PILLAR 3 REGULATORY DISCLOSURES – AS AT 30 NOVEMBER 2012

JEFFERIES INTERNATIONAL (HOLDINGS) LIMITED

Jefferies

CONTENTS

1 OVERVIEW

Jefferies Group, LLC ("Jefferies") and its subsidiaries operate as a global full service, integrated securities and investment banking group offering its clients a wide range of services including capital markets and financial advisory, institutional brokerage, securities research and asset management. On 1st July 2011, Jefferies acquired the Bache Global Commodities Group from Prudential Financial, Inc. and now operates a full service futures commission merchant through Jefferies Bache, LLC in the U.S. and a global commodities and financial derivatives broker through Jefferies Bache Limited in the United Kingdom (UK). As of 1st March 2013 Jefferies Group LLC is a wholly owned subsidiary of Leucadia National Corporation, its ultimate parent holding company.

Jefferies International (Holdings) Limited ("JIHL", or "the Firm") and its subsidiaries are an integrated part of Jefferies. JIHL is incorporated in the UK. From 1st April 2013, JIHL and its subsidiaries are regulated by the UK Financial Conduct Authority ("FCA") and are subject on a consolidated basis to the relevant regulatory capital requirements set out in the FCA's BIPRU[1] rules. However, as the disclosures in this document relate to the 2012 financial period when JIHL and related entities were regulated by the UK Financial Services Authority ("FSA"), reference is made to the FSA throughout this document.

As at 30th November 2012, the JIHL Group included the following subsidiaries, all of which are incorporated in the UK and are subject by the FSA to regulatory supervision and minimum capital standards both on a standalone and consolidated basis:

- Jefferies International Limited ("JIL");
- Jefferies Bache Limited ("JBL"); and
- Jefferies Investment Management Limited ("JIM").

As at 30th November 2012 the only material subsidiaries were JIL and JBL; JIM was immaterial to the UK consolidation group. As such, the consolidated results and risk profile of JIL and JBL, as detailed in these disclosures, are materially the same with those of the JIHL Group.

2 BASEL II ACCORD AND PILLAR 3 DISCLOSURES

2.1 INTRODUCTION

The Basel II accord, implemented within the EU through the Capital Requirements Directive ("CRD") and at the UK national level through the FSA Handbook, consists of three pillars:

- *Pillar 1* minimum capital requirements for credit, market and operational risk;
- *Pillar 2* review process by firms and supervisors to assess the appropriateness of the Pillar 1 level of capital; and
- *Pillar 3* market discipline through appropriate disclosures.

The FSA's BIPRU 11 sets out the requirements for Pillar 3 disclosures in the UK. This document sets out the Pillar 3 qualitative and quantitative consolidated disclosures for the JIHL Group as well as sub-consolidated disclosures for its two main subsidiaries JIL and JBL, reflecting their position as at 30th November 2012. Previous disclosures can be found at:

http://investor-relations.jefferies.com/FinancialDocs.aspx?iid=102756

[1] FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms.

2.2 SCOPE OF PILLAR 3 DISCLOSURES

The 2012 disclosures relate solely to the consolidated activities and position of the JIHL Group and its material subsidiaries as at 30th November 2012. The FSA requires significant subsidiaries to make certain disclosures according to BIPRU 11 on a standalone or sub-consolidated basis. JIL and JBL's aggregated financial results are material to the JIHL Group and their aggregated risk profile is materially the same as that of the JIHL Group. In addition, risk management policies, procedures and standards are applied consistently to the two entities and to the JIHL Group as a whole. As such, the capital and risk management disclosures for JIL and JBL are also included in this document.

Jefferies Group is required by the US Securities and Exchange Commission ("SEC") to file public disclosures at a consolidated group level, including annual reports (on Form 10-K), quarterly reports (on Form 10-Q) and current reports (on Form 8-K). Some of the information in these disclosures is applicable to the JIHL Group. These disclosures can be found at:

http://investor-relations.jefferies.com/CorporateProfile.aspx?iid=102756[2]

Jefferies Group's financial statements can be found at:

http://www.jefferies.com/cositemgr.pl/html/InvestorRelations

2.2.1 VALUATION AND ACCOUNTING PRINCIPLES

Unless otherwise stated, the calculation methodologies underlying the measurement of the risk exposures and risk exposure requirements in this document are those prescribed by the FSA for use by the JIHL Group in its consolidated regulatory risk reporting submitted to the FSA. In general, the measurement of exposures for regulatory risk reporting purposes is based on a standardised approach as per the FSA's prudential sourcebook (BIPRU). Therefore, these exposure measures may be materially different from those based on up-to-date market pricing used by JIL, JBL, the JIHL Group and Jefferies Group generally for risk management internally and those used for external risk disclosures, including in the JIHL Group's financial statements and the Jefferies SEC disclosures referred to above.

The basis of consolidation used for JIHL Group for accounting purposes is materially consistent with that used for regulatory purposes. Except for the application of the exposure measurement methodologies set out above, these disclosures have been prepared in accordance with applicable UK generally accepted accounting principles with further adjustments made where required to comply with the requirements of the FSA Handbook section GENPRU 1.3, implemented within Jefferies through the Global Independent Price Verification ("IPV") policy and the Fair Value Adjustments ("FVA") Policy. Full details of the JIHL Group's accounting policies are set out in the JIHL Group's financial statements.

This document does not constitute a set of financial statements. The JIL and JBL financial statements are prepared in accordance with applicable UK company law and accounting standards.

2.3 POLICY, VERIFICATION AND SIGN-OFF

JIHL has a policy in place to assess the appropriateness of its Pillar 3 disclosures, including their verification and frequency of review and publication. The policy is part of the Jefferies Capital Management Framework.

The Pillar 3 policy, in line with BIPPU requirements, also requires that JIHL's external disclosures present the Group's risk profile comprehensively, subject to the information being material and not proprietary or confidential.

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[2] The JIHL Group is a wholly-owned sub-group of the Jefferies Group. Whilst the JIHL Group is a material sub-group, the information disclosed in this document is not necessarily indicative of the Jefferies Group as a whole, nor is it comprehensively representative of the Jefferies Group's activities in any particular region. Investors, stakeholders, or other users seeking further information on capital adequacy, risk exposures and risk management policies should consult the public disclosures of Jefferies Group.

