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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 05761

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01.01.19 AND ENDING 12.31.19
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hutchinson, Shockey, Erley & Co.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

222 W. Adams Street, Suite 1700

(No. and Street)

Chicago

IL

60606

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Nancy L. Meier

312.443.1560

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Pricewaterhouse Coopers LLP

(Name - if individual, state last, first, middle name)

One North Wacker Drive

Chicago

IL

60606

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

SEC Mail Processing

MAR 02 2020

Washington, DC

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Nancy L. Meier, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hutchinson, Shockey, Erley & Co., as of December 31, 2019, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Nancy L. Meier Signature
CFO/CCO Title

Notary Public this 28th day of February 2020

This report ** contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income...
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Hutchinson, Shockey, Erley & Co.

(A Wholly Owned Subsidiary of Huntington
Bancshares Incorporated)

Statement of Financial Condition as of
December 31, 2019 and Report of the
Independent Registered Public Accounting
Firm

HUTCHINSON, SHOCKEY, ERLEY & CO.

(A Wholly Owned Subsidiary of Huntington Bancshares Incorporated)

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Hutchinson, Shockey, Erley & Co.

Opinion on the Financial Statement – Statement of Financial Condition

We have audited the accompanying statement of financial condition of Hutchinson, Shockey, Erley & Co. (the “Company”) as of December 31, 2019, including the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of this financial statement in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Chicago, Illinois
February 27, 2020

We have served as the Company’s auditor since 2018.

HUTCHINSON, SHOCKEY, ERLEY & CO.
(A Wholly Owned Subsidiary of Huntington Bancshares Incorporated)

STATEMENT OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2019

ASSETS

Cash	\$	105,236
Securities owned - at fair value		62,752,747
Accrued interest receivable		434,397
Receivables from broker-dealers		692,248
Office furnishings, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$1,990,203		305,873
Trade receivables		67,886
Operating lease right of use assets		1,922,273
Other assets		<u>3,807,758</u>
TOTAL ASSETS	\$	<u>70,088,418</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES:

Payables to broker-dealers	\$	31,162,019
Accrued personnel expenses		5,644,507
Operating lease liabilities		2,374,867
Payable to affiliate		1,470,535
Accrued expenses and other liabilities		<u>623,728</u>
Total liabilities	\$	<u>41,275,656</u>

COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 12)

SHAREHOLDER'S EQUITY:

Common stock, \$1 par value - 1,000 shares authorized; 100 shares issued and outstanding	\$	100
Paid-in capital		15,158,618
Retained earnings		<u>13,654,044</u>
Total shareholder's equity	\$	<u>28,812,762</u>

TOTAL LIABILITIES & SHAREHOLDER'S EQUITY **\$** **70,088,418**

The accompanying notes are an integral part of the financial statement.

HUTCHINSON, SHOCKEY, ERLEY & CO.
(A Wholly Owned Subsidiary of Huntington Bancshares Incorporated)

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

1. ORGANIZATION AND BUSINESS

Description of business — Hutchinson, Shockey, Erley & Co. (HSE or the Company) is a wholly owned subsidiary of Huntington Bancshares Incorporated (HBI). HSE is a broker-dealer registered with the Securities and Exchange Commission (SEC). HSE is a member of the Financial Industry Regulatory Authority (FINRA) and is a member of the Securities Investor Protection Corporation (SIPC). HSE deals in fixed income municipal debt securities as either an underwriter or broker and clears all transactions through Pershing, LLC (Pershing). HSE does not hold customer funds or securities. Pershing clears HSE's securities transactions and carries the accounts on a fully disclosed basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation — The accompanying financial statement include the accounts of HSE and have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

Use of estimates — The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statement and the accompanying notes. Management believes that the estimates utilized in preparing its financial statement is reasonable and prudent. Actual results could differ from those estimates.

