MORGAN STANLEY FINANCE LLC

Annual financial report

December 31, 2017

MORGAN STANLEY FINANCE LLC

CONTENTS

MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT
Year ended 31 December 2017

The Directors present their report and financial statements (which comprise the statement of financial condition, the statement of comprehensive loss, the statement of cash flows, the statement of changes in member's equity and the related notes) for Morgan Stanley Finance LLC (the "Company") for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The comprehensive loss for the year, after tax, was USD $82,132,000 (2016: USD $319,000)

During the year, 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 year under review, other than those disclosed in the notes to the audited financial statements and no significant change is expected.

BUSINESS REVIEW

Prior to January 2016, the Company was primarily engaged in intercompany funding activities with affiliates. 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 USD $1,000 was returned in February 2016.

On February 17, 2016, the Company issued a $5,000,000 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.

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

BUSINESS REVIEW (CONTINUED)

The statement of comprehensive loss for the year is set out on page 4 of the audited financial statements. The Company made a loss before income tax of USD $948,000 in the current year, a decrease of USD $11,575,000 from the prior year. The loss before income tax is primarily driven by the interest generated on intercompany funding activities with the Parent.

In the current year, Structured Notes that are measured at fair value pursuant to the fair value option election requires presenting unrealized debt valuation adjustment ("DVA") of USD $(67,855,000) as 'Other comprehensive loss' in the statement of comprehensive loss.

The statement of financial condition for the Company is set out on page 3 of the audited financial statements. The Company's total assets at December 31, 2017 are USD $8,330,820,000 an increase of USD $6,187,248,000 or 289% compared to December 31, 2016. Total liabilities of USD $8,424,285,000 which represents an increase of USD $6,269,380,000 or 291%, compared to total liabilities at December 31, 2016.

The changes to the statement of comprehensive loss and financial condition are in line with the Company's primary activity year over year.

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 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.

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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.

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.

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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.

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.

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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.

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 annual report and 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.

MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT
Year ended 31 December 2017

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 twelve months ended December 31, 2017 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

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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 (the "Company"), a wholly owned subsidiary of Morgan Stanley (the "Parent"), which comprise the statements of financial condition as of December 31, 2017 and December 31, 2016, and the related statements of comprehensive loss, cash flows, and changes in member's equity (deficit) for the years 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 audits. We conducted our audits 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 as of December 31, 2017 and December 31, 2016 and the results of its operations and its cash flows for the years 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 11, 2018

MORGAN STANLEY FINANCE LLC
STATEMENT OF FINANCIAL CONDITION
As of December 31, 2017
(In thousands of dollars, except where noted)

	At December 31, 2017	At December 31, 2016
Assets		
Cash	$ 1,045	$ 27
Trading assets at fair value	33,853	-
Receivables:		
Broker dealers	4,263	21,585
Notes receivable (Parent)	8,256,771	2,112,571
Intercompany (Parent)	34,888	9,389
Total Assets	**$ 8,330,820**	**$ 2,143,572**
Liabilities		
Trading liabilities at fair value	$ -	$ 61,203
Payables:		
Broker dealers	6,765	-
Interest	2,007	983
Intercompany (Affiliates)	-	27
Intercompany (Parent)	-	20,768
Other liabilities and accrued expenses	-	419
Borrowings (includes $8,410,513 and $2,066,505 at fair value)	8,415,513	2,071,505
Total liabilities	**$ 8,424,285**	**$ 2,154,905**
Commitments and contingent liabilities (See Note 7)		
Member’s equity (deficit)	**(93,465)**	**(11,333)**
Total liabilities and member’s equity (deficit)	**$ 8,330,820**	**$ 2,143,572**

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
STATEMENT OF COMPREHENSIVE LOSS
For the year ended December 31, 2017
(In thousands of dollars, except where noted)

	2017	2016
Revenues		
Trading	$ (47,719)	$ 1,857
Interest income	67,782	15,735
Total Revenues	**20,063**	**17,592**
Expenses		
Interest expense	20,861	6,752
Brokerage, clearing and exchange fees	15	-
Professional services	135	212
Other	-	1
Total Expenses	**21,011**	**6,965**
(Loss) Income before income taxes	(948)	10,627
Provision/(Benefit) from income taxes	13,329	(144)
Net (loss) income	(14,277)	10,771
Other comprehensive loss	(67,855)	(11,090)
Comprehensive loss	$ (82,132)	$ (319)

