MORGAN STANLEY FINANCE LLC
(formerly known as Morgan Stanley Tower, LLC)

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

AND

INDEPENDENT AUDITORS' REPORT

MORGAN STANLEY FINANCE LLC

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, Kevin Woodruff, Nikki Tippins and Joshua Schanzer, confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

- the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by:

Kevin Woodruff

Name: Kevin Woodruff
Title: President and Director

MORGAN STANLEY FINANCE LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Morgan Stanley Finance, LLC (formerly known as Morgan Stanley Tower, LLC)

We have audited the accompanying financial statements of Morgan Stanley Finance, LLC (formerly known as Morgan Stanley Tower, LLC) (the "Company"), which comprise the statement of financial condition as of December 31, 2016, and the related statement of comprehensive income, statement of cash flows, and statement of changes in member's equity for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morgan Stanley Finance, LLC (formerly known as Morgan Stanley Tower, LLC) as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 3 of the financial statements, which describes the fact that the activities of the Company include significant transactions with affiliates and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had operated as an unaffiliated business. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

April 4, 2017

MORGAN STANLEY FINANCE LLC
STATEMENT OF FINANCIAL CONDITION
December 31, 2016
(In thousands of dollars)

Assets		
Cash	$	27
Receivables:		
Broker dealers		21,585
Notes receivable (Parent)		2,112,571
Intercompany (Parent)		9,389
Total assets	$	2,143,572
Liabilities and Member's Equity		
Liabilities:		
Short term borrowings, at fair value	$	1,636
Trading liabilities, at fair value		
Derivative contracts		61,203
Payables:		
Interest		983
Intercompany (Affiliates)		27
Intercompany (Parent)		20,768
Other liabilities and accrued expenses		419
Long term borrowings (includes $2,064,869 at fair value)		2,069,869
Total liabilities		2,154,905
Commitments and contingent liabilities (See Note 7)		
Member's equity		(11,333)
Total liabilities and member's equity	$	2,143,572

See Notes to the Financial Statements.

MORGAN STANLEY FINANCE LLC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2016
(In thousands of dollars)

Revenues:	
Trading	$ 1,857
Interest income	15,735
Total revenues	17,592
Expenses:	
Interest expense	6,752
Professional services	212
Other	1
Total expenses	6,965
Income before income taxes	10,627
Benefit from income taxes	(144)
Net income	10,771
Other comprehensive loss	(11,090)
Comprehensive loss	$ (319)

See Notes to the Financial Statements.

MORGAN STANLEY FINANCE LLC
STATEMENT OF CASH FLOWS
For the year ended December 31, 2016
(In thousands of dollars)

Cash flows from operating activities:		
Net income	$	10,771
Adjustment to reconcile net income to net cash provided by (used for) operating activities:		
Net changes in assets and liabilities:		
Trading liabilities		(8,345)
Broker dealers		(21,585)
Intercompany (Affiliates)		941,699
Intercompany (Parent)		(952,397)
Interest		983
Other liabilities and accrued expenses		419
Net cash used in operating activities		(28,455)
Cash flows from investing activities:		
Payments for:		
Notes receivable (Parent)		(2,112,571)
Net cash used for investing activities		(2,112,571)
Cash flows from financing activities:		
Proceeds from:		
Short term borrowings		1,638
Long term borrowings		2,473,729
Payments for:		
Long term borrowings		(334,314)
Net cash provided by financing activities		2,141,053
Net increase in cash		27
Cash, December 31, 2015		0
Cash, December 31, 2016	$	27
Supplemental Cash Flow Information		
Cash payments for interest	$	2,119
Supplemental disclosure of noncash activities		
Non cash return of equity - see Notes 1 and 3 for further information	$	5,240,233

See Notes to the Financial Statements.