Revenue from contracts with customers - Revenue from contracts with customers includes fees from investment banking and financial advisory services. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

Underwriting fees — The Company underwrites securities for state and local governmental entities that want to raise funds through a sale of municipal securities. Revenues are earned from fees arising from municipal securities offerings in which the Company acts as an underwriter. The Company also acts as a placement agent in connection with the issuance of securities and earns a fee upon the successful placement of securities. Revenue is recognized on the trade date (the date on which the Company purchases the municipal securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for municipal securities underwriting transactions as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point. The Company recognizes revenue from placement fees after successful placement of the securities and the transaction has closed.

Underwriting costs that are deferred under the guidance in FASB ASC 940-340-25-3 are recognized in expense at the time the related revenues are recorded. In the event that transactions are not completed and the securities are not issued, the Company immediately expenses those costs.

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HUTCHINSON, SHOCKEY, ERLEY & CO.
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NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

Financial advisory fees — The Company provides advisory services for underwriting transactions of municipal securities. Revenue for financial advisory arrangements is generally recognized at the point in time that performance under the arrangement is completed (the closing date of the transaction) or the contract is cancelled. However, for certain contracts, revenue is recognized over time for advisory arrangements in which the performance obligations are simultaneously provided by the Company and consumed by the customer. In some circumstances, significant judgment is needed to determine the timing and measure of progress appropriate for revenue recognition under a specific contract.

Securities transactions - HSE's securities transactions and related gains or losses and expenses are recorded at fair value on trade-date as if they had settled. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net and included in payables to broker-dealers on the Statement of Financial Condition.

Cash — Cash consists primarily of cash in banks and deposits with HNB, which are readily convertible to known amounts of cash without prior notice or penalty. Cash balances from time to time may exceed FDIC limits.

Income taxes — Income taxes are accounted for using the asset and liability method in accordance with the provisions of ASC 740, *Income Taxes*. Accordingly, deferred tax assets and liabilities are recognized for the future book and tax consequences attributable to temporary differences between financial statement carry amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined using enacted tax rates expected to apply in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income at the time of enactment of such change in tax rates.

HSE accounts for uncertainties in income taxes in accordance with ASC 740, *Income Taxes*. As of December 31, 2019, there were no unrecognized tax benefits. HSE does not anticipate the total amount of unrecognized tax benefits to significantly change within the next 12 months.

Fair value measurement — HSE's financial instruments, such as cash and securities owned, are carried at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level valuation hierarchy was established for disclosure of fair value measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active 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.

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HUTCHINSON, SHOCKEY, ERLEY & CO.
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NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Financial instruments are considered Level 3 when values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 3 for more information regarding fair value measurements.

Share-based compensation — Certain employees of HSE participate in the HBI share-based compensation plans. HBI follows the fair value based method of accounting for awards of HBI stock (HBAN) granted to employees under various stock options and restricted share plan. Stock compensation costs are recognized prospectively for all new awards granted under these plans. Compensation expense related to share options is calculated using a methodology that is based on the underlying assumptions of the Black-Scholes pricing model and is charged to expense over the requisite service period (i.e. vesting period). HSE's allocation of this expense is reflective of share-based compensation activity related to HSE employees.

Postretirement benefits — Eligible employees of HSE participate in the employee benefit programs of HBI. HBI maintains a 401(k) plan covering substantially all employees. Employer contributions to the plan, which are charged to current earnings, are based on employee contributions.

Leases — The Company adopted ASU 2016-02 on January 1, 2019 and elected certain practical expedients offered by the FASB. Management also excluded short-term leases from the recognition of right-of-use asset and lease liabilities. Additionally, the Company elected the transition relief allowed by FASB in foregoing reassessment of the following: whether any existing contracts were or contained leases, the classification of existing leases, and the determination of initial direct costs for existing leases. The Company recognized right-of-use assets of approximately \$2,100,000 and lease liabilities of approximately \$2,600,000 upon adoption, representing substantially all of its operating lease commitments, with the difference of \$500,000 was attributable to transition adjustments required by ASC Topic 842 relating to previously recognized amounts for deferred rent.

The Company recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Company is a lessee in noncancelable operating leases for office space. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed.

