MORGAN STANLEY FINANCE LLC

Interim financial report

June 30, 2018

MORGAN STANLEY FINANCE LLC

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MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT
Six Months ended 30 June 2018

The Directors present their report and financial statements (which comprise the statement of financial condition, the statement of comprehensive income (loss), the statement of cash flows, the statement of changes in member's equity (deficit) and the related notes) for Morgan Stanley Finance LLC (the "Company") for the period ended 30 June 2018.

RESULTS AND DIVIDENDS

The comprehensive income for the six months, after tax, was USD $140,561,000 (30 June 2017: losses of USD $15,198,000)

During the period, no dividends were paid or proposed.

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of structured notes, ("Structured Notes"), uplending of the cash proceeds to its Parent and the hedging of the obligations arising pursuant to such issuances.

The Company was established under Delaware law on March 27, 2002. The business office of the Company is at 1585 Broadway, New York, NY 10036, U.S.A.

The Company's ultimate parent and controlling entity is Morgan Stanley (the "Parent"), which together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

FUTURE OUTLOOK

There have not been any significant changes in the Company's principal activity in the interim period, other than those disclosed in the notes to the financial statements and no significant change is expected.

BUSINESS REVIEW

Morgan Stanley Finance LLC is a "finance subsidiary" of Parent, as defined in Securities and Exchange Commission ("SEC") Regulation S-X. The Company issues structured notes to the marketplace. Proceeds from issuances are lent to the Parent in the form of Intercompany notes.

The Company has a rating of BBB+ from Standard & Poor's.

The issuance of Structured Notes exposes the Company to various types of risk including foreign exchange, equity, interest rate, and commodities risk. The Company hedges these risks through the use of derivative instruments.

The statement of comprehensive income (loss) for the six months is set out on page 3 of the interim financial statements. The Company made a gain before income tax of USD $317,000 in the period, an increase of USD $1,040,000 from the prior six months ending June 30, 2017. The gain before income tax is primarily driven by the interest generated on intercompany activities with the Parent.

In the period, Structured Notes that are measured at fair value pursuant to the fair value option election requires presenting unrealized debt valuation adjustment ("DVA") of USD $140,318,000 as 'Other comprehensive income' in the statement of comprehensive income (loss).

BUSINESS REVIEW (CONTINUED)

The statement of financial condition for the Company is set out on page 2 of the financial statements. The Company's total assets at June 30, 2018 are USD $11,866,964,000, an increase of USD $3,536,144,000 or 42% compared to December 31, 2017. Total liabilities of USD $11,819,868,000 which represents an increase of USD $3,395,583,000 or 40%, compared to total liabilities at December 31, 2017.

The changes to the statement of comprehensive income (loss) and financial condition are in line with the Company's primary activity during the period due to growth of the business.

The performance of the Company is included in the results of the Morgan Stanley Group, which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K and Quarterly on Form 10Q to the US Securities and Exchange Commission. The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of significant business risks.

Risk management

Risk is an inherent part of the Company's business and activities. Management believes effective risk management is vital to the success of the Company's business activities. Accordingly, the Company leverages the risk management policies and procedures of the Morgan Stanley Group to identify, assess, monitor and manage the significant risks involved in the activities of its business and support functions. The policies and procedures include escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company as well as oversight through the Company's Board of Directors.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks.

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. The Company manages the market risk associated with its trading activities at both a trading division and an individual product level.

It is the policy and objective of the Company not to be exposed to net market risk.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events will adversely affect an obligor's ability and willingness to fulfil their obligations.

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

Liquidity risk
Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The primary goal of the Morgan Stanley Group's Liquidity Risk Management Framework is to ensure that the Morgan Stanley Group, including the Company, holds enough liquidity to meet the Company's funding needs across a wide range of market conditions. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies.

Operational risk
Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes or systems, human factors or from external events (e.g. fraud, theft, legal and compliance risks or damage to physical assets).

The Company may incur operational risk across the full scope of its business activities.

The Company leverages the framework established by the Morgan Stanley Group which includes escalation to the Company's Board of Directors and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory and reputational risks. The framework is continually evolving to account for changes in the Company and to respond to the changing regulatory and business environment.

The Morgan Stanley Group has implemented operational risk data and assessment systems to monitor and analyze internal and external operational risk events, to assess business environment and internal control factors, and to perform scenario analysis. The collected data elements are incorporated in the operational risk model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Morgan Stanley Group employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a strong governance framework, a comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance established by the Parent's Board and are prioritized accordingly.