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
STATEMENT OF CASH FLOWS
For the year ended December 31, 2017
(In thousands of dollars, except where noted)

		2017		2016
Cash flows from operating activities:				
Net (loss) income	$	(14,277)	$	10,771
Adjustment to reconcile net (loss) income to net cash provided by (used for) operating activities:				
Net changes in asset and liabilities:				
Trading assets, net of trading liabilities		209,447		38,433
Broker dealers		24,087		(21,585)
Intercompany (Affiliates)		(27)		941,699
Intercompany (Parent)		(6,540)		(952,397)
Interest		1,024		983
Other liabilities and accrued expenses		(419)		419
Net cash provided by (used for) operating activities		213,295		18,323
Cash flows from investing activities:				
Net payments for:				
Notes receivable (Parent)		(6,084,925)		(2,159,349)
Net cash provided by (used for) investing activities		(6,084,925)		(2,159,349)
Cash flows from financing activities:				
Proceeds from:				
Borrowings		7,698,591		2,475,367
Payments for:				
Borrowings		(1,826,774)		(334,314)
Net cash provided by (used for) financing activities		5,871,817		2,141,053
Effect of exchange rate changes on cash and cash equivalents		831		-
Net increase in cash		1,018		27
Cash at the beginning of the period		27		-
Cash at the end of the period	$	**1,045**	$	**27**
Supplemental Cash Flow Information:				
Cash payment for interest	$	18,703	$	2,119
Supplemental disclosure of noncash activities:				
Non-cash return of equity – see notes 1 and 3		-		5,240,233

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
STATEMENT OF CHANGES IN MEMBER’S EQUITY (DEFICIT)
For the year ended December 31, 2017
(In thousands of dollars, except where noted)

		Total Member's Equity (Deficit)
Balance, December 31, 2015	**$**	**5,229,219**
Net income		10,771
Return of equity		(5,240,233)
Net change in accumulated other comprehensive loss, net of tax of $6,459		(11,090)
Balance, December 31, 2016		**(11,333)**
Net loss		(14,277)
Net change in accumulated other comprehensive loss, net of tax of $39,727		(67,855)
Balance, December 31, 2017	**$**	**(93,465)**

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").

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.

In the Statement of Cash Flows for the year ended December 31, 2016, the presentation of Notes receivable (Parent) was revised to reclassify the non-cash foreign currency transaction component from Investing to Operating activity within Trading assets, net of trading liabilities. The net effect of this revision was a $46,778 increase in Net cash provided by Operating activities with the corresponding offset in Investing activities. The net change in cash for the period remains unchanged.

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 interest-earning assets and interest-bearing liabilities, including Notes receivable, Receivables and Payables with Affiliates and the Parent, Borrowings, and the prevailing level, term structure and volatility of interest rates.

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 statement of comprehensive loss.

Interest income and Interest expense are recorded within the Company's statement of comprehensive 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 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 Company 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 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, (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

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 Review Group ("VRG") 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. VRG 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. 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 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, 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 business 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 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 statement 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 effect of a change in tax rates on deferred tax assets and liabilities is recognized in provision for income taxes in the period that includes the enactment date. Such effects are recorded in provision for income taxes regardless of where deferred taxes were originally recorded.

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 statement of comprehensive loss are translated at the rate of exchange on the respective date of recognition for each amount.

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 (loss) ("AOCI") to Trading revenues. There were no DVA amounts from periods prior to adoption.

Accounting Development Updates

The Financial Accounting Standards Board has issued certain accounting updates that apply to the Company. Accounting updates not listed below were assessed and determined to be either not applicable or are not expected to have a significant impact on the Company's financial statements.

