

# **JEFFERIES INTERNATIONAL LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 30 November 2017**



***Company Registration No. 1978621***

**Jefferies International Limited**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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# Jefferies International Limited

## STRATEGIC REPORT

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The directors present their strategic report on Jefferies International Limited (the “Company”) for the year ended 30 November 2017.

### 1. REVIEW OF THE BUSINESS

The Company is the principal operating subsidiary for Jefferies International (Holdings) Limited (“JIHL”) which in turn is an intermediate holding company for Jefferies Group LLC. Jefferies Group LLC is a full-service investment banking firm owned by Leucadia National Corporation, a company listed on the New York Stock Exchange.

The Company provides clients with capital markets and financial advisory services, institutional brokerage, securities research and wealth management services. It provides research and trade execution in equities, fixed income, foreign exchange and a full range of investment banking services including underwriting, merger and acquisition, restructuring and recapitalisation and other advisory services.

#### *Financial Performance*

The Company recorded a profit before taxation of £33,978,021 (2016: loss of £25,056,817).

The overall financial results for the year were positive, with the Company achieving its third most profitable year since incorporation. The Company’s revenue grew significantly in comparison to the previous year, resulting in an improvement in the key performance indicators of operating profit margin and return on capital employed.

The Company’s three primary revenue-generating divisions, Fixed Income, Equities and Investment Banking, all had strong performances in the year. The revenue generated was evenly distributed across the three divisions demonstrating that the Company is operating a diversified and robust business model.

The table below sets out the key results and performance indicators for the year.

	Year ended 30 November 2017 £000	Year ended 30 November 2016 £000
Revenue	476,956	364,998
Profit / (loss) on ordinary activities before taxation	33,978	(25,057)
Profit / (loss) for the financial year	29,566	(21,688)
Total shareholders’ funds	501,023	471,432
Operating profit margin	15.4%	(0.2%)
Return on capital employed	7.2%	(0.1%)
Current ratio	115%	113%

The return on capital employed is calculated by dividing operating profit by total assets less current liabilities. The statutory income statement for the year is set out on page 15.

#### *Future developments and prospects*

The Board believes that the Company is well positioned, both in terms of staff resources, capital and client base, to build on this year’s positive performance and achieve similarly positive results in the short to medium term.

# Jefferies International Limited

## STRATEGIC REPORT

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The Board continually assesses the individual businesses, market conditions and macroeconomic forecasts in determining the Company's Strategic Planning. As part of that planning the Board identified several areas of focus in which the Company will look to enhance capability and grow market share.

### ***Risk Management Process***

Risk is an inherent part of the Company's business and activities. The extent to which risk is properly and effectively managed is critical to the Company's profitability, financial soundness, and long-term viability.

The Board believe that risks and uncertainties faced by the Company are satisfactorily mitigated through the comprehensive system of controls and senior management oversight that has been implemented throughout the Company.

The Board has developed and implemented a Risk Management Framework ("Framework") to identify, assess, monitor and manage each risk type attributable to the Company's business model. The Framework includes strategies, methods, tools and governance structures to manage risk, including escalation to senior management and the appropriate Board committees.

The Company has implemented a "Three Lines of Defence" risk management model which establishes segregation of duties by defining the roles, responsibilities and accountabilities for risk, control and decision making.

The Framework segregates the roles of primary risk takers from the independent risk managers, thus helping to ensure the integrity and effectiveness of the Company's risk management process.

The Company identifies Principal Risks, which are defined as those risks which are foreseeable, continuous and material enough to merit establishing specific control frameworks and more granular analysis of the risk types. The Board approves the determination of the Principal Risks and requires that risk appetite statements are established for each Principal Risk.

The Framework has identified the following Principal Risks:

### **Strategic Risk**

Strategic Risk is defined as the risk resulting from adverse business decisions, inappropriate business plans, ineffective business strategy execution, or failure to respond appropriately to changes in the regulatory, macroeconomic and competitive environments.

The Board and its committees undertake a comprehensive annual business planning process and closely monitor business performance considering the prevailing and forecasted macro-economic environment. In addition, the Company's programme of entity-wide stress testing assesses the impact of severe but plausible macroeconomic stress scenarios over the planning horizon and the impact on the Company's key financial indicators (including those on capital and liquidity). The stress testing scenarios include global economic slow-down, Eurozone crisis and idiosyncratic events such as the United Kingdom's (UK) decision to leave ("Brexit") the European Union (EU). In addition, the Company undertakes Reverse Stress Testing to assess the circumstances, trigger points and scenarios which could cause the Company's business model to become unviable. It also conducts recovery stress scenarios and simulation exercises to assess the Company's crisis management and response arrangements as well as the credibility of actions it can take to restore its financial position at times of financial stress.

The impact on the Company's businesses of Brexit is an area that is being considered carefully by the Board. The Board has made an assessment using the Company's 2016 financial data (as well as using data from 2017 and the forecasted business plans) to determine the risk to each of the individual businesses under several different Brexit scenarios including the loss of passporting rights.

# Jefferies International Limited

## STRATEGIC REPORT

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The Board continues to monitor the potential Brexit scenarios as the discussions between the UK Government and EU develop further. The Board have identified the potential impacts to the Company businesses and are assessing all options as the political environment becomes clearer. There is a Board-sponsored plan which is considering our contingency plans in these scenarios, including considerations about how the Company maintains its presence in the European Economic Area.

Other strategic risks are considered, assessed and monitored by the Board, including: increased regulation; geopolitical factors such as US tax policies; large-scale selling of United States of America (US) treasuries; ending of central bank stimulus programmes; and, European political instability.