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

The breadth and range of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include enhancing defenses against cyberattacks; use of legal agreements and contracts to transfer and/ or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Morgan Stanley Group's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Morgan Stanley Group's senior management. Oversight of operational risk is provided by the Operational Risk Oversight Committee, legal entity risk committees, regional risk committees and senior management.

The Operational Risk Department is independent of the divisions and reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"). The Operational Risk Department provides oversight of operational risk management and independently assesses measures and monitors operational risk. The Operational Risk Department works with the divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Morgan Stanley Group.

The Operational Risk Department scope includes oversight of the technology and data risk management program (e.g., cybersecurity), fraud risk management and prevention program, and supplier risk management (vendor risk oversight and assessment) program. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of our advanced measurement approach for operational risk capital.

Business Continuity Management is responsible for identifying key risks and threats to Morgan Stanley's resiliency and planning to ensure that a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources, and redundancies are built into the systems as deemed appropriate. The key components of the Morgan Stanley Group's Business Continuity Management Program include: crisis management; business recovery plans; applications/ data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

The Morgan Stanley Group maintains a program that oversees cyber and information security risks that is grounded in industry practices and is designed to address regulatory requirements.

Cybersecurity and Information security policies, procedures, and technologies are designed to protect the Morgan Stanley Group, client and employee data against unauthorized disclosure, modification or misuse. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorized activity, incident response, and recovery planning.

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

In connection with its ongoing operations, the Morgan Stanley Group utilizes the services of external vendors, which it anticipates will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Morgan Stanley Group manages its exposures to these services through a variety of means such as the performance of due diligence, consideration of operational risk, implementation of service level and other contractual agreements, and ongoing monitoring of the vendors' performance. The Morgan Stanley Group maintains a supplier risk management program with policies, procedures, organization, governance and supporting technology that satisfies regulatory requirements. The program is designed to ensure that adequate risk management controls over the services exist, including, but not limited to information security, operational failure, financial stability, disaster recoverability, reputational risk, safeguards against corruption and termination.

Legal and compliance risk

Legal and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its' business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering and terrorist financing rules and regulations. The Morgan Stanley Group is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

The Morgan Stanley Group, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.

In addition, the Morgan Stanley Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The heightened legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group.

Culture, values and conduct of employees

All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas, and Giving Back.* The Morgan Stanley Group is committed to establishing a strong culture anchored in these core values, and in its governance framework, which includes management oversight, effective risk management and controls, training and development programs, policies, procedures, and defined roles and responsibilities. The Morgan Stanley Group's Code of Conduct (the "Code") establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code. The annual employee performance appraisal process includes an evaluation of adherence to the Code and the Morgan Stanley Group's core values. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether their employees effectively managed and/or supervised risk control practices during the performance year. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation. The Morgan Stanley Group's clawback and cancellation provisions permit recovery of deferred incentive compensation where an employee's act or omission (including with respect to direct supervisory responsibilities) causes a restatement of the Morgan Stanley Group's consolidated financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenues associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Going Concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company has access to Morgan Stanley Group capital and liquidity as required.

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

DIRECTORS

The following Directors held office since the Company was repurposed as a financing subsidiary in the beginning of 2016 and to the date of approval of this report:

Kevin Woodruff

Nikki Tippins

Joshua Schanzer

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

The Company is not required to have an audit committee separate from that of its Parent.

AUDITOR

Deloitte & Touche LLP will continue as auditor of the Company.

Approved and signed on behalf of the Board by:

Kevin Woodruff, President

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 that have occurred during the six months ended June 30, 2018 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:

Name: Kevin Woodruff

Title: President and Director

MORGAN STANLEY FINANCE LLC
STATEMENTS OF FINANCIAL CONDITION
(In thousands of dollars, except where noted)

	At June 30, 2018 (Unaudited)	At December 31, 2017
Assets		
Cash	$ 1,736	$ 1,045
Trading assets at fair value	-	33,853
Receivables:		
Broker dealers	17,275	4,263
Notes receivable (Parent)	11,844,180	8,256,771
Intercompany (Parent)	3,773	34,888
Total Assets	**$ 11,866,964**	**$ 8,330,820**
Liabilities		
Trading liabilities at fair value	$ 177,810	$ -
Payables:		
Broker dealers	10,206	6,765
Interest	5,053	2,007
Intercompany (Affiliates)	92	-
Intercompany (Parent)	18,348	-
Borrowings (includes $11,603,359 and $8,410,513 at fair value)	11,608,359	8,415,513
Total liabilities	**$ 11,819,868**	**$ 8,424,285**
Commitments and contingent liabilities (See Note 7)		
Member's equity (deficit)	**47,096**	**(93,465)**
Total liabilities and member's equity (deficit)	**$ 11,866,964**	**$ 8,330,820**