The lease liability is based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate at the date of measurement. Lease payments including variable payments are remeasured when the lease is modified, when the lease term or when any contingencies are resolved. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of our leases are not readily determinable and accordingly, we use our incremental borrowing rate based on the information available at the commencement date for all

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NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

A lessee's ROU asset is measured at the commencement date at the amount of the initially-measured lease liability plus any lease payments made to the lessor before or at the commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

3. SECURITIES OWNED

A summary of HSE's securities owned, measured at fair value on a recurring basis, as of December 31, 2019, is as follows:

Security Type	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
State and municipal government	\$ -	\$ 62,752,747	\$ 62,752,747
Futures contracts	-	-	-
Total	<u>\$ -</u>	<u>\$ 62,752,747</u>	<u>\$ 62,752,747</u>

HSE follows the fair value accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*.

The valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy is as follows:

Securities — The Company's valuation of its state and municipal government bond inventory is based upon broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. These securities are classified within Level 2 of the fair value hierarchy. Fair value of exchange-traded derivative contracts is based upon exchange settlement prices and classified as Level 1 in the fair value hierarchy. Exchange-traded futures contracts are settled at market daily and all futures contracts are traded on the Chicago Board of Trade (CBOT). HSE did not have any securities classified as Level 3 at December 31, 2019.

The Company assesses the levels of the investments at each measurement date.

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NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

4. DERIVATIVE INSTRUMENTS

The Company's derivative activities are limited to interest rate futures contracts to economically mitigate the interest rate exposure of the underwriting securities owned. These derivative contracts are included in the Statement of Financial Condition as receivables from broker-dealer measured at fair value. The Company does not utilize and does not consider any derivative instruments, as or to be, hedging instruments as those terms are defined under GAAP.

The following table shows the notional amounts of the of the Company's outstanding derivative instruments at December 31, 2019:

	Notional Amount
Instruments not designated as accounting hedges:	
<u>Treasury futures contracts</u>	
MAR 20 10 YR T-NOTE	\$ 5,000,000
MAR 20 5 YR T-NOTE	3,500,000
MAR 20 2 YR T-NOTE	12,000,000
	<u>\$ 20,500,000</u>

5. RECEIVABLES FROM AND PAYABLES TO BROKER-DEALER

Amounts receivable from and payable to broker-dealer at December 31, 2019, consist of the following:

	Receivable	Payable
Deposit at clearing broker	\$ 261,038	\$ -
Receivables from broker-dealers, net	431,210	-
Due from / to clearing broker	-	18,157,592
Net payable to clearing broker for unsettled securities transactions	-	13,004,427
	<u>\$ 692,248</u>	<u>\$ 31,162,019</u>

Under the Company's clearing agreement all securities are held by and cleared through Pershing. Settlement of net receivables and payables is in accordance with the master service agreement. The Company has also established an arrangement to obtain financing from Pershing related to all of its trading activity. Pershing charges the Company the prevailing repo rate plus 90 basis points on the net debit balance. Financing under this arrangement is secured by trading securities. For the year ended December 31, 2019, the average and maximum interest rate charged was 3.319 percent and

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NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

3.617 percent, respectively. The interest rate on December 31, 2019 was 2.738 percent and the balance due to Pershing was \$18,157,592 which is included in payables to broker-dealers on the Statement of Financial Condition.

Cash and financial instruments on deposit with counterparties may serve to collateralize amounts due and may serve to satisfy margin requirements and financial instruments may be rehypothecated by the counterparties.

6. LEASE AGREEMENTS

The Company has operating lease agreements covering its office space in Chicago, Houston, St. Clair Shores, and Denver. The Company has obligations under operating leases with initial noncancelable terms in excess of one year.

