Basel II Pillar 3 Disclosures

JEFFERIES INTERNATIONAL (HOLDINGS) LIMITED

APRIL 2012

Jefferies

SCOPE OF THE PILLAR 3 DISCLOSURES

Jefferies International (Holdings) Limited ("JIHL")'s ultimate parent holding company is Jefferies Group, Inc. ("JGI"), incorporated in the US. JGI is listed on the New York Stock Exchange and required by the US Securities and Exchange Commission ("SEC") to file public disclosures at a group level, including annual and quarterly reports. These disclosures can be found at:

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

JIHL is a parent financial holding company in a member state for a regulatory group ("JIHL Group") that provides regulated financial services and is subject on a consolidated basis to the relevant regulatory capital requirements set out in the Financial Services Authority ("FSA")'s BIPRU rules. As at 30 November 2011, the JIHL Group included the following subsidiaries, all of which are incorporated in the United Kingdom and subject to regulatory capital supervision on a standalone basis by the FSA:

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

As at 30 November 2011 the only material subsidiaries were JIL and JBL as JIM was not active.

These disclosures relate solely to the consolidated activities and position of the JIHL Group as at 30 November, 2011. Both JIL and JBL are also required to make their own Pillar 3 disclosures on a standalone basis. These are available on the Jefferies Group website at:

http://www.jefferies.com/cositemgr.pl/html/InvestorRelations/SECFilings/BaselIIPillar3/index.shtml.

INTRODUCTION

The Basel II accord (implemented within the EU through the Capital Requirements Directive 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.

Pillar 3 sets out a range of qualitative and quantitative disclosure requirements of policies, practices and positions in relation to risk management and capital resources.

CONTEXT OF THE PILLAR 3 DISCLOSURES

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 notional with prescribed haircuts. 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 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 JGI SEC disclosures referred to above.

Except for the application of the exposure measurement methodologies set out above, these disclosures have been prepared in accordance with applicable UK generally agreed accounting principles with further adjustments made as required to comply with the requirements of the FSA Handbook section GENPRU1.3. Full details of the JIHL Group's accounting policies are set out in the JIHL Group's financial statements.

The basis of consolidation used for regulatory purposes is materially consistent with that used for JIHL for accounting purposes.

CAPITAL MANAGEMENT APPROACH

CONSOLIDATED REGULATORY CAPITAL RESOURCES AND REQUIREMENTS

The total consolidated regulatory capital resources for the JIHL Group as at 30 November 2011 comprised:

Consolidated Regulatory Capital Resources **As at 30 November 2011**	***GBPm***
Tier 1 capital	
Core Tier 1 (share capital and reserves) (note 1)	298
Other Tier 1 capital	0
	298
Less Deductions from Tier 1 capital	0
Total Tier 1 capital after deductions	**298**
Tier 2 capital	
Upper Tier 2 capital	0
Lower Tier 2 capital (note 2)	149
	149
Less Deductions from Tier 2 capital	0
Total Tier 2 capital after deductions	**149**
Tier 1and Tier 2 capital	
Tier 1 and Tier 2 capital	447
Less Deductions from Tier 1 and Tier 2 capital	0
Total Tier 1 and Tier 2 capital after deductions	**447**
Tier 3 capital	
Short term subordinated debt	153
GBP125m Tier 2 excess (note 2)	125
Total Tier 3 capital	278
Total capital before deductions	725
Less Deductions from total capital	0
Total Consolidated Regulatory Capital Resources per FSA year-end return	**725**

Notes:

1. The Core Tier 1 figures have been re-stated to include the current year's profit in 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 2011 submitted to the FSA in February 2012 would not have included the current year's profit 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 2011 submitted to the FSA in February 2012.

Consolidated Regulatory Capital Requirements As at 30 November 2011	GBPm
Market Risk Requirement	154
Credit Risk Requirement	23
Counterparty Risk Requirement	62
Concentration Risk Requirement	8
Operational Risk Requirement	34
Total Consolidated Regulatory Capital Requirements	**281**

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 JGI SEC disclosures referred to above.

JIHL Group's material consolidated regulatory capital requirements for each risk factor as at 30 November 2011 are 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 exception of the requirement for the JIL OTC equity derivatives book for which the FSA has given permission to apply a CAD1 approach. The requirement calculated using this approach is not material to the total Market Risk Requirement as at 30 November 2011.
- 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 environments in which it operates.

