foreclosures and settlements of loans. Property acquired is carried at the estimated fair value of the property, less disposal costs, and is classified as Level 3 in the fair value hierarchy. The estimated fair value of the property is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values are discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the property.

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The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level Fair Value Measurements					
	Fair Value	**Fair Value**				
	September 30, 2016	**December 31, 2015**	**Valuation Technique**	**Unobservable Input**	**Range**	
Impaired loans/leases	$7,870,032	$4,545,966	Appraisal of collateral	Appraisal adjustments	-10.00%	to -50.00%
OREO	6,272,211	7,722,711	Appraisal of collateral	Appraisal adjustments	0.00%	to -35.00%

For the impaired loans/leases and OREO, the Company records carrying value at fair value less disposal or selling costs. The amounts reported in the tables above are fair values before the adjustment for disposal or selling costs.

There have been no changes in valuation techniques used for any assets measured at fair value during the three and nine months ended September 30, 2016 and 2015.

The following table presents the carrying values and estimated fair values of financial assets and liabilities carried on the Company's consolidated balance sheets, including those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis:

	Fair Value	As of September 30, 2016		As of December 31, 2015	
	Hierarchy Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	$61,213,134	$61,213,134	$41,742,321	$41,742,321
Federal funds sold	Level 2	21,022,000	21,022,000	19,850,000	19,850,000
	Level 2	75,025,417	75,025,417	36,313,965	36,313,965

Interest-bearing deposits at financial institutions					
Investment securities:					
HTM	Level 2	306,740,174	311,494,343	253,674,159	255,691,285
AFS	See Previous Table	258,190,081	258,190,081	323,434,982	323,434,982
Loans/leases receivable, net	Level 3	7,287,067	7,870,032	4,209,228	4,545,966
Loans/leases receivable, net	Level 2	2,324,486,610	2,327,955,000	1,767,672,541	1,764,178,772
Interest rate caps	Level 2	221,233	221,233	856,024	856,024
Interest rate swaps - assets	Level 2	9,386,262	9,386,262	3,044,525	3,044,525
Deposits:					
Nonmaturity deposits	Level 2	2,103,706,174	2,103,706,174	1,516,599,081	1,516,599,081
Time deposits	Level 2	491,206,579	491,849,000	364,067,103	364,192,000
Short-term borrowings	Level 2	60,015,417	60,015,417	144,662,716	144,662,716
FHLB advances	Level 2	138,642,529	140,153,000	151,000,000	153,143,000
Other borrowings	Level 2	80,000,000	82,119,000	110,000,000	116,061,000
Junior subordinated debentures	Level 2	33,446,578	24,768,273	38,499,052	27,642,093
Interest rate swaps - liabilities	Level 2	9,386,262	9,386,262	3,044,525	3,044,525

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NOTE 7 – BUSINESS SEGMENT INFORMATION

Selected financial and descriptive information is required to be disclosed for reportable operating segments, applying a "management perspective" as the basis for identifying reportable segments. The management perspective is determined by the view that management takes of the segments within the Company when making operating decisions, allocating resources, and measuring performance. The segments of the Company have been defined by the structure of the Company's internal organization, focusing on the financial information that the Company's operating decision-makers routinely use to make decisions about operating matters.

The Company's primary segment, Commercial Banking, is geographically divided by markets into the secondary segments comprised of the four subsidiary banks wholly owned by the Company: QCBT, CRBT, CSB and RB&T. Each of these secondary segments offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

The Company's Wealth Management segment represents the trust and asset management and investment management and advisory services offered at the Company's four subsidiary banks in aggregate. This segment generates income primarily from fees charged based on assets under administration for corporate and personal trusts, custodial services, and investments managed. No assets of the subsidiary banks have been allocated to the Wealth Management segment.

The Company's All Other segment includes the operations of all other consolidated subsidiaries and/or defined operating segments that fall below the segment reporting thresholds. This segment includes the corporate operations of the parent company.