The 2012 disclosures were verified and approved internally by Jefferies management in line with its Pillar 3 Disclosures policy. The internal verification process includes data attestation by Finance, Risk and Regulatory Reporting senior management, and final approval by Board members.

3 CAPITAL MANAGEMENT APPROACH

Jefferies Chief Financial Officer, Treasurer, Chief Risk Officer and Head of Regulatory Controllers are responsible for developing and implementing our liquidity, funding and capital management strategies. These policies are determined by the nature and needs of our day to day business operations, business opportunities, regulatory obligations, and liquidity requirements. Liquidity and funding risks are additionally covered in the Jefferies Group 10K disclosures.

Jefferies actual levels of capital, total assets, and financial leverage are a function of a number of factors, including, asset composition, business initiatives and opportunities, regulatory requirements and cost and availability of both long term and short term funding. We have historically maintained a balance sheet consisting of a large portion of our total assets in cash and liquid marketable securities, arising principally from traditional securities brokerage activity. The liquid nature of these assets provides us with flexibility in financing and managing our business.

Capital Management

Jefferies Capital Management Approach is forward-looking and risk-based; capital forecasts are evaluated both short-term (less than 3 months) as well as medium term (up to 3 years) with the following objectives:

- To support Jefferies's business plans and strategic objectives within the Board-approved risk appetite;
- To mitigate potential risk that Jefferies and its subsidiaries, without material franchise or business impact, remain adequately capitalised and be able to withstand trading losses during periods of stressed conditions.

The firm uses regulatory solvency measures as objective indicators when defining its overall risk appetite and tolerance levels and this forms part of its overall Enterprise Risk Management Framework ("ERM").

The size and composition of JIHL's capital base are determined by a number of factors including the regulatory capital requirements as per the FSA's Handbook as well as Jefferies capital planning methodologies and processes, which include our Internal Capital Adequacy Assessment Process ("ICAAP"). They also may be impacted by other factors such as rating agency guidelines for Jefferies, the business environment, future business plans, the financial markets, as well as stress testing analysis and results (which assess the potential future losses due to adverse changes in JIHL's business and market environment), as well as future regulatory changes e.g. Basel III.

Risk identification and assessment

JIHL Group's material consolidated regulatory capital requirements for each risk factor as at 30th November 2012 are generally calculated on the basis of the most conservative approaches set out in the FSA Handbook:

- The Market Risk Requirement is calculated using the FSA's Standardised Approach with the sole exceptions of the requirement for the JIL equity options book and the JBL base metals options book for which the FSA have given permission to apply a CAD1 approach.
- The Credit, Counterparty and Concentration Risk Requirements are calculated using the FSA's Standardised Approach.
- The Operational Risk Requirement is calculated using the FSA's Basic Indicator Approach.

The JIHL Group's capital management policy is to manage its overall solvency ratio around a target materially in excess of its minimum regulatory capital requirement. This policy is a reflection of a number of factors – its business strategy, risk appetite and the market environment in which it operates.

JIHL's on-going compliance with its internal capital management policy target and external minimum regulatory capital requirements are monitored daily by senior management and reviewed against current and possible future market conditions, current portfolio composition and expected future business developments.

Transferability of capital

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the JIHL Group and its subsidiary undertakings, provided solvency ratios are maintained both the FSA requirements and to meet covenants contained in a committed loan facility with JP Morgan.

Senior Management review capital levels on an on-going basis to support business needs as well as respond appropriately to market conditions. Capital adequacy, including resources and requirements, are monitored and managed against applicable internal thresholds, regulatory limits or available regulatory resources by the Regulatory Controllers Group

Governance

Within JIHL, Capital Management and Planning is overseen by various Committees reporting up to the Board. Management Information ("MI") on capital ratios, solvency ratios, capital utilisation, key risk indicators and trends are reported to these Committees and are readily available at all times to support the strategic and business decision making as required.

3.1.1 APPLICATION OF THE PILLAR 2 FRAMEWORK

As part of Jefferies' Capital Planning Framework, Jefferies ensures that the Group at consolidated level and its subsidiaries on a standalone basis have adequate capital to support all material risks inherent in Jefferies businesses and market environment. The framework is based on calculating and holding additional capital that may be required under stressed conditions in line with regulatory requirements. These stress tests inform decisions on the size and quality of capital buffers required to ensure capital adequacy under severe but plausible stressed scenarios. These results are incorporated into the capital planning approach.

The minimum regulatory capital requirements for the JIHL Group entities have been agreed with the FSA through the FSA's Supervisory Review and Evaluation Process ("SREP") which sets the Individual Capital Guidance ("ICG"). The level of Pillar 2 capital held by JIL and JBL reflects the risks inherent in our business models and products traded as well as our governance, control and risk management infrastructure. JIL and JBL's assessments of their Pillar 2 requirements are then reviewed with the FSA and their final levels agreed. The minimum regulatory capital requirement for both JIL and JBL is the sum of the respective Pillar 1 and 2 requirements for each entity. The JIHL Group holds consolidated regulatory capital resources in excess of the consolidated regulatory capital requirements of JIL and JBL.

3.2 CAPITAL RESOURCES

The table below shows the financial resources for the JIHL Group, and its two material subsidiaries (JIL and JBL), as at 30th November 2012 based upon the audited financial statements.