MORGAN STANLEY FINANCE LLC
STATEMENT OF CHANGES IN MEMBER'S EQUITY
For the year ended December 31, 2016
(In thousands of dollars)

		Total Member's Equity
Balance, December 31, 2015	$	5,229,219
Net income		10,771
Return of equity		(5,240,233)
Change in Other comprehensive loss, net of tax of $6,459		(11,090)
Balance, December 31, 2016	$	(11,333)

See Notes to the Financial Statements.

Note 1 - Introduction and Basis of Presentation

The Company

Morgan Stanley Finance LLC (the "Company"), a single member LLC, is a wholly owned subsidiary of Morgan Stanley (the "Parent").

On January 12, 2016, the Company was renamed from Morgan Stanley Tower, LLC to Morgan Stanley Finance LLC and was repurposed as a "finance subsidiary", as defined in Securities and Exchange Commission ("SEC") Regulation S-X. On February 16, 2016, Morgan Stanley filed a post-effective amendment to its Form S-3 registration statement in order to allow the Company to issue SEC-registered debt securities that are fully and unconditionally guaranteed by Morgan Stanley. All of the Company's receivable and payable balances were settled and all capital, except for $1, was returned in February 2016.

On February 17, 2016, the Company issued a $5,000 note, which was settled on February 22, 2016 and received an exchange rating of BBB+ from Standard & Poor's. Starting on March 2, 2016, the Company began issuing structured notes to the marketplace. Proceeds from issuances are lent to the Parent in the form of Intercompany notes.

Basis of Financial Information

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, deferred tax assets, the outcome of legal and tax matters, and other matters that affect the financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of its financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

Note 2 - Significant Accounting Policies

Revenue Recognition

Trading

See "Fair Value of Financial Instruments" below for Trading revenue recognition discussions.

Interest Income and Expense

Interest income and Interest expense are a function of the level and mix of total assets and liabilities, including Receivables and Payables with Affiliates and the Parent, Short term borrowings, Long term borrowings, trading strategies, and the prevailing level, term structure and volatility of interest rates.

Fair Value of Financial Instruments

A significant portion of the Company's financial instruments are carried at fair value with changes in fair value recognized in earnings of each period. A description of the Company's policies regarding fair value measurement and its application to these financial instruments follows.

Financial Instruments Measured at Fair Value

Instruments within Trading liabilities are measured at fair value, either in accordance with accounting guidance or through the fair value option election (discussed below). These financial instruments primarily represent the Company's trading activities and include derivative products. Short term borrowings and Long term borrowings are measured at fair value through the fair value option.

Gains and losses on instruments carried at fair value are reflected in Trading revenues in the Company's statement of income. Interest income and Interest expense are recorded within the Company's statement of comprehensive income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instruments' fair value, interest is included within Trading revenues. Otherwise, it is included within Interest income or Interest expense. The fair value of over-the-counter ("OTC") financial instruments, including derivative contracts related to financial instruments, is presented in the accompanying statement of financial condition on a net-by-counterparty basis, when appropriate.

Fair Value Option

The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company applies the fair value option for eligible instruments.

Fair Value Measurement – Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions other market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets that the Company has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 **-** Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3 of the fair value hierarchy, see Note 4.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

For assets and liabilities that are transferred between levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

Valuation Techniques

Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meet the Company's best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs, including, where applicable, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk. Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

The Firm applies credit-related valuation adjustments to its short term and long term borrowings (primarily structured notes) for which the fair value option was elected and to OTC derivatives. The Firm considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for short term and long term borrowings.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

See Note 4 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

Valuation Process

The Valuation Review Group ("VRG") within the Financial Control Group ("FCG") of the Parent and its consolidated subsidiaries is responsible for the Parent and its consolidated subsidiaries' fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer of the Parent and its consolidated subsidiaries ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value, including those derived from pricing models.

Model Review. VRG, in conjunction with Model Risk Management ("MRM"), which reports to the Chief Risk Officer of the Parent and its consolidated subsidiaries ("Chief Risk Officer"), independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to determine that it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilized in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation models. The Company generally subjects valuations and models to a review process initially and on a periodic basis thereafter.

