

MORGAN STANLEY FINANCE LLC

Annual financial report

December 31, 2018

MORGAN STANLEY FINANCE LLC

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MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT

Twelve Months ended 31 December 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 31 December 2018.

RESULTS AND DIVIDENDS

The comprehensive income for the twelve months, after tax, was \$225,762,000 (31 December 2017: losses of \$82,132,000)

During the period, no dividends were paid or proposed.

PRINCIPAL ACTIVITY

The Company is wholly owned by Morgan Stanley (the "Parent"), which together with its consolidated subsidiaries, form the "Morgan Stanley Group" or "Firm".

The principal activity of the Company is the issuance of Borrowings ("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.

FUTURE OUTLOOK

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

BUSINESS REVIEW

Morgan Stanley Finance LLC is a "finance subsidiary" of the 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 twelve months is set out on page 4 of the audited financial statements. The Company made a gain before income tax of \$346,000 in the period, an increase of \$1,294,000 from the prior twelve months ending December 31, 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 \$223,856,000 net of taxes as 'Other comprehensive income' in the statement of comprehensive income (loss).

MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT

Twelve Months ended 31 December 2018

BUSINESS REVIEW (CONTINUED)

The statement of financial condition for the Company is set out on page 3 of the audited financial statements. At December 31, 2018 the Company's total assets were \$13,848,062,000 an increase of \$5,517,242,000 or 66% compared to December 31, 2017 and total liabilities were \$13,715,765,000 an increase of \$5,291,480,000 or 63%, compared to December 31, 2017.

The changes to the statements 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, measure, monitor, advise, challenge and control the primary 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.

MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT

Twelve Months ended 31 December 2018

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

In order to help protect the Company from losses, the Credit Risk Management Department ("CRM") establishes Firm-wide practices to evaluate, monitor and control credit risk at the transaction, obligor and portfolio levels. A comprehensive and global Credit Limits Framework is utilized to manage credit risk levels across the Firm. The Credit Limits Framework is calibrated within the Company's risk tolerance and includes single-name limits and portfolio concentration limits by country, industry and product type. CRM helps ensure timely and transparent communication of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management. In addition, credit risk exposure is actively managed by credit professionals and committees within CRM and through various risk committees, whose membership includes individuals from CRM.

Model Risk

Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision making or damage to the Company's reputation. The risk inherent in a model is a function of the materiality, complexity and uncertainty around inputs and assumptions. Model risk is generated from the use of models impacting financial statements, regulatory filings, capital adequacy assessments and the formulation of strategy.

Sound model risk management is an integral part of the Morgan Stanley Group's Risk Management Framework. The Model Risk Management Department ("MRM") is a distinct department in Risk Management responsible for the oversight of model risk. MRM establishes a model risk tolerance in line with the Morgan Stanley Group's risk appetite. The tolerance is based on an assessment of the materiality of the risk of financial loss or reputational damage due to errors in design, implementation and/or inappropriate use of models. The tolerance is monitored through model-specific and aggregate business-level assessments, which are based upon qualitative and quantitative factors.

A guiding principle for managing model risk is the "effective challenge" of models. The effective challenge of models is represented by the critical analysis by objective, informed parties who can identify model limitations and assumptions and drive appropriate changes. MRM provides effective challenge of models, independently validates and approves models for use, annually recertifies models, reports identified model validation limitations to key stakeholders, tracks remediation plans for model validation limitations and reports on model risk metrics.

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 (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to help ensure that Morgan Stanley Group, including the Company, maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events.

MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT

Twelve Months ended 31 December 2018

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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, cyber attacks 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.