Regulatory Capital Resources **As at 30th November 2012** **(GBP in millions)**	**JIHL Group** ***GBPm***	**JIL** ***GBPm***	**JBL** ***GBPm***
Tier 1 capital			
Core Tier 1 (share capital and reserves) (note 1)	306	287	198
Other Tier 1 capital			
	306	287	198
Less Deductions from Tier 1 capital			
Total Tier 1 capital after deductions	**306**	**287**	**198**
Tier 2 capital			
Upper Tier 2 capital			2
Lower Tier 2 capital (note 2)	269	62	16
	269	62	18
Less Deductions from Tier 2 capital	(116)		
Total Tier 2 capital after deductions	**153**	**62**	**18**
Tier 1 and Tier 2 capital			
Tier 1 and Tier 2 capital	459	349	216
Less Deductions from Tier 1 and Tier 2 capital		2	
Total Tier 1 and Tier 2 capital after deductions	**459**	**347**	**216**
Tier 3 capital			
Short term subordinated debt	132	132	
Current year Earnings	(26)	(26)	9
GBPm Tier 2 excess (note 2)	116		
Total Tier 3 capital	222	106	9
Total capital before deductions	681	453	225
Less Deductions from total capital			
Total Regulatory Capital Resources per FSA year-end return	**681**	**453**	**225**

Notes:

1. The Core Tier 1 figures have been re-stated to include the current year's profit / (loss) as permitted now that the accounts have been agreed by the auditors. The Core Tier 1 figure in the regulatory returns as at 30 November 2012 submitted to the FSA in February 2013 would not have included the current year's profit (loss) as it had not been audited at that time.

2. FSA rules cap the permitted amount of Lower Tier 2 capital for regulatory capital adequacy purposes at 50% of Total Tier 1 capital after deductions. Any Lower Tier 2 eligible capital held in excess of this cap may be included in the Tier 3 capital calculation. The re-statement referred to in Note 1 above increased the level of the cap for Lower Tier 2 capital and so this figure has been adjusted up, and, correspondingly, the Tier 2 excess included in Tier 3 adjusted down, to reflect this. To this extent only, these figures will differ from the equivalent figures in the regulatory returns as at 30 November 2012 submitted to the FSA in February 2013.

3.3 REGULATORY CAPITAL REQUIREMENTS

As at 30th November 2012, the capital requirements for JIHL, JIL and JBL were as follows:

Regulatory Capital Requirements As at 30th November 2012 (GBP in millions)	JIHL Group *GBPm*	JIL *GBPm*	JBL *GBPm*
Market Risk Requirement	144	132	12
Credit Risk Requirement	22	16	5
Counterparty Risk Requirement	53	12	41
Concentration Risk Requirement	17	0	14
Operational Risk Requirement	44	35	8
Total Regulatory Capital Requirements	**280**	**195**	**80**

Notes:

The calculation methodologies underlying the measurement of the risk exposures and risk exposure requirements above are those prescribed by the FSA for use by the JIHL Group in its consolidated regulatory risk reporting submitted to the FSA. In general, the measurement of exposures for regulatory risk reporting purposes is based on notional with prescribed haircuts. Therefore, these exposure measures may be materially different from those based on up-to-date market pricing used by the JIHL Group and the Jefferies Group generally for risk management internally and those used for external risk disclosures, including in the JIHL Group's Financial Statements and the Jefferies SEC disclosures referred to above.

4 RISK MANAGEMENT

4.1 GOVERNANCE AND ENTERPRISE RISK MANAGEMENT FRAMEWORK

Risk within the JIHL Group is managed in accordance with the Jefferies Group global risk management framework. The risk management objectives, policies and procedures are consistent with those of the Jefferies Group. Further details of the Jefferies Group risk management objectives, governance, policies and procedures are presented in the 2012 year-end Jefferies Group annual report ("Form 10-K") included in the SEC disclosures.

The JIHL, JIL and JBL Boards of Directors are ultimately responsible for the governance and oversight of risk management, including the ERM framework. This includes the review, challenge and approval of the risk management policies and procedures, the risk appetite and tolerance levels, risk limit structures and risk management processes and reporting. The Boards are also responsible for ensuring adequate systems and controls are maintained to enable risk to be appropriately identified, measured, managed and monitored. Additionally, the Boards are responsible for reviewing, challenging and approving the stress test scenarios and assumptions.

Operationally, risk management is performed by the EMEA Risk Management Department ("Risk Management"), operating at the legal entity levels. This includes the monitoring, management and reporting of risk exposures against applicable internal thresholds. Risk Management consists of five teams, Market Risk, Credit Risk, Operational Risk, Model Validation, and Risk Control; the heads of the teams report to the EMEA Chief Risk Officer ("CRO"). The CRO has both a regional and a global reporting line to reflect the global nature of our business as well as to ensure consistency of approaches within the Group and timely escalation of issues and reporting.

Executive oversight of the risk management policies, processes and performance of JIHL is carried out by regular meetings of the Risk Management Committee ("RMC") whose mandate includes the review and approval subject, where appropriate to Board and Audit Committee, of:

- Risk appetite;
- Risk management objectives, policies, approach, processes and procedures and limits;
- Exposure monitoring and management, including limit breach resolution processes; and
- Any significant changes or additions to the businesses or the products covered by the risk management processes.

The RMC meets on a monthly basis to discuss the risk profile of the JIHL Group in detail, including any significant business or market trends and their potential impact on the risk profile as well performing regular review and approval of the limit structures, individual limits and limit excesses. The Firm also operates a New Business Committee which is responsible for reviewing and approving new businesses and services when required and reviewing the risks of that business to ensure they are within the Firm's risk appetite.

The Firm makes use of various policies in the risk management process including the:

- Market Risk Management Policy – This policy sets out roles, responsibilities, processes and escalation procedures regarding market risk management.
- Independent Price Verification Policy – This policy sets out roles, responsibilities, processes and escalation procedures regarding independent price verification for securities and other financial instruments.
- Operational Risk Framework Policy – This policy sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.
- Credit Risk Management Policies – This policy provides standards and controls for credit risk-taking throughout our global business activities. This policy also governs credit limit methodology and counterparty review.
- Liquidity Risk Management Policies – This policy sets out roles, responsibilities, processes, methodologies and escalation procedures for liquidity risk management, and includes JIHL's Contingency Funding Plan. It

also includes the risk appetite for liquidity risk management, supported by all relevant controls including limits, thresholds, indicators and triggers to ensure that JIHL operates within the stated risk tolerance at all times.

- Model Validation Policy - This policy outlines the process for the validation of pricing valuation models.

Jefferies applies a comprehensive framework of limits on a variety of key metrics to constrain the risk profile of the group's business activities. The size of the limit reflects the Firm's risk tolerance for a certain activity under normal business conditions. Key metrics included in the framework include inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, Value at Risk, sensitivities (Greeks), and exposure concentrations including collateral, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital, and performance analysis metrics.