Independent Price Verification. The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair value of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management, the CFO and the Chief Risk Officer on a regular basis.

VRG uses recently executed transactions, other observable market data such as exchange data, broker-dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analyzing the methodology and assumptions used by the external source to generate a price, and/or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data designed to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

VRG reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions, and both FCG and MRM must approve the fair value of the trade that is initially recognized.

Level 3 Transactions. VRG reviews the business unit's valuation techniques to assess whether these are consistent with market participant assumptions.

For further information on financial assets and liabilities that are measured at fair value on a recurring basis, see Note 4.

Offsetting of Derivative Instruments

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

However, in certain circumstances, the Company may not have such an agreement in place. In addition, the relevant insolvency regime may not support the enforceability of the master netting agreement or collateral agreement or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures (see Note 5 for further information).

Income Taxes

The Company accounts for income tax expense (benefit) using the asset and liability method. Under this method, the financial statements include deferred tax assets, related valuation allowance and deferred tax liabilities associated with expected tax consequences of future events. Under this method, deferred tax assets and liabilities are recorded based upon the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income tax expense (benefit) in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If a deferred tax asset is determined to be unrealizable, a valuation allowance is established. If the Company determines that it would be able to realize deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

In accordance with the terms of the Tax Sharing Agreement with the Parent, substantially all current and deferred taxes (federal, combined and unitary state) are offset with all other intercompany balances with the Parent.

Uncertain tax positions are recorded on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

Cash

Cash consists of on demand deposits at banks.

Receivables and Payables – Broker Dealers

Receivables from and payables to broker dealers include amounts receivable for securities failed to deliver by the Company to a purchaser by the settlement date and payable for securities failed to receive by the Company from a seller by the settlement date.

Accounting Standard Adopted

The Company adopted the following accounting update as of January 1, 2016:

- ***Recognition and Measurement of Financial Assets and Financial Liabilities.*** In January 2016, the Financial Accounting Standards Board (the “FASB”) issued an accounting update that changed the requirements for the recognition and measurement of certain financial assets and financial liabilities. The Company early adopted the provision in this guidance relating to liabilities measured at fair value pursuant to a fair value option election that requires presenting unrealized debt valuation adjustment (“DVA”) in Other comprehensive income (loss) (“OCI”), a change from the previous requirement to present DVA in net income. Realized DVA amounts will be recycled from accumulated other comprehensive income (“AOCI”) to Trading revenues. There were no DVA amounts from periods prior to adoption.

  Other provisions of this rule may not be early adopted and will be effective January 1, 2018, and are not expected to have a material impact on the financial statements.

Note 3 - Related Party Transactions

Receivables from and payables to affiliates and the Parent represent intercompany activities that occur in the normal course of business. Receivables from and Payables to affiliates and the Parent are unsecured, bear interest at rates established by the treasury function of the Parent and approximate the market rate of interest that the Parent incurs in funding its business as it is periodically reassessed and are payable on demand.

Notes receivable balance represents the intercompany activities as a result of the external debt issuances. Proceeds from the external debt issuances are lent to the Parent at rates established by the treasury function of the Parent and approximate the market rate of interest that the Parent incurs in funding its business as it is periodically reassessed and are payable on demand.

Interest income and expense are calculated daily based on the outstanding receivable and payable balances.

The activities of the Company include significant transactions with affiliates and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had operated as an unaffiliated business.