The minimum regulatory capital requirements for JIL and JBL have been agreed with the FSA through the FSA's Internal Capital Adequacy Assessment Process (ICAAP). The level of Pillar 2 capital held by JIL and JBL reflects the risks inherent in their business models and products traded as well as their 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 their respective Pillar 1 and 2 requirements. The JIHL Group holds consolidated regulatory capital resources in excess of the consolidated regulatory capital requirements of JIL and JBL.

JIHL's ongoing 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.

There are no material practical or legal impediments to the transfer of capital between JIHL and its parent company, JGI. There are also no material practical or legal impediments to the transfer of capital within the JIHL Group except for certain covenants contained in a committed loan facility from JP Morgan to JBL which may impact on the ability of JBL to transfer capital to JIHL. These covenants include restrictions on the use of the facility and conditions for the maintenance of capital resources, linked to the FSA requirements.

RISK MANAGEMENT GOVERNANCE

Risk within the JIHL Group is managed in accordance with the Jefferies Group global risk management framework and its risk management objectives, policies and procedures are consistent with those of the Jefferies Group. Further details of the Jefferies Group risk management objectives, policies and procedures are presented in the 2011 year-end JGI annual report ("Form 10-K") included in the SEC disclosures available at the link given above.

The JIHL Board of Directors is ultimately responsible for the governance and oversight of risk. This includes the review, challenge and approval of the risk management policy, the risk appetite, risk limit structures and risk management processes and reporting. The Board is also responsible for ensuring adequate systems and controls are maintained to enable risk to be identified, measured, managed and monitored. Additionally, the Board is responsible for reviewing, challenging and approving the stress test scenarios and assumptions.

Operationally, risk management is performed at the level of the JIL and JBL legal entities, including the management and reporting by the relevant JIL personnel of JIHL's consolidated regulatory exposures and capital requirements against applicable internal thresholds, regulatory limits or available regulatory resources. More detail on risk management governance within JIL and JBL, including governance arrangements, policies, processes and reporting, is provided in their respective Pillar 3 disclosures.

The JIHL Group sets out its approach to valuation and impairment in the notes to its financial statements. As at 30 November 2011, the JIHL Group did not have any material valuation adjustments or impairments booked, 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 model.

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, and equity and commodity prices.

The market risk infrastructure and process is common across the Jefferies Group, thus reflecting the integrated nature of the market risk management function. Within that framework, JIL and JBL's Market Risk Management teams ("Market Risk Management") design and develop 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 by the relevant JIL personnel of JIHL's consolidated regulatory exposures and capital requirements against applicable internal thresholds, regulatory limits or available regulatory resources. More detail on risk management governance within JIL and JBL, including governance arrangements, policies, processes and reporting, is provided in their respective Pillar 3 disclosures. The rest of this section provides a summary of those aspects of the details that are common to both entities.

Market Risk Management is an independent function that monitors all trading activities. 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 by providing Independent Price Verification for valuations where external prices are not readily available.

Market Risk Management uses a wide range of techniques to manage the market risk, including VaR methodologies, 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 that there are 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 other techniques to manage market risk including exposure limits, sensitivity limits, stress testing and scenarios testing.

The components of the consolidated Market Risk Regulatory Capital Requirements for the JIHL Group as at 30 November 2011 were as follows:

Consolidated Market Risk Capital Requirements **As at 30 November 2011**	***GBPm***
Interest Rate Position Risk Requirement	60
Equity Position Risk Requirement	45
Commodity Position Risk Requirement	48
Foreign Exchange Position Risk Requirement	1
Total Consolidated Market Risk Capital Requirements	**154**

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 JGI SEC disclosures referred to above.

CREDIT RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

Credit Risk

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 JGI Group's credit risk appetite and define fundamental standards and controls for credit risk taking throughout the JGI Group's 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.

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 DvP basis where associated credit risk is perceived to be relatively low particularly as an increasing percentage is settled via central counterparties ("CCPs").

JBL's principal business is executing and clearing listed futures 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 some 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 are fully hedged via back-to-back trades with another JGI 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 is extended to counterparties in a controlled manner. Credit risk is managed in a number of ways that include the use of adequate documentation, master agreement and collateral terms and conditions. Transactions executed against central counterparties are also subject to margin requirements. Operationally, credit risk management is performed at the level of the JIL and JBL legal entities, including the management and reporting by the relevant JIL personnel of JIHL's consolidated regulatory exposures and capital requirements against applicable internal thresholds, regulatory limits or available regulatory resources. More detail on the credit risk profiles and credit risk management governance within JIL and JBL, including governance arrangements, policies, processes and reporting, is provided in their respective Pillar 3 disclosures. The rest of this section provides a summary of those aspects of the details that are common to both entities.