Stress testing is performed and reported daily as part of the risk management process. In addition, ad hoc stress tests are performed and new scenarios added as market conditions dictate. Stress testing is used to assess the Firm's aggregate risk position as well as for limit setting and risk/reward analysis.

The JIHL Group sets out its approach to valuation and impairment in the notes to its financial statements. As at 30th November 2012, the JIHL Group did not have any material valuation adjustments or impairments booked. This is a reflection of the vanilla nature of the Group's product portfolio, the proven creditworthiness of its clients and counterparties and the low risk profile of its trading portfolio.

4.2 MARKET RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

Market risk is the risk of loss from adverse changes in instrument values and/or earnings fluctuations arising from changes in market factors such as interest rates, exchange rates, equity and commodity prices.

The market risk infrastructure and processes are common across the Jefferies Group, thus reflecting the integrated nature of the market risk management function. Within that framework, the Market Risk Management function ("Market Risk Management") designs and develops risk management approaches tailored to the specific risk profiles in their various business activities and these approaches are subject to ongoing review.

Operationally, market risk management is performed at the level of the JIL and JBL legal entities, including the management and reporting of JIHL's consolidated regulatory exposures and capital requirements against applicable internal thresholds, regulatory limits or available regulatory resources. The latter is carried out independently by the Regulatory Controllers group.

Market Risk Management is a function independent of the revenue-generating units that monitors all trading activities; it reports to the Chief Risk Officer EMEA and to global Market Risk Management Heads. Risk exposures are monitored daily against pre-defined limits. In addition, risk reports are generated and monitored every day including Value at Risk (VaR), Stress Test and sensitivity reports. Key risks, overall level of risk and significant changes in risk profile are reported to senior management. Market Risk Management also assists Product Control in the Independent Price Verification ("IPV") process for valuations where external prices are not readily available.

Market Risk Management uses a wide range of techniques to manage the market risks inherent in our businesses/portfolios, including VaR for internal reporting purposes. VaR is a measure of potential change in value of a position given a specified time horizon (e.g. 1 day) and confidence level (e.g. 95%, which implies that there is only an estimated 5% probability that a one-day loss will exceed the calculated VaR).

Market Risk Management recognises the limitations in using VaR as an isolated measurement of market risk. Examples of the limitations include the fact that the specific historical market data used in the VaR calculation may not be the best estimate of future risk factor movements, and that market movements that exceed the relevant confidence level of VaR may not be captured. Hence, Market Risk Management uses additional methodologies to complement the VaR calculations to assess, monitor and manage market risk including exposure limits, sensitivity limits, stress testing and scenario analysis.

Hedging and Risk Mitigation

The Firm's risk management policies and strategies aim at mitigating risks inherent in our business and trading activities including through hedging. Our policies include:

- All hedging activity takes place within the current trader mandates, issued and maintained by Market Risk Management.
- Soft limits for large exposures monitoring. Any exposure above the set thresholds would be mitigated through protection cover, although we have successfully managed to keep this to a minimum.
- FX exposure has to be mitigated subject to the Jefferies Currency Management Policy.

Market Risk Exposure to the Sovereign Debt, Corporate and Financial Securities of Greece, Ireland, Italy, Portugal and Spain

JIHL's net exposure to sovereign debt of Greece, Ireland, Italy, Portugal, and Spain (before economic derivative hedges) was net long $59.8m million at 30th November 30 2012.

More information at the Jefferies Group consolidated level can be found in theSEC 10-K report. The report includes detailed tables reflecting not only our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal, and Spain at 30th November 2012 but also the exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets domiciled in these countries. The information is presented in a manner consistent with how management views and monitors these exposures as part of the Jefferies risk management framework.

The issuer exposure to these European countries arises primarily in the context of Jefferies market making activities and its role as a major dealer in the sovereign debt securities of these countries. Accordingly, the issuer risk arises due to holding securities as long and short inventory, which does not carry counterparty credit exposure. While the economic derivative hedges are presented on a notional basis, Jefferies believes this best reflects the reduction in the underlying market risk due to interest rates or the issuer's credit as a result of the hedges. Long and short financial instruments are offset against each other for determining net exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities. Additional information relating to the derivative contracts, including the fair value of the derivative positions, is included in the 10-K report.

Market Risk Regulatory Capital Requirements

The components of the consolidated Market Risk Regulatory Capital Requirements for the JIHL Group as at 30th November 2012 were as follows:

Market Risk Capital Requirements **As at 30th November 2012** **(GBP in millions)**	**JIHL** ***GBPm***	**JIL** ***GBPm***	**JBL** ***GBPm***
Interest Rate Position Risk Requirement	110	110	0
Equity Position Risk Requirement	13	13	0
Option Position Risk Requirement	0	0	0
CIU Position Risk Requirement	4	4	0
Commodity Position Risk Requirement	11	0	11
Foreign Exchange Position Risk Requirement	6	5	1
Total Consolidated Market Risk Capital Requirements	**144**	**132**	**12**

Notes:

The calculation methodologies underlying the measurement of the risk exposures and risk exposure requirements above are those prescribed by the FSA for use by the JIHL Group in its consolidated regulatory risk reporting submitted to the FSA. In general, the measurement of exposures for regulatory risk reporting purposes is based on notional with prescribed haircuts. Therefore, these exposure measures may be materially different from those based on up-to-date market pricing used by the JIHL Group and the Jefferies Group generally for risk management internally and those used for external risk disclosures, including in the JIHL Group's Financial Statements and the Jefferies SEC disclosures referred to above.

4.3 CREDIT RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

4.3.1 CREDIT RISK MANAGEMENT

Credit risk is the risk of loss due to adverse changes in the JIHL Group's clients' and counterparties' creditworthiness, or their inability or unwillingness to meet their financial obligations under the terms and conditions of a financial contract as and when they fall due. The JIHL Group applies a conservative credit risk assessment methodology and utilises a number of legal and market available credit risk mitigants to minimize counterparty risk.