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

MORGAN STANLEY FINANCE LLC

DIRECTOR'S REPORT

Twelve Months ended 31 December 2018

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

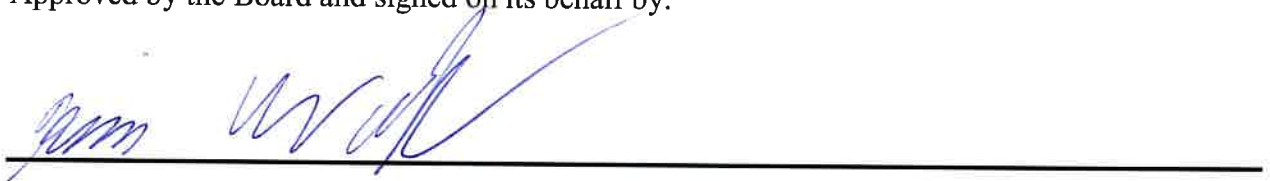
MORGAN STANLEY FINANCE LLC

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 twelve months ended December 31, 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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Morgan Stanley Finance, 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, 2018 and December 31, 2017, and the related statements of comprehensive income (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, 2018 and 2017, and the results of its operations and 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 4, 2019

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

	At December 31, 2018	At December 31, 2017
Assets		
Cash	\$ 3,448	\$ 1,045
Trading assets at fair value	-	33,853
Receivables:		
Broker dealers	18,371	4,263
Notes receivable (Parent)	13,826,243	8,256,771
Intercompany (Parent)	-	34,888
Total Assets	\$ 13,848,062	\$ 8,330,820
Liabilities		
Trading liabilities at fair value	\$ 1,035,972	\$ -
Payables:		
Broker dealers	-	6,765
Interest	11,702	2,007
Intercompany (Parent)	49,393	-
Borrowings (includes \$12,613,698 and \$8,410,513 at fair value)	12,618,698	8,415,513
Total Liabilities	\$ 13,715,765	\$ 8,424,285
Commitments and contingent liabilities (See Note 7)		
Member's equity (deficit)	132,297	(93,465)
Total Liabilities and Member's equity (deficit)	\$ 13,848,062	\$ 8,330,820

See Notes to the Financial Statements

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

	2018	2017
Revenues		
Trading	\$ (189,441)	\$ (47,719)
Interest income	223,055	67,782
Total Revenues	33,614	20,063
Expenses		
Interest expense	33,107	20,861
Brokerage, clearing and exchange fees	26	15
Professional services	135	135
Total Expenses	33,268	21,011
Income (Loss) before income taxes	346	(948)
Provision (Benefit) from income taxes	(1,560)	13,329
Net income (loss)	1,906	(14,277)
Other comprehensive income (loss)	223,856	(67,855)
Comprehensive income (loss)	\$ 225,762	\$ (82,132)

See Notes to the Financial Statements

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

	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 1,906	\$ (14,277)
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	484,565	209,447
Broker dealers	(20,873)	24,087
Intercompany (Affiliates)	-	(27)
Intercompany (Parent)	16,416	(6,540)
Interest	9,695	1,024
Other liabilities and accrued expenses	-	(419)
Net cash provided by operating activities	491,709	213,295
Cash flows from investing activities:		
Net payments for:		
Notes receivable (Parent)	(5,611,555)	(6,084,925)
Net cash used for investing activities	(5,611,555)	(6,084,925)
Cash flows from financing activities:		
Proceeds from:		
Borrowings	8,970,109	7,698,591
Payments for:		
Borrowings	(3,846,459)	(1,826,774)
Net cash provided by financing activities	5,123,650	5,871,817
Effect of exchange rate changes on cash and cash equivalents	(1,401)	831
Net increase in cash	2,403	1,018
Cash at the beginning of the period	1,045	27
Cash at the end of the period	\$ 3,448	\$ 1,045
Supplemental Cash Flow Information:		
Cash payment for interest	\$ 22,568	\$ 18,703

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
STATEMENT 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		(14,277)
Net change in accumulated other comprehensive loss, net of tax of \$39,727		(67,855)
Balance, December 31, 2017		(93,465)
Net income		1,906
Net change in accumulated other comprehensive income, net of tax of \$67,865		223,856
Balance, December 31, 2018	\$	132,297

See Notes to the Financial Statements

MORGAN STANLEY FINANCE LLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands of dollars, except where noted)

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 the Parent, as defined in Securities and Exchange Commission (“SEC”) Regulation S-X. The Company issues structured notes to the marketplace that are fully and unconditionally guaranteed by the Parent. Proceeds from issuances are lent to the Parent in the form of Intercompany notes.