Wrong Way Risk

Wrong-way risk arises when the default risk of, and the credit exposure to, a 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.

Collateral Downgrade

The JIHL Group seeks to manage its exposure to collateral downgrades (i.e. the incremental collateral that derivative counterparties would require if JGI's credit rating was downgraded) by minimising the number of legal agreements with counterparties that include terms permitting this. As a result, at 30 November 2011, the impact of both a one notch and two notch downgrade in JGI's rating would have no material impact on the collateral demanded from the JIHL Group by its derivative counterparties.

Credit and Counterparty Risk Capital Requirements – Methodologies

The JIHL Group utilises the standardised approaches for the calculation of capital requirements for credit and counterparty risk. 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.

CREDIT RISK QUANTITATIVE DISCLOSURES

Consolidated Credit Risk Capital Requirement

Analysed by Applicable Standardised Approach Exposure Classes

As at 30 November 2011 (GBPm)	Credit Risk Capital Component	Counterparty Risk Capital Component	Concentration Risk Capital Component	Credit Risk Capital Requirement
Sovereign	0	0	0	0
Institutional	17	19	0	36
Corporate	0	39	0	39
Other	6	4	8	18
Total Consolidated Credit Risk Capital Requirements	**23**	**62**	**8**	**93**

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 JGI SEC disclosures referred to above.

Consolidated Derivative Counterparty Credit Risk Exposure

Analysed by Applicable Standardised Approach Exposure Classes

As at 30 November 2011	*GBPm*
Gross positive MTM values pre-netting	392
Potential Future Exposure values	2,844
Gross exposure values	3,236
Netting benefits	(208)
Netted current credit exposure	3,028
Collateral held	(1,940)
Consolidated Net Derivative Credit Exposure	**1,088**

Notes:

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Consolidated Notional Value of Credit Derivative Hedges	
As at 30 November 2011	
	GBPm
Single name underlying	214
Index underlying	231
Consolidated Notional Value of Credit Derivative Hedges	**445**

Consolidated Counterparty Credit Exposure By Contract Type Standardised Approach (ie Mark-To-Market plus Potential Future Exposure values) Pre-Mitigation	
As at 30 November 2011	
	GBPm
Interest rate contracts	284
Foreign Exchange contracts	24
Equity contracts	0
Commodities contracts	2,903
Credit Derivatives	25
Consolidated Total	**3,236**

Notes:

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Consolidated Notional Value of Credit Derivative Contracts		
As at 30 November 2011	**Firm portfolio management**	**Client intermediation**
	GBPm	***GBPm***
Single name underlying	214	0
Index underlying	120	0
Protection bought	**334**	**0**
Single name underlying	0	0
Index underlying	111	0
Protection Sold	**111**	**0**

Consolidated Notional Average Credit Risk Exposure Pre-Mitigation

As at 30 November 2011	Total exposure pre mitigation	YTD average total exposure pre mitigation
	GBPm	*GBPm*
Exposure class		
Sovereign	0	0
Institutional	2,674	4,495
Corporate	1,651	2,253
Other	1,343	1,662
Consolidated Total	**5,668**	**8,410**

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 JGI SEC disclosures referred to above.

Total Consolidated Credit Risk (Pre-Mitigation) Exposure - Geographical Analysis

As at 30 November 2011	EMEA	AMERICAS	ASIA PACIFIC	TOTAL
	GBPm	*GBPm*	*GBPm*	*GBPm*
Exposure class				
Sovereign	0	0	0	0
Institutional	2,631	10	33	2,674
Corporate	955	83	613	1,651
Other	334	1,009	0	1,343
Consolidated Total	**3,920**	**1,102**	**646**	**5,668**

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 JGI SEC disclosures referred to above.

Total Consolidated Credit Risk (Pre-Mitigation) Exposure-Maturity Analysis

As at 30 November 2011	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	1,713	202	274	71	22	392	2,674
Corporate	1	955	54	113	132	396	1,651
Other	315	886	0	0	4	138	1,343
Consolidated Total	**2,029**	**2,043**	**328**	**184**	**158**	**926**	**5,668**

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 JGI SEC disclosures referred to above.

Total Pre-/Post-Mitigation Consolidated Credit Risk Exposures - FSA Credit Quality Step Analysis				
As at 30 November 2011				
FSA Standardised Approach credit quality step	**S&P equivalent ratings**	**Moody's equivalent ratings**	**Total exposure pre mitigation TOTAL** *GBPm*	**Total exposure post mitigation TOTAL** *GBPm*
1	AAA to AA-	Aaa to Aa3	2,568	575
2	A+ to A-	A1 to A3	221	202
3	BBB+ to BBB-	Baa1 to Baa3	1,355	589
4	BB+ to BB-	Ba1 to Ba3	34	34
5	B+ to B-	B1 to B3	0	0
6	CCC+ and below	Caa1 and below	0	0
No external rating	n/a	n/a	1,490	499
Total			**5,668**	**1,899**

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 JGI SEC disclosures referred to above.