Assets and receivables from affiliated companies at December 31, 2016 are comprised of:		
Receivables - Broker dealers	$	20,887
Receivables - Notes receivable (Parent)		2,112,571
Receivables - Intercompany (Parent)		9,389
Liabilities and payables to affiliated companies at December 31, 2016 are comprised of:		
Derivative contracts	$	61,203
Payables - Intercompany (Affiliates)		27
Payables - Intercompany (Parent)		20,768
Revenues with affiliated companies for December 31, 2016 are comprised of:		
Trading	$	1,857
Interest income		15,735
Expenses with affiliated companies for December 31, 2016 are comprised of:		
Interest expense	$	3,558

On February 5, 2016, the Company made a return of capital totaling $5,240,233 to its Parent.

Note 4 –Fair Value Disclosures

Fair Value Measurements

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Long term borrowings

Structured Notes

The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, or indices.

Fair value of structured notes (both short term and long term) is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including: prices to which the notes are linked, interest rate yield curves, option volatility and equity prices.

Independent, external and traded prices for the notes are considered as well. The impact of the Company's own credit spreads is also included based on observed secondary bond market spreads. A substantial majority of Long term borrowings valued by the Company using pricing models fall into this category and are generally categorized in Level 2 of the fair value hierarchy. In instances where the unobservable inputs are deemed significant the Company's Long term borrowings are generally categorized in Level 3.

Trading Assets and Trading Liabilities

Derivative Contracts

OTC Derivative Contracts

OTC derivative contracts include swap and option contracts related to interest rates or equity prices.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, and certain option contracts. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized in Level 2 of the fair value hierarchy; otherwise, they are categorized in Level 3 of the fair value hierarchy.

For further information on the valuation techniques for OTC derivative contracts, see Note 2.

For further information on derivative instruments, see Note 5.

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2016. See Note 2 for a discussion of the Company's policies regarding the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Level 1	Level 2	Level 3	Balance at December 31, 2016
Assets at Fair Value				
Trading assets:				
Derivative and other contracts:				
Equity contracts	$ -	$ 20,504	$ 4,128	$ 24,632
Netting [(1)]	-	(20,504)	(4,128)	(24,632)
Total derivative and other contracts	-	-	-	-
Total trading assets	-	-	-	-
Liabilities at Fair Value				
Short term borrowings	$ -	$ 1,636	$ -	$ 1,636
Trading liabilities:				
Derivative and other contracts:				
Equity contracts	-	46,824	13,338	60,162
Interest rate contracts		2,004	23,669	25,673
Netting [(1)]	-	(20,504)	(4,128)	(24,632)
Total derivative and other contracts	-	28,324	32,879	61,203
Total trading liabilities	-	28,324	32,879	61,203
Long term borrowings	-	1,887,132	177,737	2,064,869
Total liabilities measured at fair value	$ -	$ 1,917,092	$ 210,616	$ 2,127,708

(1) For positions or contracts with the same counterparty that cross over the levels of the fair value hierarchy, counterparty netting among positions classified within the same level is included within that shared level. For further information on derivative instruments, see Note 5.

Level 3 Liabilities Measured at Fair Value on a Recurring Basis

The following table presents additional information about Level 3 liabilities measured at fair value on a recurring basis for 2016. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains during the period for liabilities within the Level 3 category presented in the table below may include changes in fair value during the period that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs.

Liabilities at Fair Value	Beginning Balance at December 31, 2015	Total Realized and Unrealized Gains (Losses)	Purchases	Issuances	Ending Balance at December 31, 2016	Unrealized Gains (Losses) for Level 3 Assets/Liabilities Outstanding at December 31, 2016
Net derivatives and other contracts: [1]						
Equity contracts	$ -	$ 4,885	$ (70)	$ 4,395	$ 9,210	$ 4,885
Interest rate contracts	-	-	-	23,669	23,669	-
Total Net derivatives contracts	-	4,885	(70)	28,064	32,879	4,885
Long term borrowings	-	(6,473)	-	184,210	177,737	(6,473)
Total Liabilities at Fair Value	$ -	$ (1,588)	$ (70)	$ 212,274	$ 210,616	$ (1,588)

[1] Net derivatives and other contracts represent Trading liabilities - Derivative and other contracts net of Trading assets - Derivative and other contracts.

Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements

The following disclosures provide information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm’s inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique. A single amount is disclosed when there is no significant difference between the minimum, maximum and average (weighted).

	Balance at December 31, 2016	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range [1]	Averages [2]
Net derivative and other contracts:					
Interest rate contracts	23,669	Option model	Interest rate volatility skew / (A) (D)	25%	mean 25%; median 25%
			Equity volatility discount / (C) (D)	7% to 11%	mean 10%; median 10%
			Intra-curve correlation / (C) (D)	41% to 89%	mean 74%; median 76%
			Interest Rate - Credit correlation / (A) (D)	0%	0%
Equity contracts	9,210	Option Model	At the money volatility / (A) (D)	17% to 34%	27%
			Volatility skew / (A) (D)	-2% to 0%	-1%
			Equity - Equity correlation / (C) (D)	27% to 95%	91%
			Equity - Foreign exchange correlation / (A) (D)	-63% to 30%	-39%
Long term borrowings:	177,737	Option Model (Equity-linked notes)	At the money volatility / (C) (D)	17% to 33%	30%
			Volatility skew / (C) (D)	-1% to 0%	-1%
			Equity - Equity correlation / (A) (D)	46% to 95%	92%
			Equity - Foreign exchange correlation / (C) (D)	-63% to 25%	-41%
		Option Model (Structured notes)	Interest rate volatility skew / (A) (D)	25%	mean 25%; median 25%
			Equity volatility discount / (C) (D)	7% to 11%	mean 10%; median 10%

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 98 points would be 98% of par. A basis point equals 1/100th of 1%; for example, 1,255 basis points would equal 12.55%.

(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see Note 4 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments, except for long-term borrowings and derivative instruments where inputs are weighted by risk.

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(D) There are no predictable relationships between the significant unobservable inputs.

The following provides a description of significant unobservable inputs included in the December 31, 2016 table above for all major categories of assets and liabilities:

Correlation — A pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e., how the change in one variable influences a change in the other variable). Credit correlation, for example, is the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations.

Volatility — The measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options, and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (e.g., the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.

Volatility skew — The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.

Fair Value Option

The Company elected the fair value option for Short term and Long term borrowings that are risk managed on a fair value basis to mitigate statement of income volatility caused by measurement basis differences between the elected instrument and their associated risk management transactions or to eliminate complexities of applying certain accounting models.

Impact on Earnings of Transactions Under the Fair Value Option Election at December 31, 2016

	Interest Expense	Trading Revenue
Short term borrowings [1]	$ -	$ 1,548
Long term borrowings [1]	(3,194)	13,441

[1] Losses are mainly attributable to changes in interest rates or movements in the reference price or index for Short term and Long term borrowings before the impact of related hedges. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA losses were recorded within OCI in the statement of comprehensive income and, as such, are not included in the table above for the year ended, December 31, 2016. See Notes 2 and 8 for further information.

Losses due to Changes in Instrument-Specific Credit Risk at December 31, 2016

		OCI
Short term and Long term borrowings [1]	$	(17,549)

[1] In accordance with the early adoption of a provision of the accounting update, *Recognition and Measurement of Financial Assets and Financial Liabilities*, the unrealized DVA losses were recorded in OCI. The cumulative impact of changes in the Company's DVA and the amount recognized in AOCI is a loss of $17,549 from the short term borrowings and long term borrowings, respectively, for the year ended December 31, 2016. See Notes 2 and 8 for further information.

Financial Instruments Not Measured at Fair Value

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the Company's statement of financial condition. The table below excludes all non-financial assets and liabilities.

The carrying values of the remaining assets and liabilities not measured at fair value in the table below approximate fair value due to their short term nature except for Notes receivable (Parent), which primarily represents intercompany funding with coupons that reset to market levels, and Long term borrowings, which have the fair determined based on third party pricing for identical or comparable instruments.