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands of dollars, except where noted)

	Six Months ended June 30,	
	2018	**2017**
Revenues		
Trading	$ (72,897)	$ (11,863)
Interest income	88,827	19,982
Total Revenues	**15,930**	**8,119**
Expenses		
Interest expense	15,531	8,770
Brokerage, clearing and exchange fees	14	-
Professional services	68	68
Other	-	4
Total Expenses	**15,613**	**8,842**
Income (Loss) before income taxes	317	(723)
Provision for (Benefit from) income taxes	74	(265)
Net income (loss)	243	(458)
Other comprehensive income (loss)	140,318	(14,740)
Comprehensive income (loss)	$ 140,561	$ (15,198)

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands of dollars, except where noted)

	Six Months ended June 30,	
	2018	**2017**
Cash flows from operating activities:		
Net income (loss)	$ 243	$ (458)
Adjustment to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Net changes in asset and liabilities:		
Trading assets, net of trading liabilities	597,475	156,982
Broker dealers	(9,571)	7,504
Intercompany (Affiliates)	92	(27)
Intercompany (Parent)	6,703	(20,449)
Interest	3,046	1,345
Other liabilities and accrued expenses	-	(431)
Net cash provided by operating activities	597,988	144,466
Cash flows from investing activities:		
Net payments for:		
Notes receivable (Parent)	(3,626,917)	(3,255,069)
Net cash (used for) investing activities	(3,626,917)	(3,255,069)
Cash flows from financing activities:		
Proceeds from:		
Borrowings	4,856,092	3,374,947
Payments for:		
Borrowings	(1,825,072)	(264,156)
Net cash provided by financing activities	3,031,020	3,110,791
Effect of exchange rate changes on cash and cash equivalents	(1,400)	-
Net increase in cash	691	188
Cash at the beginning of the period	1,045	27
Cash at the end of the period	$ **1,736**	$ **215**
Supplemental Cash Flow Information:		
Cash payment for interest	$ 12,237	$ 6,762

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
STATEMENTS OF CHANGES IN MEMBER'S EQUITY (DEFICIT)
(In thousands of dollars, except where noted)

		Total Member's Equity (Deficit)
Balance, December 31, 2016	**$**	**(11,333)**
Net loss		(458)
Net change in accumulated other comprehensive loss, net of tax of $8,529		(14,740)
Balance, June 30, 2017 (Unaudited)		**(26,531)**
Balance, December 31, 2017		**(93,465)**
Net income		243
Net change in accumulated other comprehensive income, net of tax of $42,760		140,318
Balance, June 30, 2018 (Unaudited)	**$**	**47,096**

See Notes to the Financial Statements

1. Introduction and Basis of Presentation

The Company

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

Morgan Stanley Finance LLC is a "finance subsidiary" of Parent, as defined in Securities and Exchange Commission ("SEC") Regulation S-X. The Company issues structured notes to the marketplace. Proceeds from issuances are lent to the Parent in the form of Intercompany notes.

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.

Basis of Financial Information

The unaudited 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.

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 accrued for interest-earning assets and interest-bearing liabilities, including Notes receivable, Receivables and Payables with Affiliates and the Parent, and Borrowings.

Interest income and Interest expense are recorded within the Company's statements of comprehensive income (loss) 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.

Fair Value of Financial Instruments

Instruments within Trading assets and Trading liabilities are measured at fair value, in accordance with accounting guidance. These financial instruments represent derivatives the Company enters into with its Parent to economically hedge its Borrowings, which are primarily structured notes. Borrowings are primarily 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 statements of comprehensive income (loss).

The fair value of over-the-counter ("OTC") financial instruments, including derivative contracts related to financial instruments, is presented in the accompanying statements of financial condition on a net-by-counterparty basis, when appropriate.

Fair Value Option

The Company has elected the fair value option for certain Borrowings (structured notes) that are risk managed on a fair value basis to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions or to eliminate complexities of applying certain accounting models.

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.

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 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.

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 that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believe other market participants would use in pricing the asset or liability that are developed based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

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. For additional information, 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 reflected in the disclosures included herein as if the assets or liabilities had been transferred as of the beginning of the period.

Valuation Techniques

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 OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, correlation, 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 Company applies credit-related valuation adjustments to its structured notes for which the fair value option was elected. The Company 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 Borrowings. Such credit risk considerations do not impact the valuation of derivative transactions with the Parent as credit risk would not impact the exit price.

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.

