

FINANCIAL STATEMENTS

Comerica Securities, Inc.
Period Ended June 30, 2019

Comerica Securities, Inc.

Statement of Financial Condition (unaudited)

June 30, 2019

Assets

Cash and cash equivalents	\$ 48,207,222
Cash segregated for the benefit of customers	1,017,016
Clearing deposit held at clearing organization	500,000
Receivables from brokers, dealers and clearing organizations	3,050,532
Receivables from affiliates	397,146
Premises, equipment and software, net of accumulated depreciation of \$5,109,518	242,455
Deferred tax asset	503,461
Other assets	630,006
Total assets	<u>\$ 54,547,838</u>

Liabilities and shareholder's equity

Liabilities:

Payables to affiliates	\$ 4,542,924
Payables to customers	6,411
Accrued expenses and other liabilities	813,023
Deferred revenue	354,557
Total liabilities	<u>5,716,915</u>

Shareholder's equity:

Common stock - \$1 par value: 50,000 shares authorized, issued and outstanding	50,000
Additional paid-in capital	47,175,440
Retained earnings	1,605,483
Total shareholder's equity	<u>48,830,923</u>
Total liabilities and shareholder's equity	<u>\$ 54,547,838</u>

See accompanying notes.

Comerica Securities, Inc.

Notes to Financial Statements (unaudited)

June 30, 2019

1. Organization

Comerica Securities, Inc. (the Company) is a broker/dealer, a federally Registered Investment Advisor, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. The Company provides services to retail and institutional clients and may participate in firm commitment underwritings as a syndicate member. The Company operates as one reportable segment and is a wholly owned, indirect subsidiary of Comerica Incorporated (the Corporation).

2. Significant Accounting Policies

The following summarizes the significant accounting policies of the Company applied in the preparation of the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers cash in commercial bank accounts and money market investments with maturity of three months or less when purchased to be cash and cash equivalents. Money market investments are held in listed money market funds and are reported at fair value.

Cash Segregated for the Benefit of Customers

Cash is segregated in an unaffiliated special reserve account for the exclusive benefit of customers pursuant to federal regulations under Rule 15c3-3(e) of the Securities and Exchange Commission.

Comerica Securities, Inc.

Notes to Financial Statements (unaudited) (continued)

2. Significant Accounting Policies (continued)

Trading Securities

Trading securities are recorded at fair value on a recurring basis and consist primarily of money market investments at June 30, 2019.

Clearing Deposit Held at Clearing Organization

Cash is held in a deposit account at the Company's clearing organization pursuant to a clearing agreement.

Premises, Equipment and Software

Premises, equipment and software are carried at historical cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives are generally three years to eight years for equipment and software. Capitalized software includes purchased software and capitalizable application development costs associated with internally-developed software. The Company had \$99,990 of unamortized capitalized software as of June 30, 2019.

Deferred Revenue

Deferred revenue represents incentives received in connection with various long-term service contracts and is amortized on a straight-line basis over the terms of the contracts.

Revenue Recognition

The Company's revenues from contracts with customers may be recognized when services are completed or as they are rendered, although contracts are generally short-term by nature. Services provided over a period of time are typically transferred to customers evenly over the term of the contracts and the corresponding revenue is recognized evenly over the period services are provided. Contract receivables are included in receivables from brokers, dealers, and clearing organizations on the Statement of Financial Condition. Payment terms vary by services offered, and the timing between completion of performance obligations and payment is typically not significant.

Comerica Securities, Inc.

Notes to Financial Statements (unaudited) (continued)

2. Significant Accounting Policies (continued)

Income Taxes

The Company is included in a consolidated federal income tax return with the Corporation. The Company computes income tax expense and settles with the Corporation on the same basis as if the Company had filed a separate federal income tax return.

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date.

3. Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction as of the measurement date. The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Trading securities and money market investments are recorded at fair value on a recurring basis. The Company had no liabilities that require fair value measurement as of June 30, 2019.

Financial instruments are categorized into a three-level hierarchy based on the markets in which the instruments are traded and the reliability of the assumptions used to determine fair value. The valuation methodologies and key inputs used to measure financial instruments recorded at fair

Comerica Securities, Inc.