Financial Instruments Not Measured At Fair Value at December 31, 2016

			Fair Value Measurements Using:		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash	$ 27	$ 27	$ 27	$ -	$ -
Receivables:					
Broker dealers	21,585	21,585	-	21,585	-
Notes receivable (Parent)	2,112,571	2,112,571	-	2,112,571	-
Intercompany (Parent)	9,389	9,389	-	9,389	-
Financial Liabilities:					
Payables:					
Intercompany (Affiliates)	27	27	-	27	-
Intercompany (Parent)	20,768	20,768	-	20,768	-
Other liabilities and accrued expenses [1]	135	135	-	135	-
Long term borrowings	5,000	5,000	-	5,000	-

[1] Other liabilities and accrued expenses exclude certain items that do not meet the definition of a financial instrument.

Note 5 – Derivative Instruments

The Company trades and takes positions in OTC swaps, options and other derivatives referencing, among other things, interest rates, and equity securities. The Company uses these instruments as part of the hedging strategy for structured notes. The Company does not apply hedge accounting.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., swaps and options). The Company manages the market risk associated with its trading activities on a Company-wide basis, and on an individual product basis.

Fair Value and Notional of Derivative Instruments

The following table summarizes the fair value of derivative instruments by type of derivative contract on a gross basis at December 31, 2016.

	Bilateral OTC			
	Assets		Liabilities	
	Fair Value	Notional	Fair Value	Notional
Derivatives contracts:				
Equity contracts	$ 24,632	$ 669,976	$ 60,162	$ 1,658,719
Interest rate contracts	-	-	25,673	312,095
Total derivatives contracts	24,632	$ 669,976	85,835	$ 1,970,814
Counterparty netting	(24,632)		(24,632)	
Total derivative assets and liabilities	$ -		$ 61,203	

At December 31, 2016, the Company does not have any amounts that relate to master netting agreements and collateral agreements that have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

The table below summarizes gains/ (losses) on Trading instruments for 2016 included in Trading revenues in the statement of income from trading activities. These activities include revenues related to derivative and non-derivative financial instruments. The Company generally utilizes financial instruments across a variety of product types in connection with their risk management strategies. Accordingly, the trading revenues presented below are not representative of the manner in which the Company manages its business activities and are prepared in a manner similar in which the Company presents its Trading revenues for regulatory reporting purposes of the Parent.

Product Type	Gains/(Losses) Recognized in Trading Revenues
Interest rate contracts	$ 2,441
Equity contracts	(584)
Total	**$ 1,857**

Note 6 – Borrowings

The Company believes that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments. Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, its credit ratings and the overall availability of credit. The Company may engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

Maturities and Terms of Long term borrowings at December 31, 2016

		Fixed Rate		Variable Rate[1]		Total
Due in 2017	$	-	$	13,572	$	13,572
Due in 2018		-		239,079		239,079
Due in 2019		-		285,639		285,639
Due in 2020		-		124,636		124,636
Due in 2021		-		648,655		648,655
Thereafter		5,000		753,288		758,288
Total	$	5,000	$	2,064,869	$	2,069,869
Weighted average coupon rate at period-end [2]		3.5%		N/M—Not Meaningful		

[1] Variable rate borrowings bear interest based on a variety of indices including LIBOR. Amounts include borrowings that are equity-linked or linked to some other index.

[2] Weighted average coupon was calculated utilizing U.S. interest rates.

Components of Long term borrowings

All of the long term borrowings for the Company are considered Senior Debt. During 2016, the Company issued notes with a fair value of approximately $2,473,729.