Credit risk is managed within the framework of the Global Credit Risk Management Policy and Procedures (the "Credit Risk Policy") which articulate the Jefferies' credit risk appetite and define fundamental standards and controls for credit risk taking throughout the Jefferies global business activities. The JIHL Group's Credit Risk Framework is responsible for identifying credit risks throughout the operating businesses, establishing counterparty limits and managing and monitoring those credit limits.

The framework includes:

- Defining credit limit guidelines and credit limit approval processes;
- Providing a consistent and integrated credit risk framework across the enterprise;
- Approving counterparties and counterparty limits (which take into account applicable enforceable netting agreements, collateral or other acceptable forms of credit risk mitigation negotiated by the Legal Department) within parameters set by the Credit Policy;
- Negotiating, approving and monitoring credit terms in legal and master documentation;
- Delivering credit limits to all relevant sales and trading desks;
- Maintaining credit reviews for all active and new counterparties;
- Operating a control function for exception management and reporting;
- Determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;
- Actively managing daily exposure, exceptions, and breaches;
- Monitoring daily margin call activity and counterparty performance (in concert with the JIL and JBL Collateral Management Departments); and
- Setting minimum global requirements for systems, reports and technology.

4.3.1.1 ASSIGNING CREDIT LIMITS FOR COUNTERPARTY CREDIT EXPOSURES

Credit Committee

The primary credit risk approval activities of Credit Risk Management are conducted through the Credit Risk Committee. The Committee's functional role is initially, and at least annually thereafter, to review and approve counterparties and credit limits as per the Firm's Credit Policy. The members of the Committee are the senior credit risk managers and credit risk officers of the Firm, who are delegated certain authority levels based on seniority and experience. Credit approval procedures require a combination of sign-offs by designated Committee members, specifically defined by the nature and specific type or types of credit-sensitive activity undertaken with the Firm's various customers and counterparties. Committee members also are charged with the ongoing departmental responsibilities of monitoring and management of credit limits.

Credit Limit Overview

Credit Risk Management assesses counterparty credit risk and sets credit limits at the counterparty group level and for each individual counterparty and by specific product type. Counterparties are grouped in a hierarchy by common ultimate parentage ("Corporate Hierarchy Group"). Limits must be approved per appropriate credit authorities and set as live in credit and trading systems before trading commences.

Credit Risk Management employs both specific analysis and general guidelines when establishing ceiling corporate hierarchy group credit limits. A counterparty group tiering framework methodology is used based on metrics including asset size, capital, leverage, and ordinal credit ratings (external or internal).

Primary risk ceiling limits are measured in terms of potential exposure. Limits and exposures are also expressed and measured through additional metrics. Credit limit and exposure methodology includes:

- Credit Limit Types ("CLT") - individual equity, fixed income and commodity product-specific limits defined and governed by master legal documentation; collateral terms; netting rules; trading and settlement characteristics; and

- Credit Limit Measures - based on various exposure metrics including notional, margin financing, settlement, mark-to-market or fair value amounts, and potential or expected exposures; tenor; haircuts; and collateralization.

Each credit limit type may be measured by one or more metrics in order to properly gauge the relative size, amount at risk, and nature of exposure. Notional and Settlement limits are measured in both gross and net terms, with Mark-to-Market ("MTM") and Potential Exposure ("PE") measures illustrating netted exposure.

- Notional basis ("NL") – gross and net contract or face values of the credit-sensitive transaction;
    - Limits include precious metal settlement limits, daily and aggregate FX NOP limits.
- Settlement basis ("SL") – gross and net notional values as measured on a future date, typically beyond normal cash settlement dates;
- Mark-to-Market (or Fair Value) basis – the actual change in net values of the credit-sensitive transaction based on the daily marking of the transaction to market;
- Current Exposure ("CE") is the amount that would be lost on a particular set of positions in the event of default by the counterparty. Current exposure can be net or gross depending on the closeout netting assumptions. (CE adjusted by loss given default is referred to as adjusted current exposure or "ACE").
    - Net Current Exposure is the exposure if there is closeout netting. It equals the positive part of the fair value or mark-to-market of the positions in question minus the net collateral at hand.
    - Gross Current Exposure is the exposure if there is no closeout netting. This measure is more informative of settlement risk, as it provides information, jointly with the net exposure, of the size of the settlement payments or receivables. Settlement Risk is the risk that a settlement in a transfer system does not take place as expected.
- Potential Exposure (PE) – potential exposure is based on market factors over different measures of time and which takes into account netting and collateral mitigation. PE is defined as MTM after collateral plus close-out risk. (PE adjusted by loss given default is referred to as adjusted potential exposure or "APE").
- Other Types of Limits – In certain margin-based businesses, specific account level limits are used including risk margin limits, hedge, speculative, Vega, and band limits.

4.3.1.2 Credit Risk Management in JIL

For JIL, counterparty risk may arise from Over-the-Counter ("OTC") derivatives trading and collateralised borrowing and lending arrangements. The majority of JIL's business is settled on a Delivery versus Payment ("DvP") settlement basis where associated credit risk is perceived to be relatively low particularly as an increasing percentage is settled via central counterparties ("CCPs").

The businesses that carry credit risk are:

- The Stock-borrow / Loan and Repo businesses, where transactions can be fully collateralised but the value of the collateral is subject to market movement;
- OTC Fixed Income and Equity Derivatives where limited unsecured credit is extended to third parties under the terms of standard ISDA[3] legal agreement and Credit Support Annex ("CSA") documentation; and
- The issuer portfolio, which is predominantly made up of high quality, investment grade rated positions.

Credit is extended to counterparties in a controlled manner. Credit risk is managed in a number of ways that include the use of adequate collateral terms and conditions for financing and derivatives transactions. Transactions executed against central counterparties are also subject to margin requirements.

All counterparties are subject to completion of a detailed counterparty credit review, which approves specific credit limits controlling the gross, market value, and margin value of securities subject to borrowing / lending or purchase / repurchase transactions, and other key trading terms. The majority of counterparties are investment grade regulated financial institutions and central clearing institutions.

Except with specific approval, and typically only for highly-rated sovereign counterparties, trading may commence only after execution of market standard (typically GMSLA, GMRA, or ISDA with Credit Support Annex) agreements as appropriate, permitting appropriate netting as approved by senior JIL Legal and Credit Risk management.