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 Control ("VC") within the Financial Control Group ("FCG") of the Parent and its consolidated subsidiaries ("the Firm") is responsible for the Firm's fair value valuation policies, processes and procedures. VC is independent of the business units and reports to the Chief Financial Officer of the Firm ("CFO"), who has final authority over the valuation of the Company's financial instruments. VC 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. VC, in conjunction with Model Risk Management ("MRM"), which reports to the Chief Risk Officer of the Firm ("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, VC 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, VC 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, VC 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 VC to the fair value generated by the business units are presented to business management, the CFO and the Chief Risk Officer on a regular basis.

VC 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. VC 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 is 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, VC 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.

VC 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. VC 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 with the Parent, the Company enters into master netting agreements with the Parent. This agreement provides the Company with the right, in the event of a default by the Parent, to net Parent's rights and obligations under the agreement and to liquidate against any net amount owed by the Parent.

For further information related to offsetting of derivatives, see Note 5.

Income Taxes

The Company accounts for income tax expense (benefit) using the asset and liability method. Under this method, deferred tax assets and liabilities are recorded based upon the temporary differences between the statements of financial condition 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 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. When performing the assessment the Company considers all types of deferred tax assets in combination with each other, regardless of the origin of the underlying temporary difference. If a deferred tax asset is determined to be unrealizable, a valuation allowance is established. If the Company subsequently determines that it would be able to realize deferred tax assets 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 settled periodically 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. Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes.

Receivables and Payables – Broker Dealers

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

Foreign Currencies

Gains or losses resulting from remeasurement of foreign currency transactions are included in Trading revenues, and amounts recognized in the statements of comprehensive income (loss) are translated at the rate of exchange on the respective date of recognition for each amount.

Accounting Standard Adopted

The following accounting update was adopted on January 1, 2018:

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI") within member's equity. This accounting update, which the Company elected to early adopt as of January 1, 2018, allows companies to reclassify from AOCI to retained earnings the stranded tax effects associated with enactment of the Tax Act on December 22, 2017. These stranded tax effects resulted from the requirement to reflect the total amount of the remeasurement of and other adjustments to deferred tax assets and liabilities in 2017 net income, regardless of whether the deferred taxes were originally recorded in AOCI.

Accordingly, as of January 1, 2018, the Company recorded a net increase to retained earnings as a result of the reclassification of $16,961 of such stranded tax effects previously recorded in AOCI, which were the result of the remeasurement of deferred tax assets from structured notes associated with the change in tax rates.

In addition to the above treatment related to the Tax Act, the Company releases stranded tax effects from AOCI into earnings once the related category of instruments or transactions giving rise to these effects no longer exists. For further information on the tax effects reclassified, see Note 8.

3. Related Party Transactions

Notes receivable 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 which approximate the market rate of interest that the Parent incurs in funding its business as it is periodically reassessed and are payable on demand.

Receivables from and payables to the Parent and affiliates represent unsettled amounts associated with intercompany agreements for certain activities, including the Tax Sharing Agreement with Parent as discussed further in Note 9. These receivables and payables to Parent and other affiliates are unsecured, payable on demand, and bear interest at rates established by the treasury function of the Parent and which approximate the market rate of interest that the Parent incurs in funding its business as it is periodically reassessed.

Trading assets, Trading liabilities, and the associated Trading revenues represent derivatives the Company enters into with its Parent to economically hedge its Borrowings and market movements on those derivatives.

Interest income and expense are calculated daily based on the outstanding notes and affiliate 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.

	At June 30, 2018	At December 31, 2017
Assets and receivables from affiliated companies		
Trading assets	$ -	$ 33,853
Receivables – Broker dealers	6,231	-
Receivables – Notes receivable (Parent)	11,844,180	8,256,771
Receivables – Intercompany (Parent)	3,773	34,888
Liabilities and payables to affiliated companies		
Trading liabilities	$ 171,446	$ -
Payables – Broker dealers	359	634
Payables – Intercompany (Affiliates)	92	-
Payables – Intercompany (Parent)	18,348	-

	Six Months ended June 30,	
	2018	**2017**
Revenues with affiliated companies		
Trading	$ (169,276)	$ (11,863)
Interest income	88,827	19,982
Expenses with affiliated companies		
Interest expense	$ 244	$ 637

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.