The components of lease cost for the year ended December 31, 2019 are as follows:

	Minimum Lease
Operating lease cost	\$ 337,606
Short-term lease cost	43,529
Variable lease cost	<u>201,882</u>
Total lease cost	<u>\$ 583,017</u>

Weighted average remaining lease term:
Operating leases 8.84 years

Weighted average discount rate:
Operating leases 4.69%

Aggregate annual rentals, excluding escalation charges and other operating costs, at December 31, 2019, are approximately as listed below:

	<u>Payments</u>
Year Ending December 31	
2020	\$ 338,128
2021	344,398
2022	271,942
2023	261,539
2024	293,480
Thereafter	<u>1,432,245</u>
Total	\$ 2,941,732
Less: Present value discount	<u>(566,865)</u>
Total lease liabilities	<u>\$ 2,374,867</u>

HUTCHINSON, SHOCKEY, ERLEY & CO.
(A Wholly Owned Subsidiary of Huntington Bancshares Incorporated)

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

7. INCOME TAXES

HSE is included in the consolidated federal return of HBI. HBI's federal consolidated tax provision is allocated to its separate subsidiary companies on the basis of separate return computations. HSE is included in certain of HBI's unitary and combined state income and state franchise tax returns. HBI's unitary and combined state income tax provision is allocated to each member of the unitary and combined filing group. Under the intercompany federal and state tax allocation agreement with HBI, HSE provides and remits federal and state income taxes to or receives a federal or state income tax benefit from the taxpaying member.

HSE filed income tax returns in the U.S. federal jurisdiction and various state jurisdictions. For federal income tax, the statute of limitations remains open for tax years 2016 (March 31, 2017), 2017 (March 31, 2018,) and 2018 (September 30, 2018). For state jurisdictions, the statute of limitations remains open for tax years 2015 (March 31, 2016) through 2018 (September 30, 2018). HBI and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and city jurisdictions. For federal, state and city income tax, the statute of limitations remains open for tax year 2018.

Federal and state income taxes paid, net of refunds, by HSE to/from the taxpaying entity during the year ended December 31, 2019 were \$1,128,727 net payments.

The deferred tax assets are recorded in the Statement of Financial Condition in other assets. The significant components of deferred tax assets and liabilities at December 31, 2019 were as follows:

Deferred tax assets:	
Other employee benefits	\$ 1,622,607
Lease liability	523,776
Premises and equipment	87,995
State income taxes	18,067
Other	5,074
	<hr/>
Total deferred tax assets	\$ 2,257,519
	<hr/>
Deferred tax liabilities:	
Right of use asset	\$ 423,961
Other	239
	<hr/>
Total deferred tax liabilities	\$ 424,200
	<hr/>
Net deferred tax assets	\$ 1,833,319
	<hr/> <hr/>

HSE accounts for uncertainties in income taxes in accordance with ASC 740, *Income Taxes*. As of December 31, 2019, there were no unrecognized tax benefits. HSE does not anticipate the total amount of unrecognized tax benefits to significantly change within the next 12 months.

HUTCHINSON, SHOCKEY, ERLEY & CO.
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NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

HSE recognizes interest and penalties on income tax assessments or income tax refunds in the financial statement as a component of its provision for income taxes. There were no amounts recognized for interest and penalties for the year ended December 31, 2019, and no amounts accrued at December 31, 2019.

8. SHARE-BASED COMPENSATION

HBI sponsors nonqualified and incentive share-based compensation plans which provide for the granting of restricted stock units and other awards to officers, directors, and other employees of the Company.

Restricted stock units are issued at no cost to the recipient, and can be settled only in shares at the end of the vesting period. Restricted stock units do not provide the holder with voting rights or cash dividends during the vesting period, but do accrue a dividend equivalent that is paid upon vesting, and are subject to certain service restrictions. The fair value of these awards is the closing market price of HBI's common stock on the grant date.

Restricted stock units vest only if the recipient satisfies the service-based vesting requirements. The recipients restricted stock units vest over four years but are subject to forfeiture if the recipient fails to satisfy the vesting conditions.

As of December 31, 2019, the total unrecognized compensation cost related to nonvested awards was \$1,226,933. Share-based compensation is recorded as a capital contribution from HBI.

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Customer activities: Securities transaction are introduced, custodied, and cleared through the Company's clearing broker, Pershing. In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various securities transactions. As such, the Company guarantees its customers' performance under these contracts. The Company could be exposed to off-balance-sheet risk should either the customer or the broker fail to fulfill its contracted obligation, and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

Market risk: The Company buys from and sells to customers fixed income securities primarily on a principal basis, and, from time to time, may be exposed to market risk. This risk is generally controlled by monitoring the market and entering into offsetting positions when appropriate.