In 2016, the Company received a rating of BBB+ from Standard & Poor’s.

Basis of Financial Information

The audited 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 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, as required by accounting guidance. These financial instruments represent derivatives the Company enters into with the 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 and commodities, 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 requires 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 believes 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, 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, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

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 Borrowings (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.

Offsetting of Derivative Instruments

In connection with its derivative activities with the Parent, the Company enters into a master netting agreement 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

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 effect of a change in tax rates on deferred tax assets and liabilities is recognized in provision for income tax expense (benefit) in the period that includes the enactment date. Such effects are recorded in provision for income tax expense (benefit) 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 states) 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 this threshold, the Company recognizes the largest amount of tax benefit that is more likely than not 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 statements of comprehensive income (loss) are translated at the rate of exchange on the respective date of recognition for each amount.

Accounting Updates 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 Cuts and Jobs Act (“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 in Net income (loss), 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 and liabilities associated with the change in tax rates.

Aside from 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 detail on the tax effects reclassified, refer to Note 8 to the financial statements.

3. Related Party Transactions

Notes receivable represents the proceeds from Borrowings (structured notes) which are lent to the Parent at rates established by the treasury function of the Parent and its consolidated subsidiaries (the “Firm”) and are payable on demand. These rates are periodically assessed and intended to approximate the market rate of interest that the Firm incurs in funding its business.

Receivables from and Payables to the Parent represent unsettled amounts related to Borrowings (structured notes) and the Tax Sharing Agreement as discussed further in Note 9. These receivables and payables are unsecured, payable on demand, and bear interest at rates established by the treasury function of the Firm and which approximate the market rate of interest that the Firm incurs in funding its business as it is periodically reassessed.

Receivables from and Payables to Broker dealer affiliates represent unsettled amounts related to Borrowings

(structured notes). These receivables and payables are unsecured and payable on demand.

Trading assets, Trading liabilities, and the associated Trading revenues mainly represent OTC derivative transactions the Company enters into with the Parent to economically hedge its Borrowings (structured notes) and market movements on those OTC derivative transactions.

Interest income and expense are calculated daily based on the Notes receivable and Receivables from and Payables to the Parent.

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, 2018	At December 31, 2017
Assets and receivables from affiliated companies		
Trading assets	\$ -	\$ 33,853
Receivables – Broker dealers	11,460	-
Receivables – Notes receivable (Parent)	13,826,243	8,256,771
Receivables – Intercompany (Parent)	-	34,888
Liabilities and payables to affiliated companies		
Trading liabilities	\$ 1,034,088	\$ -
Payables – Broker dealers	-	634
Payables – Intercompany (Parent)	49,393	-
	2018	2017
Revenues with affiliated companies		
Trading	\$ (906,380)	\$ 235,437
Interest income	223,055	67,782
Expenses with affiliated companies		
Interest expense	\$ 393	\$ 799

4. Fair Values

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
<i>OTC Derivative Contracts</i>	
<ul style="list-style-type: none">• OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, 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 volatility and correlation exposure, equity and commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings. 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.	<ul style="list-style-type: none">• Generally Level 2• Level 3 - in instances where the unobservable input is deemed significant

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

For further information on derivative instruments, see Note 5.