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. On February 24, 2018 Financial Accounting Standards Board ("FASB") issued accounting update ASU 2018-02 that allows companies the option to reclassify from AOCI to member's equity the stranded tax effects that resulted from the remeasurement of and other adjustments to deferred tax assets and liabilities upon enactment of the Tax Act. The total impact of the remeasurement and other adjustments was reflected in 2017 provision for income taxes, regardless of where deferred taxes were originally recorded. This update is effective as of January 1, 2019 with early adoption permitted. The Company elected to adopt the new standard effective January 1, 2018 resulting in an approximately $16,962 reclass from AOCI to beginning Retained earnings from the remeasurement of deferred tax assets associated with investments classified as structured notes using 21% corporate tax rate.

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 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.

Trading assets and Trading liabilities represent derivatives the Company enters into with its Parent to economically hedge its Borrowings**.**

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.

		At December 31, 2017		At December 31, 2016
Assets and receivables from affiliated companies				
Trading assets	$	33,853	$	-
Receivables – Broker dealers		-		20,887
Receivables – Notes receivable (Parent)		8,256,771		2,112,571
Receivables – Intercompany (Parent)		34,888		9,389
Liabilities and payables to affiliated companies				
Trading liabilities	$	-	$	61,203
Payables – Broker dealers		634		-
Payables – Intercompany (Affiliates)		-		27
Payables – Intercompany (Parent)		-		20,768

		2017		2016
Revenues with affiliated companies				
Trading	$	235,437	$	1,857
Interest income		67,782		15,735
Expenses with affiliated companies				
Interest expense	$	799	$	3,558

On February 5, 2016, the Company made a return of capital totaling $5,240,233 to its Parent in a non-cash transaction through which receivables and payables with Parent were also settled.

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.	• Generally Level 2
• 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.	• Level 3 - in instances where the unobservable input is deemed significant

• 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.	
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. • 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.	• Generally Level 2 • Level 3 - in instances where the unobservable input is deemed significant

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	At December 31, 2017				
	Level 1	Level 2	Level 3	Netting	Total
Assets at Fair Value					
Trading assets:					
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 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:					
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 derivative contracts	-	-	66,918	(66,918)	-
Total trading liabilities	-	-	66,918	(66,918)	-
Borrowings	-	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.

	At December 31, 2016									
		Level 1		Level 2		Level 3		Netting		Total
Assets at Fair Value										
Trading assets:										
Derivative contracts:										
Equity contracts	$	-	$	20,504	$	4,128	$	-	$	24,632
Netting [1]		-		(20,504)		(4,128)		-		(24,632)
Total derivative contracts		-		-		-		-		-
Total trading assets	$	-	$	-	$	-	$	-	$	-
Total assets at fair value	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**
Liabilities at Fair Value										
Trading liabilities:										
Credit contracts	$	-	$	-	$	-	$	-	$	-
Equity contracts	$	-	$	46,824	$	13,338	$	-	$	60,162
Commodity and other contracts		-		-		-		-		-
Netting [1]		-		(20,504)		(4,128)		-		(24,632)
Total derivative contracts		-		28,324		32,879		-		61,203
Total trading liabilities		-		28,324		32,879		-		61,203
Borrowings		-		1,888,768		177,737		-		2,066,505
Total liabilities at fair value	**$**	**-**	**$**	**1,917,092**	**$**	**210,616**	**$**	**-**	**$**	**2,127,708**

(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 loss.

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 December 31, 2017		Unrealized Gains (Losses)
Liabilities at Fair Value																
Net derivative contracts [1]:																
Equity contracts	$	9,210	$	(22,655)	$	(18)	$	2	$	10,117	$	(2,274)	$	39,692	$	(37,173)
Interest rate contracts		23,669		9,995		-		-		13,552		-		27,226		(6,825)
Total net derivative contracts		32,879		(12,660)		(18)		2		23,669		(2,274)		66,918		(43,998)
Borrowings		177,737		21,938		-		1,016,282		(9,538)		(66,096)		1,096,447		22,297
Total Liabilities at Fair Value	**$**	**210,616**	**$**	**9,278**	**$**	**(18)**	**$**	**1,016,284**	**$**	**14,131**	**$**	**(68,370)**	**$**	**1,163,365**	**$**	**(21,701)**