The Company's transactions in derivative financial instruments involve varying degrees of off-balance-sheet market risk. Changes in the market values of the underlying financial instruments may result in changes in the value of the derivative financial instruments in excess of the amounts reflected in the statement of financial condition. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and the volatility and liquidity in the markets in which the financial instruments are traded.

HUTCHINSON, SHOCKEY, ERLEY & CO.
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NOTES TO FINANCIAL STATEMENT
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Credit risk: Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of the contract. The Company's exposure to credit risk associated with counterparty non-performance is limited to the current cost to replace all contracts in which the Company has a gain. The Company limits credit risk by executing futures transactions through regulated exchanges that are subject to the exchanges' counterparty approval procedures and margin requirements.

Concentration of credit risk: The Company enters into various transactions with broker-dealers and other financial institutions. Cash and securities instruments may serve to collateralize amounts due. In the event these counterparties do not fulfill their obligations, the Company may be exposed to risk. This risk of default depends on the creditworthiness of the counterparties to these transactions. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

The Company, from time to time, has cash deposits in financial institutions in excess of federally insured limits; however, management does not believe that the Company is exposed to any significant credit risk.

10. RELATED-PARTY TRANSACTIONS

Cash in the amount of \$48,528 was held in HNB deposit accounts at December 31, 2019.

HBI and related entities, pursuant to the master interaffiliate services agreement, provide certain operational and administrative support to HSE. Allocated costs are based on an internal methodology. Payable to affiliate of \$1,470,535 as of December 31, 2019 consists of allocated taxes as well as all amounts related to all other inter-affiliate activity.

As discussed in Note 2 and Note 8 respectively, HSE employees participate in the HBI share-based compensation plan and the HBI 401(k) plan.

11. NET CAPITAL REQUIREMENTS

Pursuant to the uniform net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934, HSE is required to maintain minimum net capital as defined under such rule. At December 31, 2019, HSE had regulatory net capital of \$22,278,127 or an excess of \$21,732,009 over required net capital of \$546,118. In addition, aggregate indebtedness, as defined, cannot exceed a ratio of 15 to 1, or 1,500%, of net capital. At December 31, 2019, the ratio of aggregate indebtedness to net capital was 37%.

The Company operates under the provisions of Paragraph (k)(2)(ii) of SEC Rule 15c3-3 and, accordingly, claims exemption from the remaining provisions of the Rule. The requirements of Paragraph (k)(2)(ii) provide that the Company, as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records.

HUTCHINSON, SHOCKEY, ERLEY & CO.
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NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

12. COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Company may be subject to various litigation and arbitration matters. Although the effects of these matters cannot be determined, the Company's management believes that their ultimate outcome will not have a material effect on the Company's statement of financial position.

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties that provide indemnification under certain circumstances. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. The Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statement for these indemnifications.

13. SUBSEQUENT EVENTS

The Company evaluated subsequent events through February 27, 2020, which is the issuance date of the financial statement, and for strategic planning purposes, Huntington Bancshares Incorporated has decided to internally realign its broker-dealer structure. Accordingly, having obtained appropriate regulatory approval from FINRA on January 14, 2020, effective February 24, 2020, all existing institutional business of The Huntington Investment Company (HIC), an affiliated broker-dealer, has transitioned to Hutchinson, Shockey, Erley & Co. The transitioning institutional businesses are primarily comprised of: sales and trading of non-municipal fixed income securities and facilitation of transactions in mutual funds, debt capital markets, which includes underwriting and private placements of corporate debt securities, equity capital markets, which includes underwriting and private placements of equity securities and equity trading, which involves share repurchase plans and at-the-market offerings. Also as of this date, Hutchinson, Shockey, Erley & Co. will convert from an Illinois corporation to a Delaware corporation and change its name to Huntington Securities, Inc. (HSI). As of February 24, 2020, all institutional business will be conducted by HSI.