Asset and Liability / Valuation Technique

Valuation Hierarchy Classification

Borrowings - Structured Notes

- The Company issues structured notes which are primarily composed of: instruments whose payments and redemption values are linked to the performance of a specific index, a specific equity security, a commodity, a credit exposure; and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons.
 - 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, 2018			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value				
Trading assets:				
OTC Derivative contracts:				
Equity contracts	\$ -	\$ 111,903	\$ 4,776	\$ 116,679
Interest rate contracts	-	8,076	6,665	14,741
Foreign exchange contracts	-	1,273	-	1,273
Commodity contracts	-	4,122	-	4,122
Netting ⁽¹⁾	-	(125,374)	(11,441)	(136,815)
Total OTC derivative contracts	-	-	-	-
Total trading assets	\$ -	\$ -	\$ -	\$ -
Total assets at fair value	\$ -	\$ -	\$ -	\$ -
Liabilities at Fair Value				
Trading liabilities:				
OTC Derivative contracts:				
Equity contracts	\$ -	\$ 717,958	\$ 204,121	\$ 922,079
Interest rate contracts	-	159,125	47,708	206,833
Foreign exchange contracts	-	21,122	11,008	32,130
Commodity contracts	-	11,745	-	11,745
Netting ⁽¹⁾	-	(125,374)	(11,441)	(136,815)
Total OTC derivative contracts	-	784,576	251,396	1,035,972
Total trading liabilities	-	784,576	251,396	1,035,972
Borrowings - Structured Notes	-	10,945,582	1,668,116	12,613,698
Total liabilities at fair value	\$ -	\$ 11,730,158	\$ 1,919,512	\$ 13,649,670

⁽¹⁾ Positions classified within the same level of the fair value hierarchy that are with the same counterparty, are netted within that level. As of December 31, 2018, there were no positions with the same counterparty that cross over the levels of the fair value hierarchy. 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

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 ⁽¹⁾	Ending Balance at December 31, 2018	Unrealized Gains (Losses)
Liabilities at Fair Value								
Net OTC derivative contracts ⁽²⁾ :								
Equity contracts	\$ 39,692	\$ (146,869)	\$ (20,886)	\$ -	\$ 20,026	\$ 13,644	\$ 199,345	\$ (111,149)
Interest rate contracts	27,226	(8,127)	-	-	8,035	(2,345)	41,043	(9,510)
Foreign Exchange contracts	-	(8,502)	-	-	2,506	-	11,008	(8,502)
Total net OTC derivative contracts	66,918	(163,498)	(20,886)	-	30,567	11,299	251,396	(129,161)
Borrowings - Structured Notes	1,096,447	61,913	-	796,079	(108,027)	(54,470)	1,668,116	61,018
Total Liabilities at Fair Value	\$ 1,163,365	\$ (101,585)	\$ (20,886)	\$ 796,079	\$ (77,460)	\$ (43,171)	\$ 1,919,512	\$ (68,143)

⁽¹⁾ During 2018, the Company transferred from Level 3 to Level 2 \$54,470 of Borrowings (structured notes) due to a reduction in the significance of the unobservable inputs relating to volatility.

⁽²⁾ 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 December 31, 2017	Unrealized Gains (Losses)
Liabilities at Fair Value								
Net OTC 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 OTC derivative contracts	32,879	(12,660)	(18)	2	23,669	(2,274)	66,918	(43,998)
Borrowings - Structured Notes	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 OTC derivative contracts represent Trading liabilities, net of Trading assets. Amounts are presented before counterparty netting.

The unrealized gains (losses) during the period for assets and liabilities within the Level 3 category 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).

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.

	Balance/Range (Average)⁽¹⁾	
	2018	2017
Liabilities at fair value		
Net OTC derivative contracts:		
Equity contracts ⁽²⁾	\$ 199,345	\$ 39,692
Option Model:		
At the money volatility	5% to 31% (23%)	6% to 29% (19%)
Volatility skew	-2% to 0% (0%)	-2% to 0% (0%)
Equity - Equity correlation	45% to 96% (82%)	35% to 96% (92%)
Equity - Foreign exchange correlation	-80% to 30% (29%)	-65% to 10% (-39%)
Interest rate contracts	\$ 41,043	\$ 27,226
Option Model:		
Equity volatility discount	4% to 6% (5%)	8% to 11% (9% / 8%)
Interest rate - Curve correlation	54% to 97% (77% / 74%)	N/M ⁽³⁾
Borrowings - Structured Notes		
	\$ 1,668,116	\$ 1,096,447
Option Model:		
At the money volatility	15% to 31% (24%)	12% to 29% (22%)
Volatility skew	-1% to 0% (0%)	-1% to 0% (0%)
Equity - Equity correlation	46% to 98% (83%)	41% to 95% (75%)
Equity - Foreign exchange correlation	-45% to 30% (27%)	-48% to 10% (-27%)

⁽¹⁾ Amounts represent weighted averages except where simple averages and the median of the inputs are more relevant.