Total Consolidated Credit Risk (Pre-Mitigation) Exposure – Mitigation Analysis			
As at 30 November 2011	**Covered by eligible financial collateral** *GBPm*	**Covered by other eligible collateral** *GBPm*	**Covered by credit derivatives** *GBPm*
Exposure class			
Sovereign	0	0	0
Institutional	2,382	126	25
Corporate	3	1,119	0
Other	315	735	0
Consolidated Total	**2,700**	**1,980**	**25**

Notes:

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OPERATIONAL RISK

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.

Our 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 policy, framework, infrastructure, methodology, processes, guidance and oversight of the implementation of operational risk processes are centralized and consistent across the JIHL Group.

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, and its Operational Risk management function has continued to be enhanced, including adding staff resources to the Operational Risk team in JIL, rollout of a new

Operational Risk system across JIL (and the wider Jefferies Group) 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.

REMUNERATION

The following remuneration disclosures are made in accordance with the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), specifically section 11.5.18R for the financial year ended 30 November 2011.

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.

The boards of directors of JIL and JBL ("the Boards") review policies and practices and the incentives created for managing risk, capital and liquidity for Jefferies to ensure these accord with Jefferies' tolerated risk levels. 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 ("Working Group") to advise them on issues and practices impacted by the FSA Remuneration Code ("the Code"). The Working Group meets at least quarterly and is empowered to seek advice from external consultants. For the financial year ended 30 November 2011, the Working Group sought advice from Pricewaterhouse Coopers LLP.

2. The link between pay and performance

The Jefferies Group is committed to encouraging long-term service and loyalty to the firm by fostering an employee ownership culture. The ownership encourages employees and executives to act in the best long-term interest of Jefferies and is enhance through the use of deferrals and restrictions on vesting.

The Jefferies Group operates a discretionary year-end bonus scheme, the purpose of which is to reward and incentivise 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. In particular, the nature of the scheme and the underlying plans is to link compensation to measures of the Jefferies Group's performance in order to provide additional incentives, including stock-based incentives and cash-based annual incentives, to such persons for the creation of shareholder value, and to enable such persons to acquire or increase a proprietary interest in JGI in order to promote a closer identity of interests between such persons and the shareholders.

The firm makes use of equity grants with multi-year vesting restrictions or restricted cash with a one year or greater vesting requirement to encourage employees to take a multi-year perspective on the firm.

3. 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.

Discretionary bonuses are paid in a combination of cash and shares of restricted common stock ("restricted stock") or Restricted Stock Units ("RSUs") of JGI. The allocation between cash and restricted stock or RSUs accords with JGI policy from time to time with the stock element incorporating mandatory deferral provisions in accordance with JGI's practices as authorised by the rules of the Jefferies Group, Inc. 2003 Incentive Compensation Plan as Amended and Restated (the "Stock Plan"). Restricted cash is repayable if a service requirement is not met for a certain period.

Particular deferral arrangements are in place for Code Staff whose remuneration is above a certain level such that, in addition to the long term view imposed by the Stock Plan, they receive a further portion of their variable remuneration as deferred remuneration in both cash and stock. This remuneration is also subject to future downward adjustment for breach of Jefferies' policy including risk limits, compliance policies and regulatory requirements or a material financial downturn in performance.

4. 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 30 November 2011:

Business Area	**Aggregate remuneration** *GBPm*
Capital Markets	172.34
Asset Management	2.28
Corporate	20.84
Total	**195.44**

5. Aggregate quantitative information on remuneration for Code Staff

The below sets out the aggregate remuneration for Code Staff for the financial year ended 30 November 2011, including the split between fixed and variable remuneration:

	Senior Management *GBPm*	**Other members of staff** *GBPm*	**Total** *GBPm*
Fixed remuneration	12.04	2.59	14.63
Variable remuneration	14.48	0.59	15.07
Total	**26.52**	**3.18**	**29.70**
Number of Code Staff	28(*)	5	33

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 and JBL 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" which includes all other employees whose professional activities could have a material impact on the risk profile of the JIHL Subsidiaries.

(*) Eight members of staff were classed as Code Staff for both JIL and JBL for 2011