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Selected financial information on the Company's business segments is presented as follows as of and for the three and nine months ended September 30, 2016 and 2015.

	Commercial Banking				**Wealth**		**Intercompany**	**C**
	QCBT	CRBT	CSB	RB&T	**Management**	**All Other**	**Eliminations**	**T**
Three Months Ended September 30, 2016								
Total revenue	$18,026,215	$10,065,032	$2,675,741	$4,232,205	$2,284,577	$8,463,636	$(8,507,270)	$3
Net interest income	$11,225,414	$7,594,557	$2,191,862	$3,056,989	$-	$(438,045)	$-	$2
Net income	$3,596,469	$3,286,724	$188,608	$944,781	$398,859	$6,107,492	$(8,415,432)	$6
Total assets	$1,407,733,009	$887,592,695	$580,210,270	$393,191,774	$-	$368,990,749	$(356,732,388)	$3
Provision	$1,137,986	$-	$270,000	$200,000	$-	$-	$-	$1
Goodwill	$3,222,688	$-	$10,408,938	$-	$-	$-	$-	$1
Core deposit intangible	$-	$1,321,775	$6,291,818	$-	$-	$-	$-	$7
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)	$2
Net interest income	$10,728,143	$6,956,027	$-	$2,771,214	$-	$(317,858)	$-	$2
Net income (loss)	$3,786,289	$2,893,397	$-	$847,709	$373,801	$6,488,988	$(7,901,197)	$6
Total assets	$1,328,053,105	$867,064,041	$-	$360,348,002	$-	$277,001,408	$(256,611,839)	$2
Provision	$910,263	$550,000	$-	$175,000	$-	$-	$-	$1
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$-	$3

Core deposit intangible	$-	$1,521,287	$-	$-	$-	$-	$-	$1
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)	$9
Net interest income	$33,394,620	$21,755,270	$2,191,862	$8,914,380	$-	$(1,019,020)	$-	$6
Net income	$10,326,508	$9,366,441	$188,608	$2,334,735	$1,232,831	$19,157,447	$(23,449,113)	$1
Total assets	$1,407,733,009	$887,592,695	$580,210,270	$393,191,774	$-	$368,990,749	$(356,732,388)	$3
Provision	$3,108,821	$700,000	$270,000	$800,000	$-	$-	$-	$4
Goodwill	$3,222,688	$-	$10,408,938	$-	$-	$-	$-	$1
Core deposit intangible	$-	$1,321,775	$6,291,818	$-	$-	$-	$-	$7
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)	$8
Net interest income	$29,745,080	$19,836,835	$-	$8,089,626	$-	$(1,260,962)	$-	$5
Net income	$6,578,479	$4,645,136	$-	$1,895,933	$1,271,661	$10,143,059	$(14,391,210)	$1
Total assets	$1,328,053,105	$867,064,041	$-	$360,348,002	$-	$277,001,408	$(256,611,839)	$2
Provision	$3,466,384	$1,650,000	$-	$578,000	$-	$-	$-	$5
Goodwill	$3,222,688	$-	$-	$-	$-	$-	$-	$3
Core deposit intangible	$-	$1,521,287	$-	$-	$-	$-	$-	$1

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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

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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.

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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.

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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.

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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

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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.

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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.

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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

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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;

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- 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%
Profitability	NIM	> 3.75%	3.71%	3.62%	3.51%
	ROAA	> 1.10%	0.85%	1.01%	1.01%
	Core ROAA (non-GAAP)		1.05%	1.04%	0.97%
Asset quality	NPAs to total assets	< 0.75%	0.69%	0.70%	0.80%
	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.

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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.

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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.

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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	9,878,882
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	10,024,44
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	$2,529,46
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%.

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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.

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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.

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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.

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	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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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:

INTEREST RATE SCENARIO	POLICY LIMIT	NET INTEREST INCOME EXPOSURE in YEAR 1		
		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

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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