Senior Debt – Structured Borrowings

The Company's index-linked or equity-linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (e.g., Standard & Poor's 500), a basket of stocks or a specific equity security. To minimize the exposure resulting from movements in the underlying index, equity, or other position, the Company has entered into various swap contracts and purchased options that effectively convert the borrowing costs into floating rates based upon LIBOR. The Company generally carries the entire structured borrowings at fair value. The swaps and purchased options used to economically hedge the embedded features are derivatives and also are carried at fair value. Changes in fair value related to the notes and economic hedges are reported in Trading revenues. See Note 4 for further information on structured borrowings.

Note 7 - Commitments, Guarantees and Contingencies

Legal

In the normal course of business, the Company may be named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress.

The Company may also be involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business, and involving, among other matters, sales and trading activities, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or governmental agencies seek substantial or indeterminate damages, restitution, disgorgement or penalties. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation.

For certain other legal proceedings and investigations, the Company can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Company's financial statements as a whole.

Note 8 – Accumulated Other Comprehensive Income (Loss)

Changes in AOCI

	Debt Valuation
Balance at December 31, 2015	$ -
Change in net debt valuation adjustment[1]	(11,090)
Balance at December 31, 2016	$ (11,090)

[1] Debt valuation adjustments ("DVA") represent the change in the fair value resulting from fluctuations in the Company's credit spreads and other credit factors related to liabilities carried at fair value. Amount includes an income tax benefit of $6,459. See Note 2 for further information.

Note 9 - Income Taxes

The Company is a single-member limited liability company that is treated as a disregarded entity for U.S. federal income tax purpose. The Company is included in the consolidated federal income tax return filed by the Parent. The Company is included in the combined state and local income tax returns with the Parent and certain other subsidiaries of the Parent. State and local income taxes have been provided on separate entity income at the effective tax rate of the Company's combined filing group. Prior to March 1, 2016, all current and deferred taxes were accrued by the Parent. Effective March 1, 2016, federal and state and local income taxes have generally been provided on a separate entity basis in accordance with the Tax Sharing Agreement with the Parent.

In accordance with the terms of the Tax Sharing Agreement with the Parent, substantially all current and deferred taxes (federal, combined and unitary state) are offset with all other intercompany balances with the Parent.

The (benefit) for income taxes consist of:

	Current	Deferred	Total
Federal	$ (133)	$ 0	$ (133)
State and Local	(11)	0	(11)
Total	$ (144)	$ 0	$ (144)

The following table reconciles the provision for income taxes to the U.S. federal statutory income tax rate to the effective income tax rate:

U.S. federal statutory income tax rate	35.00 %
U.S. state and local income taxes, net of U.S. federal income tax benefits	1.84 %
Exclusion of income generated prior to restructuring	(38.19) %
Effective income tax rate	(1.35) %

As of December 31, 2016 the Company has not accrued any liabilities for unrecognized tax benefits in its financial statement.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities in which the Company has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for unrecognized tax benefits. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

Tax Authority Examinations

The Company, through its inclusion in the return of the Parent, is under continuous examination by the IRS, and in certain states in which the Company has significant business operations, such as New York. The Company is currently at various levels of field examination with respect to audits by the IRS, as well as New York State and New York City, for tax years 2009–2012 and 2007–2009, respectively. In April 2016, the Parent received the Revenue Agent's Report from the IRS reflecting agreed closure of the 2006-2008 tax years.

The Company believes that the resolution of these tax matters will not have a material effect on the balance sheets, although a resolution could have a material impact on the income statements for a particular future period and on the effective tax rate for any period in which such resolution occurs.

It is reasonably possible that significant changes in the balance of unrecognized tax benefits may occur within the next 12 months related to certain tax authority examinations referred to above. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the Company's effective tax rate over the next 12 months.

The following are the major tax jurisdictions in which the Company and its affiliates operate and the earliest tax year subject to examination.

Jurisdiction	**Tax Year**
United States	1999
New York State and City	2007

Note 9 – Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through April 4, 2017, the date on which the financial statements are issued, and the Company has not identified any recordable or disclosable events, not otherwise reported in the financial statements or the notes thereto.

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