⁽²⁾ Includes OTC derivative contracts with multiple risks (*i.e.*, hybrid products).

⁽³⁾ N/M - Not Meaningful

Significant Unobservable Inputs—Description and Sensitivity

An increase (decrease) to the following inputs would generally result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Company is long or short the exposure.

- **Correlation:** A pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movement of two variables (*i.e.*, how the change in one variable influences a change in the other variable).
- **Volatility:** The measure of 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, the tenor and the strike price of the option.
- **Volatility skew:** The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.

Fair Value Option

The Company elected the fair value option for 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 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
2018			
Borrowings ⁽¹⁾	\$ 695,947	\$ (32,714)	\$ 663,233
2017			
Borrowings ⁽¹⁾	\$ (283,156)	\$ (19,883)	\$ (303,039)

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

Gains (losses) are mainly attributable to changes in foreign exchange 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)
2018		
Borrowings ⁽¹⁾	\$ (620)	\$ 291,721
2017		
Borrowings ⁽¹⁾	\$ -	\$ (107,582)

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

Borrowings Measured at Fair Value on a Recurring Basis

	At December 31, 2018	At December 31, 2017
Business Unit Responsible for Risk Management		
Equity	\$ 9,235,777	\$ 7,176,654
Interest rates	3,262,375	1,190,966
Foreign exchange	12,234	11,422
Commodities	103,312	31,471
Total	\$ 12,613,698	\$ 8,410,513

Excess of Contractual Principal Amount Over Fair Value

	At December 31, 2018	At December 31, 2017
Borrowings ⁽¹⁾	\$ 372,639	\$ 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

	At December 31, 2018				
	Carrying Value	Fair Value Level			Total
		Level 1	Level 2	Level 3	
Financial Assets					
Cash	\$ 3,448	\$ 3,448	\$ -	\$ -	\$ 3,448
Receivables:					
Brokers dealers	18,371	-	18,371	-	18,371
Notes receivable (Parent)	13,826,243	-	13,826,243	-	13,826,243
Financial Liabilities					
Payables: ⁽¹⁾					
Intercompany (Parent)	\$ 49,393	\$ -	\$ 49,732	\$ -	\$ 49,732
Borrowings	5,000	-	5,000	-	5,000

⁽¹⁾ Interest payables where carrying value approximates fair value have been excluded.

At December 31, 2017

	Carrying Value	Fair Value Level			Total
		Level 1	Level 2	Level 3	
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 December 31, 2018 and December 31, 2017.

	Bilateral OTC At December 31, 2018			
	Assets		Liabilities	
	Fair Value	Notional	Fair Value	Notional
OTC Derivative contracts				
Equity contracts	\$ 116,679	\$ 2,502,567	\$ 922,079	\$ 9,807,467
Interest rate contracts	14,741	822,447	206,833	2,793,325
Foreign exchange contracts	1,273	76,140	32,130	294,655
Commodity contracts	4,122	15,625	11,745	74,396
Total gross OTC derivative contracts	136,815	3,416,779	1,172,787	12,969,843
Amounts offset				
Counterparty netting	(136,815)		(136,815)	
Total Trading liabilities	\$ -		\$ 1,035,972	

	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 (structured notes) held at fair value in connection with its risk management strategies.

Gains (Losses) Recognized in Trading Revenues by Product Type

	2018	2017
Equity contracts	\$ (182,751)	\$ (58,468)
Interest rate contracts	(5,397)	12,468
Foreign exchange contracts	226	(1,559)
Commodity contracts	(1,519)	(160)
Total	\$ (189,441)	\$ (47,719)

