

FINANCIAL STATEMENT – December 31, 2016

Statement of Condition

Assets

Cash and cash equivalents (note 3)	\$10,276,844
Cash segregated under federal regulations (note 3)	1,768,554
Securities segregated under federal regulations, at fair value (note 3)	6,496,004
Securities, at fair value	297,012
Receivables from customers (note 4)	13,999,880
Receivables from clearing organization	2,203,941
Commission and fees receivable	6,636,781
Goodwill and other acquisition related intangible assets	73,700,282
Other assets	651,594
Total Assets	\$116,030,892

Liabilities and Stockholder's Equity

Liabilities

Payables to customers (note 4)	\$17,448,287
Due to People's United Bank	6,150,605
Contingent liability	18,260,000
Other liabilities	56,592
Total Liabilities	41,915,484

Stockholder's equity (note 6)

Common stock*	500,000
Additional paid-in capital	65,823,012
Retained earnings	7,792,396
Total Stockholder's Equity	74,115,408

Total Liabilities and Stockholder's Equity **\$116,030,892**

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 United Bank, National Association (People's United). The Company is registered as a broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934, and is a registered investment advisor with the Securities and Exchange Commission (the SEC). The Company is subject to regulation and oversight by the SEC and the Financial Industry Regulatory Authority, Inc. (FINRA).

The Company is registered in all 50 states, the District of Columbia and Puerto Rico. It offers brokerage and insurance services through the People's United branch network consisting of approximately 390 branches located throughout New England and southeastern New York. Revenues are primarily earned from fees collected from customers. These fees and commissions are primarily associated with buying and selling of securities, including mutual funds, managed asset allocation portfolios, insurance and annuities.

In March 2016, the Company paid a cash dividend of \$1,000,000 to People's United.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. 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 money market mutual funds), but exclude cash segregated in a special reserve account under federal regulations. Cash equivalents in the form of money market mutual funds are carried at fair value.

Pursuant to Rule 17a-5 of the Securities and Exchange Commission, a statement of condition for December 31, 2016 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.

People's Securities, Inc.

A subsidiary of **People's United Bank**

FINANCIAL STATEMENT – December 31, 2016

Notes to Financial Statement (Continued)

Securities

All of the Company's securities including securities segregated under federal regulations are reported at fair value on trade date. Net unrealized and realized gains and losses on securities are included as revenue in the statement of income.

Revenue Recognition

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

Inter-company 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 United and reimbursed by the Company. Personnel-related allocations include salaries and costs attributable to the employees of the Company participating in the pension and other benefit plans sponsored by People's United. 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 combined state income tax returns filed by People's United Financial, Inc., (the parent company of People's United). Pursuant to a tax sharing arrangement, People's United Financial, Inc. 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.

3. Cash and Cash Equivalents

Pursuant to Rule 15c3-3 of the SEC, the Company is required to maintain a segregated special reserve bank account for the exclusive benefit of its customers. In accordance with these requirements, the Company maintained an account at Citibank N.A. with a total balance of \$1,768,554 in cash and \$6,496,004 in securities (at fair value) at December 31, 2016.

Additional funds are invested in cash management accounts administered by People's United and others which are reinvested daily in money market mutual funds.

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, require the customer to deposit additional collateral or to reduce positions when necessary.

5. Acquisition

In November 2016, the Company completed its acquisition of Gerstein, Fisher & Associates, Inc. (Gerstein Fisher), an investment management firm based in New York City, in an all-cash transaction. The fair value of the consideration transferred in the Gerstein Fisher acquisition consisted of \$57,414,423 in cash and \$18,260,000 in contingent consideration. The Company's results of operations for the year ended December 31, 2016 include the results of Gerstein Fisher for November and December 2016.

6. Net Capital Requirements

As a registered broker and dealer in securities, the Company is subject to the SEC 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, 2016 using the alternative method. This method requires the maintenance of minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. The Company's net capital was adversely impacted by a change in the estimate of the fair value of the contingent liability recognized in connection with the purchase of the assets of Gerstein Fisher. The fair value estimate of this contingent liability was revised upon receipt of a third-party valuation subsequent to December 31, 2016. When applied retrospectively to the acquisition date, the change in estimate resulted in negative net capital of \$7,446,657, and a net capital deficiency of \$7,696,657 as compared to the Company's required minimum net capital at December 31, 2016. On January 26, 2017, People's United made a capital contribution of \$12,000,000 to the Company to correct this deficiency.

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A subsidiary of  People's United Bank