(1) Net 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 2016

	Beginning Balance at December 31, 2015	Total Realized and Unrealized Gains (Losses)	Purchases	Sales and Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2016	Unrealized Gains (Losses)
Liabilities at Fair Value								
Net derivative contracts[1]:								
Equity contracts	$ -	$ (4,885)	$ (70)	$ 4,395	$ -	$ -	$ 9,210	$ (4,885)
Interest rate contracts	-	-	-	23,669	-	-	23,669	-
Total net derivative contracts	-	(4,885)	(70)	28,064	-	-	32,879	(4,885)
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 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/ Significant Unobservable Inputs	Range (Weighted Average or Simple Averages/ Median)[1] At December 31, 2017	At December 31, 2016
Liabilities at fair value			
Net derivative contracts:			
Interest rate contracts ($27,226 and $23,669)			
Option Model:	Interest rate volatility skew	N/M [2]	25%
	Equity volatility discount	8% to 11% (9% / 8%)	7% to 11% (10% / 10%)
	Intra-curve correlation	N/M	41% to 89% (74 % / 76%)
	Interest rate - Credit correlation	N/M	0% (0%)
Equity contracts [3] ($39,692 and $9,210)			
Option Model:	At the money volatility	6% to 29% (19%)	17% to 34% (27%)
	Volatility skew	-2% to 0% (0%)	-2% to 0% (-1%)
	Equity-Equity correlation	35% to 96% (92%)	27% to 95% (91%)
	Equity – Foreign exchange correlation	-65% to 10% (-39%)	-63% to 30% (-39%)
Borrowings ($1,096,447 and $177,737)			
Option Model:	At the money volatility	12% to 29% (22%)	17% to 33% (30%)

	Volatility skew	-1% to 0% (0%)	-1% to 0% (-1%)
	Equity-Equity correlation	41% to 95% (75%)	46% to 95% (92%)
	Equity-Foreign exchange correlation	-48% to 10% (-27%)	-63% to 25% (-41%)
Option Model:	Interest rate volatility skew	N/M	25%
	Equity volatility discount	N/M	7% to 11% (10% / 10%)

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

The following provides a description of significant unobservable inputs included in the December 31, 2017 and December 31, 2016 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 statement of comprehensive loss 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
2017			
Borrowings(1)	$ (283,156)	$ (19,883)	$ (303,039)
2016			
Borrowings(1)	$ 14,989	$ (3,194)	$ 11,795

(1) Unrealized DVA gains (losses) are recorded in OCI and, when realized, in Trading revenues. See Note 2 and 8 for further information.

Losses due to Changes in Instrument-Specific Credit Risk

		Other Comprehensive Loss
2017		
Borrowings[(1)]	$	(107,582)
2016		
Borrowings[(1)]	$	(17,549)

(1) Unrealized DVA gains (losses) are recorded in OCI and, when realized, in Trading revenues. See Note 2 and 8 for further information.

Borrowings Measured at Fair Value on a Recurring Basis

	At December 31, 2017	At December 31, 2016
Business Units Responsible for Risk Management		
Equity	$ 7,176,654	$ 1,767,433
Interest rates	1,190,966	299,072
Foreign exchange	11,422	-
Commodities	31,471	-
Total	**$ 8,410,513**	**$ 2,066,505**

Excess of Contractual Principal Amount Over Fair Value

	At December 31, 2017	At December 31, 2016
Borrowings [(1)]	$ 23,152	$ 12,125

(1) Borrowings 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 December 31, 2017				
		Fair Value			
	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

	At December 31, 2016				
		Fair Value Level			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash	$ 27	$ 27	$ -	$ -	$ 27
Receivables:					
Brokers 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: (1)					
Intercompany (Affiliates)	$ 27	$ -	$ 27	$ -	$ 27
Intercompany (Parent)	20,768	-	20,768	-	20,768
Other liabilities and accrued expenses (2)	135	-	135	-	135
Borrowings	5,000	-	5,000	-	5,000

(1) Interest payables where carrying value approximates fair value have been excluded.
(2) Other liabilities and accrued expenses exclude certain items that do not meet the definition of financial instrument.

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 December 31, 2017 and December 31, 2016.