Notes to Financial Statements (unaudited) (continued)

3. Fair Value Measurements (continued)

value are described below:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets, such as stocks, exchange-traded funds, mutual fund shares and negotiable certificates of deposit. Money market investments held in listed money market funds and reported in cash and cash equivalents on the Statement of Financial Condition are included in Level 1.
- Level 2 – Valuation is based upon quoted prices for similar securities in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. This category includes state and municipal securities, corporate debt securities, and residential mortgage-backed securities.
- Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset. Valuation techniques include use of discounted cash flow models and similar techniques.

The following table presents the recorded amount of assets measured at fair value on a recurring basis at June 30, 2019:

	<u>Level 1</u>
Money market investments (a)	<u>\$39,960,032</u>
Total assets at fair value	<u>\$39,960,032</u>

a) Included in cash and cash equivalents in the Statement of Financial Condition.

There were no transfers of assets recorded at fair value on a recurring basis into or out of Level 1, Level 2, or Level 3 fair value measurements during the period ended June 30, 2019.

4. Related-Party Transactions

In the normal course of business, the Company engages in transactions with related parties, primarily Comerica Bank and the Corporation.

Comerica Securities, Inc.

Notes to Financial Statements (unaudited) (continued)

4. Related-Party Transactions (continued)

Comerica Bank also pays certain expenses on behalf of the Company and is subsequently reimbursed for such payments. Payables to affiliates of \$4,542,924 at June 30, 2019 included amounts due to Comerica Bank and the Corporation of \$334,389 and \$4,208,535, respectively. Receivables from affiliates totaled \$397,146 at June 30, 2019 and included current tax receivable and other receivables due from Comerica Bank.

The Company has a \$10 million secured line of credit with Comerica Bank. Interest is charged on the short-term borrowings under the line at a variable rate based on the federal funds rate. There were no short-term borrowings outstanding at June 30, 2019.

5. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company enters into various commitments to purchase securities from underwriters and sell such securities to customers. These commitments may have settlement terms up to 45 days. These transactions are not reflected in the Company's Statement of Financial Condition. They are conducted on a "when, as, and if-issued" basis and, as such, there is no obligation to the seller or the buyer if the securities are not issued. However, credit risk results from the possible inability of the purchaser to take delivery of issued securities in accordance with the agreement and, to the extent open purchase commitments exceed sales commitments, market risk exists related to any price movement between the time of purchase and the sale date. At June 30, 2019, there were approximately \$21,656,000 of outstanding commitments to purchase securities and \$21,656,000 of outstanding commitments to sell securities.

6. Net Capital Requirements

As a registered broker/dealer, the Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1). Based on the provisions of this rule, the Company must maintain minimum net capital, as defined, equivalent to the greater of \$250,000 or 1/15th of aggregate indebtedness, as defined. At June 30, 2019, net capital was \$44,357,069 and required net capital was \$357,063. The ratio of aggregate indebtedness to net capital (which may not exceed 15 to 1) was 0.12 to 1.

7. Income Taxes

The principal component of the deferred tax asset of \$503,461 at June 30, 2019 was deferred revenue.

Comerica Securities, Inc.

Notes to Financial Statements (unaudited) (continued)

8. Commitments and Contingencies

The Company recognizes liabilities for contingencies when analysis indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company is subject to various pending or threatened legal proceedings arising out of the normal course of business or operations. The Company cannot state the eventual outcome of these matters. Based on current knowledge and after consultation with legal counsel, management believes that current reserves are adequate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows. At June 30, 2019, no reserves were recorded in the Company's Statement of Financial Condition.

For matters where a loss is not probable, the Company has not established legal reserves. Based on current knowledge, expectation of future earnings and after consultation with legal counsel, the Company believes the maximum amount of reasonably possible losses would not have a material adverse effect on the Company's financial condition, results of operations or cash flows. Depending on future developments, it is possible that the ultimate resolution of these matters may be material to the Company's financial condition, results of operations or cash flows.

As a participant in underwriting syndicates, the Company may become contingently liable for its prorated portion of any trading loss assumed by the syndicate due to the syndicate's remarketing obligations arising with respect to an offering.

At June 30, 2019, the Company had no contingent liabilities or commitments.