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
Trading Assets and Trading Liabilities	
OTC Derivative Contracts • OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices. • Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency 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. • More complex OTC derivative products are typically less liquid and require more judgment in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with both volatility and correlation exposure, equity, commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings and credit derivatives. Where these inputs are unobservable, relationships to observable data points, based on historic and/or implied observations, may be employed as a technique to estimate the model input values. For further information on the valuation techniques for OTC derivative products, see Note 2. For further information on derivative instruments, see Note 5.	• Generally Level 2 • Level 3 - in instances where the unobservable input is deemed significant
Borrowings - Structured Notes • The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities.	• Generally Level 2

• Fair value of structured notes 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 currency rates, and commodity or equity prices. • Independent, external and traded prices for the notes are considered as well. The impact of the Company's own credit is also included based on observed secondary bond market spreads.	• Level 3 - in instances where the unobservable input is deemed significant

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	At June 30, 2018				
	Level 1	**Level 2**	**Level 3**	**Netting [1]**	**Total**
Assets at Fair Value					
Trading assets:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 298,049	$ 26,395	$ -	$ 324,444
Interest rate contracts	-	3,035	3,456	-	6,491
Commodity contracts	-	4,876	-	-	4,876
Netting [1]	-	(305,960)	(29,851)	-	(335,811)
Total OTC derivative contracts	-	-	-	-	-
Total trading assets	$ -	$ -	$ -	$ -	$ -
Total assets at fair value	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Liabilities at Fair Value					
Trading liabilities:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 194,457	$ 111,230	$ -	$ 305,687
Interest rate contracts	-	152,011	50,132	-	202,143
Foreign exchange contracts	-	703	4,204	-	4,907
Commodity contracts	-	884	-	-	884
Netting [1]	-	(305,960)	(29,851)	-	(335,811)
Total OTC derivative contracts	-	42,095	135,715	-	177,810
Total trading liabilities	-	42,095	135,715	-	177,810
Borrowings - Structured Notes	-	10,212,233	1,391,126	-	11,603,359
Total liabilities at fair value	**$ -**	**$ 10,254,328**	**$ 1,526,841**	**$ -**	**$ 11,781,169**

(1) For positions with the same counterparty that cross over the levels of the fair value hierarchy, counterparty netting is included in the column titled "Netting." Positions classified within the same level that are with the same counterparty are netted within that level. For further information on derivative instruments, see Note 5.

	At December 31, 2017				
	Level 1	Level 2	Level 3	Netting [(1)]	Total
Assets at Fair Value					
Trading assets:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 254,546	$ 26,640	$ -	$ 281,186
Interest rate contracts	-	25,131	2,239	-	27,370
Foreign exchange contracts	-	2,600	-	-	2,600
Commodity contracts	-	3,334	-	-	3,334
Netting [(1)]	-	(184,840)	(28,879)	(66,918)	(280,637)
Total OTC derivative contracts	-	100,771	-	(66,918)	33,853
Total trading assets	-	100,771	-	(66,918)	33,853
Total assets at fair value	**$ -**	**$ 100,771**	**$ -**	**$ (66,918)**	**$ 33,853**
Liabilities at Fair Value					
Trading liabilities:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 92,022	$ 66,332	$ -	$ 158,354
Interest rate contracts	-	89,806	29,465	-	119,271
Foreign exchange contracts	-	2,895	-	-	2,895
Commodity contracts	-	117	-	-	117
Netting [(1)]	-	(184,840)	(28,879)	(66,918)	(280,637)
Total OTC derivative contracts	-	-	66,918	(66,918)	-
Total trading liabilities	-	-	66,918	(66,918)	-
Borrowings - Structured Notes	-	7,314,066	1,096,447	-	8,410,513
Total liabilities at fair value	**$ -**	**$ 7,314,066**	**$ 1,163,365**	**$ (66,918)**	**$ 8,410,513**

(1) For positions with the same counterparty that cross over the levels of the fair value hierarchy, counterparty netting is included in the column titled "Netting." Positions classified within the same level that are with the same counterparty are netted within that level. For further information on derivative instruments, see Note 5.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present additional information about Level 3 liabilities measured at fair value on a recurring basis. The unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the following tables herein may include changes in fair value during the period that were attributable to both observable and unobservable inputs. Total realized and unrealized gains (losses) are primarily included in Trading revenues in the statements of comprehensive income (loss).

Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2018

	Beginning Balance at December 31, 2017	Total Realized and Unrealized Gains (Losses)	Purchases	Sales and Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2018	Unrealized Gains (Losses)
Liabilities at Fair Value								
Net OTC derivative contracts[1]:								
Equity contracts	$ 39,692	$ (37,188)	$ (10)	$ -	$ 6,953	$ 1,012	$ 84,835	$ (37,193)
Interest rate contracts	27,226	(19,569)	-	-	(134)	15	46,676	(21,606)
Foreign Exchange contracts	-	(4,231)	-	-	(27)	-	4,204	(4,231)
Total net OTC derivative contracts	66,918	(60,988)	(10)	-	6,792	1,027	135,715	(63,030)
Borrowings - Structured Notes	1,096,447	26,982	-	445,103	(65,480)	(57,962)	1,391,126	(26,983)
Total Liabilities at Fair Value	**$ 1,163,365**	**$ (34,006)**	**$ (10)**	**$ 445,103**	**$ (58,688)**	**$ (56,935)**	**$ 1,526,841**	**$ (90,013)**

[1] Net OTC derivative contracts represent Trading liabilities, net of Trading assets. Amounts are presented before counterparty netting.

Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2017

	Beginning Balance at December 31, 2016	Total Realized and Unrealized Gains (Losses)	Purchases	Sales and Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2017	Unrealized Gains (Losses)
Liabilities at Fair Value								
Net OTC derivative contracts [1]:								
Equity contracts	$ 9,210	$ (17,862)	$ (176)	$ 2	$ 5,709	$ (1,222)	$ 31,385	$ (18,055)
Interest rate contracts	23,669	4,291	-	-	203	-	19,581	4,291
Total net OTC derivative contracts	32,879	(13,571)	(176)	2	5,912	(1,222)	50,966	(13,764)
Borrowings - Structured Notes	177,737	2,774	-	630,514	(216,495)	(27,537)	561,445	7,617
Total Liabilities at Fair Value	**$ 210,616**	**$ (10,797)**	**$ (176)**	**$ 630,516**	**$ (210,583)**	**$ (28,759)**	**$ 612,411**	**$ (6,147)**

[1] Net OTC derivative contracts represent Trading liabilities, net of Trading assets. Amounts are presented before counterparty netting.

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 average or simple average/median).

	Predominant Valuation Techniques/	Range (Weighted Average or Simple Averages/ Median)(1)	
	Significant Unobservable Inputs	**At June 30, 2018**	**At December 31, 2017**
Liabilities at fair value			
Net OTC derivative contracts:			
Equity contracts (2) ($84,835 and $39,692)			
Option Model:	At the money volatility	5% to 27% (18%)	6% to 29% (19%)
	Volatility skew	-2% to 0% (0%)	-2% to 0% (0%)
	Equity - Equity correlation	45% to 96% (91%)	35% to 96% (92%)
	Equity - Foreign exchange correlation	-80% to 30% (-39%)	-65% to 10% (-39%)
Interest rate contracts ($46,676 and $27,226)			
Option Model:	Interest rate volatility skew	50%	N/M (3)
	Equity volatility discount	4% to 6% (5%)	8% to 11% (9% / 8%)
	Interest rate - Curve correlation	55% to 89% (72% / 71%)	N/M
Foreign exchange contracts ($4,204 and $0)			
Option Model:	Interest rate - Foreign exchange correlation	-22% to 37% (8%)	N/A
Borrowings - Structured Notes ($1,391,126 and $1,096,447)			
Option Model:	At the money volatility	13% to 29% (21%)	12% to 29% (22%)
	Volatility skew	-2% to 0% (0%)	-1% to 0% (0%)
	Equity - Equity correlation	41% to 95% (81%)	41% to 95% (75%)
	Equity - Foreign exchange correlation	-72% to 30% (-40%)	-48% to 10% (-27%)

(1) Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
(2) Includes OTC derivative contracts with multiple risks (i.e., hybrid products).
(3) N/M - Not Meaningful

The following provides a description of significant unobservable inputs included in the June 30, 2018 and December 31, 2017 tables above for all major categories of assets and liabilities:

Significant Unobservable Inputs — Description	Sensitivity
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.	In general, an increase (decrease) to the correlation would result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Firm is long or short the exposure.
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.	In general, an increase (decrease) to the volatility would result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Firm is long or short the exposure.
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.	In general, an increase (decrease) to the volatility skew would result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Firm is long or short the exposure.

Fair Value Option

The Company elected the fair value option for Borrowings that are risk managed on a fair value basis to mitigate income statement 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.

Earnings Impact of Instruments under the Fair Value Option

	Trading Revenues	Interest Expense	Net Revenues
Six Months ended June 30, 2018			
Borrowings[1]	$ 59,872	$ (15,287)	$ 44,585
Six Months ended June 30, 2017			
Borrowings[1]	$ (90,291)	$ (8,041)	$ (98,332)

(1) Unrealized DVA gains (losses) are recorded in OCI and, when realized, in Trading revenues. For additional information, see Note 2 and 8.

Gains (losses) are mainly attributable to changes in foreign currency rates or interest rates, or movements in the reference price or index.

The amounts in the previous table are included within Net revenues and do not reflect any gains or losses on related hedging instruments.