All credit exposures are reviewed against approved limits on a daily basis and reflect the risk tolerance levels for the Firm.

4.3.1.3 Credit Risk Management in JBL

Principal credit risk exposures

JBL's principal business is executing and clearing listed futures, forwards and options for corporate and financial institution clients. Clearing houses require members to post cash collateral known as margin to cover potential losses on open contracts. Clearing houses call for these margin payments initially as soon as the trade is executed and also subsequently if there are any significant variations in the relevant market prices that determine the value of the trade. Under its standard terms of business, JBL reserves the right to re-charge its clients the equivalent or a multiple of the relevant CCP margin requirements. JBL also executes OTC products, such as FX, Precious Metals and OTC Commodities Contracts for clients and applies similar initial and variation margin call processes. The market risk exposure on any OTC FX or Precious Metals trades is generally fully hedged via back-to-back trades with another Jefferies subsidiary.

Apart from the risk of not receiving margin cash from a client once called, JBL's exposures to credit risk arise when it agrees to grant a credit line to certain clients for certain products and so waive all or some part of the requirement to post margin with JBL. All credit lines offered are Uncommitted and On-Demand in nature, meaning they can be cancelled without notice. All trading relationships and any credit line agreements are governed by either JBL's standard Professional Client Agreement ("PCA") documentation or the market standard ISDA agreements. JBL may also accept high quality liquid assets with clear market pricing and bank Standby Letters of Credit in lieu of cash margin. Acceptability of these items must be approved by the Credit Risk Management Department.

Credit approval

Credit is extended to clients and counterparties in a controlled manner. All counterparties are subject to completion of a detailed counterparty credit review, which approves specific credit limits controlling the exposure, gross position, margin credit line if appropriate and other key trading terms. Trading may commence only after execution of an approved trading agreement.

Credit Derivatives

JBL does not use any credit derivative contracts to hedge its credit exposures.

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[3] International Swaps and Derivatives Association

4.3.1.4 CREDIT RISK EXPOSURE MEASUREMENT AND REPORTING IN JIHL

JIHL uses an in-house designed Credit Risk Management System. The system holds the detailed reports written by JIHL's credit analysts on clients and counterparties.

The system was originally designed within the futures business and gives detailed information on exposures for JBL grouped by industry type, country and by the type of underlying product traded. JIL exposures are currently monitored within the separate systems for each trading area. Migration of these exposures to the Credit Risk Management System is planned for 2013.

JIHL uses a VaR-based potential exposure metric to manage its exposure to clients. The VaR calculation uses a 99% confidence level and a three day holding period to reflect the expected period between a client or market counterpart breaching their limit, the margin call being issued and payment being received from the client.

All credit exposures are reviewed against approved limits on a daily basis. Credit exposures to companies with common ownership are grouped together to ensure aggregate limits do not exceed Credit Policy limits.

4.3.2 WRONG WAY RISK

Wrong-way risk arises when the default risk of, and the credit exposure to, counterparty are positively correlated. The JIHL Group's business model limits wrong way risk and any such exposure is managed in the context of the Firm's existing credit risk framework, policies and processes.

4.3.3 COLLATERAL ON DOWNGRADE

JIHL seeks to manage its exposure to its obligation to post collateral following downgrades (i.e. the incremental collateral that derivative counterparties would require if Jefferies credit rating was downgraded) by minimising the number of legal agreements with counterparties that include terms permitting this. As a result, at 30th November 2012, a one-notch downgrade in Jefferies rating would have no material impact on the collateral demanded from JIHL by its derivative counterparties.

The impact of a one-notch downgrade in Jefferies rating on the collateral demanded by central counterparties is assessed and monitored daily as part of the Firm's liquidity stress test scenarios assumptions.

4.3.4 CREDIT AND COUNTERPARTY RISK CAPITAL REQUIREMENTS – METHODOLOGIES AND RISK PROFILE

JIHL utilises the standardised approaches for the calculation of capital requirements for credit and counterparty risk (MTM approach). In the calculation of risk weighted exposure amounts under the standardised approach, the ratings for Fitch, Standard & Poor's and Moody's are used for all applicable exposure classes.

4.3.5 CREDIT RISK QUANTITATIVE DISCLOSURES

JIHL's consolidated credit risk capital requirements broken down by exposure class are provided in the table below.

JIHL's credit risk exposures are provided in the tables below.

Consolidated Credit Risk Capital Requirement
Analysed by Applicable Standardised Approach Exposure Classes

As at 30 November 2012 (GBPm)	Credit Risk Capital Requirement	Counterparty Risk Capital Requirement	Concentration Risk Capital Requirement	Total Credit Risk Capital Requirement
Sovereign	-	-	-	-
Institutional	4	19	14	37
Corporate	5	30	3	38
Other	14	3	0	17
Total Consolidated Credit Risk Capital Requirements	**22**	**53**	**17**	**92**

Consolidated Derivative Counterparty Credit Risk Exposure
Analysed by Applicable Standardised Approach Exposure Classes
As at 30 November 2012

	GBPm
Gross positive MTM values pre-netting	625
Potential Future Exposure values	3065
Gross exposure values	3690
Netting benefits	502
Netted current credit exposure	3188
Collateral held	2205
Consolidated Net Derivative Credit Exposure	**983**

Consolidated Notional Value of Credit Derivative Hedges
As at 30 November 2012

	GBPm
Single name underlying	62
Index underlying	0
Consolidated Notional Value of Credit Derivative Hedges	**62**

Consolidated Counterparty Credit Exposure By Contract Type Standardised Approach (i.e. Mark-To-Market plus Potential Future Exposure values) Pre-Mitigation As at 30th November 2011	GBPm
Interest rate contracts	437
Foreign Exchange contracts	10
Equity contracts	2
Commodities contracts	3235
Credit Derivatives	6
Consolidated Total	**3690**

Consolidated Notional Value of Credit Derivative Contracts As at 30 November 2012 (GBP in millions)	Firm portfolio management GBPm	Client intermediation GBPm
Single name underlying	62	0
Index underlying	0	0
Protection bought	**62**	**0**
Single name underlying	0	0
Index underlying	0	0
Protection Sold	**0**	**0**