6. Borrowings

Maturities and Terms of Borrowings as of December 31, 2018

	Fixed Rate	Variable Rate (1)	Total
Original maturities of one year or less			
Due in the next 12 months	\$ -	\$ 79,722	\$ 79,722
Original maturities greater than a year			
Due in 2019	\$ -	\$ 1,723,734	\$ 1,723,734
Due in 2020	-	1,591,153	1,591,153
Due in 2021	-	2,091,723	2,091,723
Due in 2022	-	1,005,550	1,005,550
Due in 2023	-	1,486,339	1,486,339
Thereafter	5,000	4,635,477	4,640,477
Total	\$ 5,000	\$ 12,533,976	\$ 12,538,976
Total Borrowings	\$ 5,000	\$ 12,613,698	\$ 12,618,698
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
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(1) Variable rate borrowings bear interest based on a variety of indices, including LIBOR and federal funds rates. Amounts include notes carried at fair value with various payment provisions, including notes linked to the performance of a specific index, a specific equity security, a commodity, a credit exposure, and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons.

(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.

All of the Company's Borrowings are considered senior debt. For the year ended December 31, 2018 and December 31, 2017, the Company issued structured notes with a fair value of approximately \$8,970,109 and \$7,698,591 respectively.

Certain senior debt securities are denominated in various non-U.S. dollar currencies and primarily structured to provide a return that is linked to equity, credit, commodity or other indices (e.g., the consumer price index). Senior debt also may be structured to be callable by the Company or extendible at the option of holders of the senior debt securities.

Senior Debt – Borrowings (structured notes). The Company's Borrowings primarily include notes carried and managed on a fair value basis. These include instruments whose payments and redemption values are linked to the performance of a specific index, a specific equity security, a commodity, a credit exposure, and

instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons. 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. The Company carries the entire Borrowings (structured notes) 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 Borrowings (structured notes) and economic hedges are reported in Trading revenues. See Notes 2 and 4 for further information on Borrowings (structured notes).

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 DVA ⁽¹⁾	223,856
Balance at December 31, 2018	\$ 127,950
Balance at December 31, 2016	\$ (11,090)
Change in net DVA ⁽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, 2018 and December 31, 2017 includes income tax provision (benefit) of \$67,865 and \$(39,727) 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.

In accordance with the terms of the Tax Sharing Agreement with the Parent, substantially all current and deferred taxes (federal, combined and unitary states) are settled periodically with the Parent.

The Provision for (benefit from) income taxes consists of:

	2018	2017
Current		
Federal	\$ 66	\$ (358)
State and Local	22	75
Deferred		
Federal	\$ (1,868)	\$ 13,612
State and Local	220	-
Total	\$ (1,560)	\$ 13,329

Reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate:

	2018	2017
U.S. Federal statutory income tax rate	21.00 %	35.00 %
U.S. State and Local income taxes, net of U.S. Federal income tax benefits ⁽¹⁾	4.52 %	(5.12)%
State Legislation Change ⁽¹⁾	50.18 %	-
Tax Act Enactment	(526.57)%	(1,435.89)%
Effective income tax rate	(450.87)%	(1,406.01)%

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

The Company's effective tax rate for 2018 included a net tax benefit of \$1,648 primarily associated with the remeasurement of net deferred tax assets due to the impact of the Tax Act and State Legislation. Excluding the impact of the Tax Act and State Legislation, the effective tax rate for 2018 would have been 25.52%.

The Company's effective tax rate for 2017 included a tax provision of \$13,329 associated with the remeasurement of net deferred tax assets as result of the Tax Act.

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 liability at December 31, 2018 would be \$(37,201), which is attributable to DVA.

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 relevant accounting guidance. 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, 2018, the Company has not accrued any liabilities for unrecognized tax benefits in its financial statement.

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 other tax authorities in certain states in which the Company has significant business operations, such as New York. The Company establishes a liability for unrecognized tax benefits, and associated interest, if applicable ("tax liabilities"), that it believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts such tax liabilities only when new information is available or when an event occurs necessitating a change.

The Company believes that the resolution of these 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 comprehensive income (loss) and on the effective tax rate for any period in which such resolution occurs.

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

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

United States	2013
New York State and City	2007

10. Subsequent Events

Effective January 2019, the Company amended its Tax Sharing Agreement with the Parent such that the Company no longer periodically settles its deferred taxes with the Parent and will be settling with the Parent when current taxes are due to be paid.

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through April 4, 2019, 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.