	Bilateral OTC At December 31, 2017			
	Assets		Liabilities	
	Fair Value	Notional	Fair Value	Notional
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 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**		$ **-**	

	Bilateral OTC At December 31, 2016			
	Assets		Liabilities	
	Fair Value	Notional	Fair Value	Notional
Derivative contracts				
Equity contracts	$ 24,632	$ 669,976	$ 60,162	$ 1,658,719
Interest rate contracts	-	-	25,673	312,095
Foreign exchange contracts	-	-	-	-
Commodity and other contracts	-	-	-	-
Total gross derivative contracts	**24,632**	**669,976**	**85,835**	**1,970,814**
Amounts offset				
Counterparty netting	(24,632)		(24,632)	
Total Trading liabilities	$ **-**		$ **61,203**	

The table below summarizes gains/ (losses) on Trading instruments included in Trading revenues in the statement of comprehensive 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

	2017	**2016**
Equity contracts	(58,468)	(584)
Interest rate contracts	$ 12,468	$ 2,441
Foreign exchange contracts	(1,559)	-
Commodity contracts	(160)	-
Total	$ **(47,719)**	$ **1,857**

6. Borrowings

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		

Maturities and Terms of Borrowings as of December 31, 2016

	Fixed Rate		Variable Rate [1]		Total
Original maturities of one year or less					
Due in the next 12 months	$	$	1,636	$	1,636
Original maturities greater than a year					
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
Total Borrowings	$ 5,000	$	2,066,505	$	2,071,505
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. During 2017 and 2016, the Company issued notes with a fair value of approximately $7,698,591 and $2,475,367 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 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.

8. Accumulated Other Comprehensive 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)
Change in net debt valuation adjustment[1]		(67,855)
Balance at December 31,2017	$	(78,945)

(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 year ended December 31, 2017 and December 31, 2016 includes income tax benefit of $39,727 and $6,459 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. 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 settled periodically with the Parent.

The Provision/(Benefit) for income taxes consists of:

	2017	2016
Current		
Federal	$ (358)	$ (133)
State and Local	75	(11)
Deferred		
Federal	$ 13,612	$ -
Total	**$ 13,329**	**$ (144)**

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

	2017	2016
U.S. federal statutory income tax rate	35.00%	35.00%
U.S. state and local income taxes, net of U.S. federal income tax benefits[1]	(5.12)%	1.84%
Exclusion of income generated prior to restructuring	-	(38.19)%
Tax Act Enactment	(1,435.89)%	-
Effective income tax rate	(1,406.01)%	(1.35)%

[1] State and Local Income tax effective tax rate reflects adjustments associated with the filing of state and local income tax returns

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") significantly revised U.S. corporate income tax law by, among other things, reducing the corporate income tax rate to 21%.

The Company's effective tax rate for 2017 included a net tax provision of $13,612 related to the impact of the Tax Act due to the remeasurement of net deferred tax assets using the lower enacted corporate tax rate. The enactment tax provision incorporates assumptions made based upon the Company's current interpretation of the Tax Act, and may change as we receive additional clarification and implementation guidance and as the interpretation of the Tax Act evolves over time. Excluding the enactment tax provision, the effective tax rate for 2017 would have been 29.88%.

Notwithstanding the above, it may be appropriate to record future adjustments made to amounts related to the Tax Act as an adjustment to provision for income taxes in the reporting period the adjustments are determined, depending on the nature of the estimate and reason for the adjustment.

The Company's effective tax rate for 2016 included a net tax benefit of ($4,059) related to the exclusion of income generated prior to restructuring, for which all current and deferred taxes were accrued by the Parent.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse. In absence of the Tax Sharing Agreement with the Parent, the Company's net deferred tax asset at December 31, 2017 would be $23,377, which is attributable to debt valuation adjustments.

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 December 31, 2017 the Company has not accrued any liabilities for unrecognized tax benefits in its statement 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 2009–2012 and 2007–2014, respectively. During 2017, the Company agreed to proposed adjustments associated with the expected closure of the field audits for tax years 2006–2008.

The Company believes that the resolution of the above tax matters will not have a material effect on the statement of financial condition or cash flows, although a resolution could have a material impact in the statement of financial condition or cash flows 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.

Earliest Tax Year Subject to Examination and Major Tax Jurisdictions

Jurisdiction	Tax Period
United States	1999
New York State and City	2007

10. Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through April 11, 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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