Consolidated Average Credit Risk Exposure Pre-Mitigation As at 30 November 2012	Total exposure pre-mitigation GBPm	YTD average total exposure pre-mitigation GBPm
Exposure class		
Sovereign	0	0
Institutional	3,766	4,362
Corporate	2,371	2,535
Other	654	641
Consolidated Total	**6,791**	**7,538**

Total Consolidated Credit Risk (Pre-Mitigation) Exposure - Geographical Analysis As at 30 November 2012	EMEA GBPm	AMERICAS GBPm	ASIA PACIFIC GBPm	TOTAL GBPm
Exposure class				
Sovereign	0	0	0	0
Institutional	2,563	896	306	3,766
Corporate	1,883	63	425	2,372
Other	416	42	195	653
Consolidated Total	**4,863**	**1,002**	**926**	**6,791**

Total Consolidated Credit Risk (Pre-Mitigation) Exposure-Maturity Analysis							
As at 30 November 2012	On Call	</= 1m	>1m </=3m	>3m </=6m	>6m </=12m	>12m	Total
	GBPm	*GBPm*	*GBPm*	*GBPm*	*GBPm*	*GBPm*	*GBPm*
Exposure class							
Sovereign	0	0	0	0	0	0	0
Institutional	34	2,876	207	62	24	564	3,766
Corporate	4	1,242	28	352	412	332	2,371
Other	327	113	23	9	123	59	654
Consolidated Total	**365**	**4,231**	**258**	**423**	**559**	**955**	**6,791**

Total Pre-/Post-Mitigation Consolidated Credit Risk Exposures - FSA Credit Quality Step Analysis As at 30 November 2012				
FSA Standardised Approach credit quality step	S&P equivalent ratings	Moody's equivalent ratings	Total exposure pre mitigation TOTAL	Total exposure post mitigation TOTAL
			GBPm	*GBPm*
1	AAA to AA-	Aaa to Aa3	134	39
2	A+ to A-	A1 to A3	1,697	325
3	BBB+ to BBB-	Baa1 to Baa3	694	410
4	BB+ to BB-	Ba1 to Ba3	1,149	130
5	B+ to B-	B1 to B3	5	5
6	CCC+ and below	Caa1 and below	0	0
Total			3,679	908
No external rating	n/a	n/a	3,112	801
Total			**6,791**	**1,710**

Total Consolidated Credit Risk (Pre-Mitigation) Exposure – Mitigation Analysis			
As at 30 November 2012	Covered by eligible financial collateral	Covered by other eligible collateral	Covered by credit derivatives
	GBPm	*GBPm*	*GBPm*
Exposure class			
Sovereign	0	0	0
Institutional	3,737	0	31
Corporate	2,340	0	31
Other	653	0	0
Consolidated Total	**6,729**		**62**

Notes:
The calculation methodologies underlying the measurement of the risk exposures and risk exposure requirements above are those prescribed by the FSA for use by the JIHL Group in its consolidated regulatory risk reporting submitted to the FSA. In general, the measurement of exposures for regulatory risk reporting purposes is based on notional with prescribed haircuts. Therefore, these exposure measures may be materially different from those based on up-to-date market pricing used by the JIHL Group and the Jefferies Group generally for risk management internally and those used for external risk disclosures, including in the JIHL Group's Financial Statements and the Jefferies SEC disclosures referred to above.

4.4 SECURITISATIONS

As part of JIHL's Fixed Income business, the Firm engages in securitisation activities as a purchaser of third-party securitisations to support client franchise. As such JIHL is not defined as an originator or a sponsor for regulatory purposes, and it also doesn't provide any securitisation trade servicing.

The Firm holds long inventory in the trading book only which is mark-to-market daily. There is no activity booked in the non-trading book. The activities are valued and subject to the Jefferies Group's Accounting Policies, as set out in the 10K disclosures. The risks associated with this activity are managed under Jefferies' Credit and Market Risk Management frameworks.

Approach to calculating risk weighted assets ("RWAs")

Jefferies calculates its capital requirements for securitisation activities using the FSA's more conservative approaches under the standard rules (BIPRU 7.2.48). The table below shows JIHL's securitisation exposures and associated capital requirements broken down by type of exposures and risk weight bands. The risk weight bands are determined by the external ratings on the exposure and shown based on the standardised credit quality step corresponding to that external rating.

JIHL Securitisation exposures and corresponding capital requirements
As at 30th November 2012
(GBP in millions)

	Exposures value / securitisation positions per risk weight band	Capital requirements
Underlying credit quality step ("CQS")		
CQS1	19.2	0.3
CQS2	43.1	1.7
CQS3	35.1	2.8
CQS4	52.3	14.7
Other	43.6	43.6
Total	**193.3**	**63.1**

4.5 OPERATIONAL RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

Operational risk is the risk of loss to the JIHL Group resulting from inadequate or failed internal processes, people and systems, or from external events.

Jefferies Operational Risk framework includes governance, collection of operational risk incidents, proactive operational risk management, and periodic review and analysis of business metrics to identify and recommend controls and process-related enhancements.

Each revenue producing and support department is responsible for the management and reporting of operational risks and the implementation of the Operational Risk policy and processes within the department. Operational Risk policies, infrastructure, methodology, processes, guidance and oversight of the implementation of operational risk processes are centralized and consistent across Jefferies. The Firm has established policies that require managers in revenue-generating units and in our support and control functions to escalate operational risk events timely.

The JIHL Group has an established Operational Risk policy framework and methodologies which can be found in the Operational Risk Policy Framework and Incident Reporting Policy. The Framework is a key component of the Firm's ERM Framework. The Operational Risk management function has continued to be enhanced, including rollout of a new Operational Risk system in November 2010, and by a regular standing series of Operational Risk Working Groups involving all businesses.

The JIHL Group follows the FSA Basic Indicator Approach for the calculation of the consolidated minimum Operational Risk capital requirement. The Operational Risk Team is responsible for the methodology for assessing the Pillar 2 framework for operational risk including scenario analysis.

The Internal Audit function provides further independent review and challenge of the Firm's operational risk management framework including processes, systems and controls.