Gains (Losses) due to Changes in Instrument-Specific Credit Risk

	Trading Revenues	Other Comprehensive Income (Loss)
Six Months ended June 30, 2018		
Borrowings[1]	$ (389)	$ 183,078
Six Months ended June 30, 2017		
Borrowings[1]	$ -	$ (23,269)

(1) Unrealized DVA gains (losses) are recorded in OCI and, when realized, in Trading revenues. For additional information, see Note 2 and 8.

Borrowings Measured at Fair Value on a Recurring Basis

	At June 30, 2018	At December 31, 2017
Business Units Responsible for Risk Management		
Equity	$ 9,100,196	$ 7,176,654
Interest rates	2,414,812	1,190,966
Foreign exchange	1,405	11,422
Commodities	86,946	31,471
Total	**$ 11,603,359**	**$ 8,410,513**

Excess of Contractual Principal Amount Over Fair Value

	At June 30, 2018	At December 31, 2017
Borrowings [(1)]	$ 212,094	$ 23,152

(1) Borrowings in this table do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in a reference price or index.

Financial Instruments Not Measured at Fair Value

Valuation Techniques for Assets and Liabilities Not Measured at Fair Value

Notes receivable • Notes receivable represents intercompany funding with coupons that reset to market levels
Borrowings • The fair value is generally determined based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, fair value is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturity.
The carrying value of the remaining assets and liabilities not measured at fair value in the following tables approximate fair value due to their short-term nature.

Financial Instruments Not Measured At Fair Value

	At June 30, 2018				
		Fair Value Level			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash	$ 1,736	$ 1,736	$ -	$ -	$ 1,736
Receivables:					
Brokers dealers	17,275	-	17,275	-	17,275
Notes receivable (Parent)	11,844,180	-	11,844,180	-	11,844,180
Intercompany (Parent)	3,773	-	3,773	-	3,773
Financial Liabilities					
Payables: [(1)]					
Brokers dealers	$ 10,206	$ -	$ 10,206	$ -	$ 10,206
Intercompany (Parent)	18,348	-	18,348	-	18,348
Intercompany (Affiliates)	92	-	92	-	92
Borrowings	5,000	-	5,000	-	5,000

	At December 31, 2017				
		Fair Value Level			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash	$ 1,045	$ 1,045	$ -	$ -	$ 1,045
Receivables:					
Brokers dealers	4,263	-	4,263	-	4,263
Notes receivable (Parent)	8,256,771	-	8,256,771	-	8,256,771
Intercompany (Parent)	34,888	-	34,888	-	34,888
Financial Liabilities					
Payables: [1]					
Brokers dealers	$ 6,765	-	$ 6,765	$ -	$ 6,765
Borrowings	5,000	-	5,000	-	5,000

[1] Interest payables where carrying value approximates fair value have been excluded.

5. Derivative Instruments

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

Fair Value and Notional of Derivative Instruments

The following tables summarize the fair value of derivative instruments by type of derivative contract on a gross basis at June 30, 2018 and December 31, 2017.

	Bilateral OTC At June 30, 2018			
	Assets		Liabilities	
	Fair Value	Notional	Fair Value	Notional
OTC Derivative contracts				
Equity contracts	$ 324,444	$ 5,950,831	$ 305,687	$ 6,178,909
Interest rate contracts	6,491	510,994	202,143	2,281,041
Foreign exchange contracts	-	-	4,907	54,333
Commodity contracts	4,876	31,602	884	27,128
Total gross OTC derivative contracts	**335,811**	**6,493,427**	**513,621**	**8,541,411**
Amounts offset				
Counterparty netting	(335,811)		(335,811)	
Total Trading liabilities	$ **-**		$ **177,810**	

	Bilateral OTC At December 31, 2017			
	Assets		Liabilities	
	Fair Value	Notional	Fair Value	Notional
OTC Derivative contracts				
Equity contracts	$ 281,186	$ 4,843,721	$ 158,354	$ 4,120,963
Interest rate contracts	27,370	104,441	119,271	1,211,514
Foreign exchange contracts	2,600	2,506	2,895	2,506
Commodity contracts	3,334	21,603	117	6,530
Total gross OTC derivative contracts	**314,490**	**4,972,271**	**280,637**	**5,341,513**
Amounts offset				
Counterparty netting	(280,637)		(280,637)	
Total Trading assets	$ **33,853**		$ **-**	

The table below summarizes gains (losses) on Trading instruments included in Trading revenues in the statements of comprehensive income (loss) from trading activities. These activities include revenues related to derivative and non-derivative financial instruments. The Company utilizes derivatives to hedge Borrowings held at fair value in connection with its risk management strategies.

