

**STATEMENT OF CONDITION**

<b>Assets</b>	
Cash and cash equivalents (note 3)	\$ 7,629,702
Cash segregated under federal regulations (note 3)	30,546,962
Securities, at fair value (note 2)	11,678,677
Receivables from customers (note 4)	22,933,467
Receivables from clearing organization	113,160
Other assets	800,251
<b>Total Assets</b>	<b><u>\$73,702,219</u></b>
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<b>Liabilities and Stockholder's Equity</b>	
<b>Liabilities</b>	
Payables to customers (note 4)	\$48,622,575
Payables to clearing organization	97,085
Due to People's Bank	1,988,709
Other liabilities	187,726
<b>Total Liabilities</b>	<b><u>50,896,095</u></b>
<b>Stockholder's equity (note 5)</b>	
Common stock*	500,000
Additional paid-in capital	5,216,571
Retained earnings	17,089,553
<b>Total Stockholder's Equity</b>	<b><u>22,806,124</u></b>
<b>Total Liabilities and Stockholder's Equity</b>	<b><u>\$73,702,219</u></b>

See accompanying notes to financial statement.

\*Without par value; 5,000 shares authorized; 100 shares issued and outstanding.

**NOTES TO FINANCIAL STATEMENT**

**1. Organization and Nature of Business**

People's Securities, Inc. (the "Company") is a brokerage firm and a wholly-owned subsidiary of People's Bank ("People's"). The Company is a member of the National Association of Securities Dealers and is registered as a broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934.

The Company is registered in all 50 states and operates through a network of 24 Connecticut-based investment and brokerage offices, with 23 located in People's traditional branches or financial centers. Commission revenues are principally fees charged to customers for buying and selling securities, including mutual funds and annuities. A significant portion of customer transactions are conducted online using the Internet.

**2. Summary of Significant Accounting Policies**

**Basis of Financial Statement Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include highly liquid instruments (such as commercial paper) with an original maturity at the date of purchase of three months or less, but exclude cash segregated in a special reserve account under federal regulations. Cash equivalents are carried at amortized cost which approximates fair value.

**Securities, at fair value**

All of the Company's securities at December 31, 2004 were reported at fair value, with unrealized gains and losses included as revenue in the statement of income. The fair values of securities were based principally on market prices and dealer quotes.

Pursuant to Rule 17a-5 of the Securities and Exchange Commission, a statement of condition for December 31, 2004 and related notes were filed with the Securities and Exchange Commission together with the Company's annual audit report. This report is available for examination and copying at the Company's Bridgeport, Connecticut office and at the Washington D.C. and Boston, Massachusetts offices of the Securities and Exchange Commission.

**NOTES TO FINANCIAL STATEMENT  
(CONTINUED)**

**Commissions**

The Company recognizes commission revenues and expenses on a trade-date basis.

**Intercompany Expense Allocations**

The Company's financial statements reflect allocations of certain occupancy, equipment and personnel-related expenses that are paid on its behalf by People's. Personnel-related allocations include costs applicable to Company employees' participation in the pension and other benefit plans sponsored by People's. In the opinion of management, the expenses allocated to the Company approximate the actual costs incurred.

**Income Taxes**

The Company is included in the consolidated federal and state income tax returns filed by People's. Pursuant to a tax sharing arrangement, People's charges or credits the Company for the portion of the consolidated income tax expense or benefit attributable to the Company's stand-alone operations, based on income for financial reporting purposes. For 2004, income tax expense was allocated to the Company using the applicable federal statutory tax rate of 35%.

**3. Cash and Cash Equivalents**

Pursuant to Rule 15c3-3 of the Securities and Exchange Commission, the Company is required to maintain a segregated special reserve bank account for the exclusive benefit of its customers. This account is maintained at People's and had a balance of \$30,546,962 at December 31, 2004.

Additional funds are invested daily in an interest-bearing cash management account administered by People's.

The components of cash (other than the segregated reserve account) and cash equivalents at December 31, 2004 are as follows:

Cash management account administered by People's	\$ 2,272,924
Commercial paper	4,989,209
Cash management accounts administered by others	<u>367,569</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 7,629,702</u></b>

**4. Customer Transactions**

In the normal course of business, the Company's activities involve the execution, settlement and financing of various customer securities transactions. These customer activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, collateralized by cash equivalents and securities in the customers' accounts. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory requirements and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

**5. Net Capital Requirement**

As a registered broker and dealer in securities, the Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. As permitted by Rule 15c3-1, the Company has elected to compute its net capital requirement at December 31, 2004 using the alternative method. This method requires the maintenance of minimum net capital, as defined, equal to the greater of (i) \$250,000 or (ii) 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2004, the Company had net capital of \$21,022,086, which was approximately 92% of aggregate debit balances and \$20,563,424 in excess of its required net capital.

800-392-3009  
1000 Lafayette Boulevard  
P.O. Box 31  
Bridgeport, Connecticut 06601-0031