4.5.1 OPERATIONAL RISK PROCESSES

The Operational Risk Framework consists of processes for risk identification, exposure assessment (including measurement and valuation), risk mitigation and control improvements, and reporting. These processes are supported via utilization of the operational risk tools and techniques, as outlined below.

Key Risk Indicators ("KRIs")

These are metrics, relevant to specific and measurable activities indicating operational risk exposures. The KRIs are subject to measurable thresholds that reflect the risk tolerance of the business and are used to drive timely decision making and actions.

Incident Management

All incidents are recorded and maintained in the Jefferies Operational Risk System. This is the identification, reporting and management of operational risk incidents by Risk Owners across Jefferies' business and support areas. Regardless of loss amount, if a significant control failure has occurred, the incident must be reported timely according to the Firm's policy. This includes near misses and opportunity costs. Operational risk incident classification should be performed in accordance with the Jefferies Operational Risk Taxonomy.

Risk Assessments

The Operational Risk Management ("ORM") team utilizes operational risk data supplemented with the assessments undertaken by business and support areas to identify adverse operational risk trends. In addition, ORM may perform a Business and / or Support area-specific management review / risk assessment to determine adequacy of existing processes and controls, and provide recommendations for improvement where appropriate.

Scenario Analysis

Scenarios are used to highlight potentially significant risks to Senior Management, beyond those that have been identified in other operational risk processes. They are forward looking and focus on the risks which, if they occur, would have a severe, but plausible, impact on the Firm. Scenarios are used to support capital calculation approaches, where applicable.

5 REMUNERATION

The following remuneration disclosures are made in accordance with the FSA's BIPRU, specifically section 11.5.18R, for the financial year ended 30th November 2012 and the requirements of the FSA's policy statement PS10/21 "Implementing CRD3 requirements on the disclosure of remuneration, December 2010" (the "FSA Remuneration Code") in respect of the JIHL Group including its material subsidiaries.

5.1 REMUNERATION POLICY FOR JIHL AND THE DECISION-MAKING PROCESS

JIHL does not employ any Jefferies employees. The relevant operating companies within the JIHL group which employ Jefferies staff are Jefferies International Limited ("JIL"), Jefferies Bache Limited ("JBL") and Jefferies (Switzerland) Limited ("JSL", a JIL subsidiary company) ("together, the JIHL Subsidiaries"). The business strategy for JIHL Subsidiaries is to provide quality services to Jefferies' clients, to increase revenues, to grow market share and to provide a return to shareholders and other stakeholders. Jefferies' compensation policies and practices are designed to be flexible to support these objectives in a highly competitive market, rewarding excellent performance and contribution while managing risk effectively in recognition of Jefferies employees being critical to executing our business strategy successfully.

5.2 GOVERNANCE

The Chief Financial Officer has general oversight of the financial performance of all business units, and the Boards review business performance and compensation costs for each business unit. The Boards have established a working group constituted of representatives from Finance, Legal, Compliance, Risk and HR ("Remuneration Working Group") to advise them on issues and practices impacted by the FSA Remuneration Code ("the Code"). The Working Group meets on average once a quarter and is empowered to seek advice from external consultants. For the financial year ended 30th November 2012, the Working Group sought advice from Pricewaterhouse Coopers LLP.

5.3 LINK BETWEEN PAY AND PERFORMANCE

The Jefferies Group operates a discretionary year-end bonus scheme, the purpose of which is to reward and incentivize Jefferies employees, including Code Staff (as defined in the FSA Handbook, in SYSC 19A.3.4R). All employees of JIHL Subsidiaries are eligible to participate in such scheme. Year-end performance awards are made from annual bonus pools for the financial year, calculated on a business unit basis.

The discretionary nature of the scheme allows Jefferies to award appropriate variable remuneration aligned with performance taking into account Jefferies' financial performance and risk and compliance polices.

Performance awards for the 2012 financial year were paid in restricted cash with a one year or greater vesting requirement to encourage employees to take a multi-year perspective on the Firm.

5.4 DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM

Jefferies' compensation objective continues to focus on rewarding personal productivity and fostering a results-oriented environment, while maintaining a non-variable component of compensation to provide stability. As such the Firm compensates employees through both fixed and variable compensation.

When determining variable compensation for employee performance awards, business unit heads will consider criteria including but not limited to: employee performance during the financial year (against financial and non-financial metrics); business unit performance and profitability; overall contribution of the employee to business unit performance; the importance of the sector/business unit and the need to retain the employee; overall financial results of the JIHL Subsidiaries and the wider results of the Jefferies Group; and competitive market data and performance of the financial markets generally.

Performance awards for the 2012 financial year were paid in restricted cash, all or a proportion of which is repayable in the gross amount if an employee is terminated for cause, or otherwise resigns in order to compete during a set vesting period. For certain Code Staff employees, repayment is required in the event of their resignation during the vesting period, without the additional competition restriction.

5.5 AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY BUSINESS AREA

The below represents the aggregate quantitative remuneration by business area for JIHL Subsidiaries for the financial year ended 30th November 2012:

Aggregate remuneration 2012	
Business Area	**GBPm**
Capital Markets	142.68
Asset Management	2.56
Corporate	29.34
Total	**174.58**

5.6 AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION FOR CODE STAFF

The below sets out the aggregate remuneration for Code Staff for the financial year ended 30th November 2012, including the split between fixed and variable remuneration:

Remuneration 2012 - GBPm	**Senior Management**	**Other members of code staff**	**Total**
Fixed remuneration	11.16	2.82	13.97
Variable remuneration	8.79	1.7	10.49
Total	**19.95**	**4.51**	**24.46**
Number of Code Staff	28	7	35 (**)

Code Staff for this disclosure is broken down into:

(i) "Senior Management" which includes all employees who are registered with the FSA as Significant Influence Functions ("SIFs") for JIL, JBL and JIM and all employees who (whether or not a SIF), have responsibility for the management and supervision of a significant business line or who head of a business line that has a material impact on JIHL Subsidiaries' risk profile, and

(ii) "Other members of staff" who includes all other employees whose professional activities could have a material impact on the risk profile of the JIHL Subsidiaries.

(**) 35 members of staff were classed as Code Staff for JIL, JBL and JIM for 2012.