Gains (Losses) Recognized in Trading Revenues by Product Type

	Six Months ended June 30,	
	2018	**2017**
Equity contracts	(76,337)	(17,128)
Interest rate contracts	$ 3,857	$ 6,819
Foreign exchange contracts	25	(1,540)
Commodity contracts	(442)	(14)
Total	$ **(72,897)**	$ **(11,863)**

6. Borrowings

Maturities and Terms of Borrowings as of June 30, 2018

	Fixed Rate	**Variable Rate [1]**	**Total**
Original maturities of one year or less			
Due in the next 12 months	$ -	$ 53,562	$ 53,562
Original maturities greater than a year			
Due in 2018	**$** -	**$** 523,567	**$** 523,567
Due in 2019	-	2,230,083	2,230,083
Due in 2020	-	1,322,927	1,322,927
Due in 2021	-	1,800,558	1,800,558
Due in 2022	-	1,004,874	1,004,874
Thereafter	5,000	4,667,788	4,672,788
Total	$ 5,000	$ 11,549,797	$ 11,554,797
Total Borrowings	$ 5,000	$ 11,603,359	$ 11,608,359
Weighted average coupon rate at period-end [2]	3.50%	N/M	

Maturities and Terms of Borrowings as of December 31, 2017

	Fixed Rate	Variable Rate (1)	Total
Original maturities of one year or less			
Due in the next 12 months	$ -	$ 44,595	$ 44,595
Original maturities greater than a year			
Due in 2018	**$** -	**$** 603,531	**$** 603,531
Due in 2019	-	1,651,830	1,651,830
Due in 2020	-	1,432,622	1,432,622
Due in 2021	-	490,384	490,384
Due in 2022	-	1,253,051	1,253,051
Thereafter	5,000	2,934,500	2,939,500
Total	$ 5,000	$ 8,365,918	$ 8,370,918
Total Borrowings	$ 5,000	$ 8,410,513	$ 8,415,513
Weighted average coupon rate at period-end (2)	3.50%	N/M	

(1) Variable rate borrowings bear interest based on a variety of money market indices, including LIBOR and federal funds rates. Amounts include notes carried at fair value with various payment provisions, including notes linked to equity, commodity or other indices.

(2) Includes only borrowings with original maturities greater than one year. Weighted average coupon is calculated utilizing U.S. and non-U.S. dollar interest rates and excludes financial instruments for which the fair value option was elected. Virtually all of the variable rate notes issued by the Company are carried at fair value so a weighted average coupon is not meaningful.

Components of Borrowings

All of the Borrowings for the Company are considered Senior Debt. For the six months ended June 30, 2018 and June 30, 2017, the Company issued notes with a fair value of approximately $4,856,092 and $3,374,947 respectively.

Certain senior debt securities are denominated in various non U.S. dollar currencies and may be structured to provide a return that is linked to equity, credit, commodity or other indices (e.g., the consumer price index).

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 from such instruments, 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 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 structured borrowings and economic hedges are reported in Trading revenues. See Notes 2 and 4 for further information on structured borrowings.

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 ranges of loss or ranges of 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.

8. Accumulated Other Comprehensive Income (Loss)

Changes in AOCI

		Debt Valuation
Balance at December 31, 2017	$	(78,945)
Cumulative adjustment for accounting changes (ASU 2018-02)		(16,961)
Change in net debt valuation adjustment[1]		140,318
Balance at June 30, 2018 (unaudited)		44,412
Balance at December 31, 2016		(11,090)
Change in net debt valuation adjustment[1]		(14,740)
Balance at June 30, 2017 (unaudited)	$	(25,830)

(1) DVA represents 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 for the six months ended June 30, 2018 and June 30, 2017 includes income tax provision (benefit) of $42,760 and ($8,529) respectively. See Note 2 for further information.

9. Income Taxes

The Company is a single-member limited liability company that is treated as a disregarded entity for federal income tax purposes. The Company is included in the consolidated federal income tax return filed by the Parent. Federal income taxes have generally been provided on a modified separate entity basis in accordance with the Tax Sharing Agreement with 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. 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 settled periodically with the Parent.

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 and incorporated into the amounts settled periodically with the Parent under the Tax Sharing Agreement. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

As of June 30, 2018 the Company has not accrued any liabilities for unrecognized tax benefits in its statements of financial condition.

Tax Authority Examinations.

The Company, through its inclusion in the return of the Parent, is under continuous examination by the Internal Revenue Service (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 2009–2016 and 2007–2014, respectively.

The Company believes that the resolution of the above tax matters will not have a material effect on the statements of financial condition, although a resolution could have a material impact in the statements of financial condition and 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 occur within the next 12 months. 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.

10. Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through September 24, 2018, the date on which the financial statements are available to be 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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