The Company monitors Strategic Risk through ongoing review of capital and liquidity adequacy, and compliance with Risk Appetite Statements and recovery indicators. Though this review the Company develops stress scenarios to test the vulnerabilities of its businesses, and as such the adequacy of the capital and liquidity resources across a range of stress severities, and assesses the impact of credible actions that can be taken in response to a stress. These processes are embedded in the Individual Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP) – which set out the Company's key risk management process in relation to liquidity, funding and capital adequacy and are presented to the Board at least annually for approval.

### Market Risk

Market risk is defined as the risk of loss due to fluctuations in the market value of positions attributable to changes in market variables. There are number of market risks that could potentially lead to severe price volatility, trading positions becoming illiquid and losses on the Company's financial assets and liabilities.

The Board monitors these risks primarily through Value at Risk ("VaR") analysis and "worst-case" scenario stress testing. The Board evaluates the risk and takes measures to ensure that the risk exposure is maintained at an acceptable level.

The Board's risk mitigation measures include: setting out a clear risk "appetite" for each business which then determines individual trading limits; monitoring concentration of risk exposures and ensuring that trading books are diversified; monitoring the ageing of financial assets; and implementing an Independent Price Verification (IPV) function to assess trading desk valuation assumptions.

Within all these measures the Board has set out the range of acceptable metrics, in alignment with the overall risk appetite, with which the individual businesses are required to comply.

### Credit Risk

Credit risk is defined as the risk resulting from the default of counterparties before the settlement of the contractual cash flows. The Company has many different trading counterparties across its businesses which are monitored and assessed for credit quality and risk exposure (including stress exposures). The Board and its committees receive and monitor focused analysis of the Company's credit risk exposure.

The Board has implemented a system of controls to mitigate the risk of counterparty default, these controls include: all new clients are assessed for credit risk before any transactions take place as well as on an on-going basis through the credit review cycle; transactions are governed by a current legal agreement under an enforceable legal jurisdiction; collateral is obtained from all material trading counterparties and monitored against position exposures; credit limits are set and adhered to for each counterparty.

# Jefferies International Limited

## STRATEGIC REPORT

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### Operational Risk

Operational risk is defined as the risk resulting from inadequate or failed internal processes, people and systems, or from external events, which includes model, regulatory and legal risk. The Company is exposed to operational risk across its business and support activities, including revenue-generating activities (e.g. sales and trading) and support and control groups (e.g. information technology and trade processing). The Board ensures that the Company has a highly skilled workforce and technologically advanced, robust operational systems to cope with this inherent complexity.

The Board monitors and assesses the significant areas of operational risk, including: failure of trading systems to operate effectively; cybercrime; disruption of operational capacity or loss of confidential data; natural events causing loss of operational capacity; significant human operational error; and failure of critical outsourcing service providers.

The Board has implemented a comprehensive system of controls to address the significant operational risks facing the Company. The breadth and range of operational risk is such that the mitigating measures utilised are wide-ranging.

Each revenue producing division and support function is responsible for implementing the operational risk management framework; carrying out regular risk self-assessments; timely reporting; and managing their incidents and key risk indicators.

The framework is supplemented by a programme of controls assurance against operational risks, as well as ad-hoc risk assessments, triggered by a Board or senior management request, on a specific business line, support area, product, process or system. Key risk indicators, defined across the Company's operations, include measurable thresholds reflecting the risk tolerance of the business.

On 3 January 2018, the Company successfully implemented the enhanced processes, policies and systems to comply with the requirements of the EU's Markets in Financial Instruments Directive ("MiFiD2") and the associated regulation ("MIFiR"). These are European market wide changes across most asset classes impacting pre- and post-trade transparency, market structure, transaction reporting, best execution, investor protection: including both research unbundling and costs recharges, client reporting and algorithm trading operational controls.

### Conduct Risk

Conduct risk is the risk that detriment is caused to our customers, clients, counterparties, markets or the Company itself because of inappropriate execution of our business activities. The Board believes that setting out the Company's culture and behaviour code is fundamental to managing and mitigating conduct risk. The Board has mandated various policies and procedures to enable the Company's employees to understand and fully comply with the regulatory and ethical standards expected from them. The Board reinforces this message through training as well as regular interaction with staff and investing in mandatory training courses that all staff must undertake. The conduct risk framework sets out ownership for each stage of the conduct risk management process thus ensuring that responsibility for risk mitigation is devolved throughout the Company's workforce.

### Liquidity and Funding Risk

Liquidity and funding risk is defined as the risk that the Company, although solvent, does not have sufficient liquid resources available to enable it to meet its cash or funding obligations as they fall due, or can secure such resources only at excessive cost.

The Group's main liquidity risks, analysed using the Financial Conduct Authority's ("FCA") liquidity risk driver framework, are wholesale secured funding risk, intra-day liquidity risk and off balance sheet liquidity risk. Liquidity risk is managed through the implementation of the Liquidity Risk Management Framework ("LRMF"); which sets out the limits supporting the liquidity risk

# Jefferies International Limited

## STRATEGIC REPORT

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appetite statement; identifies the liquidity risks inherent in the business and funding models; and sets out the tools through which those liquidity risks are measured, managed, monitored and controlled including stress testing, early warning indicators, liquid asset buffer management, and cash and intra-day liquidity usage management.

The Board believes that the Company is appropriately funded with the right level of liquidity sources to support the current and projected level of business activity. The Company currently has £887.3 million in regulatory capital (see note 24) and has £803.7 million available in short-term unsecured debt facility.

The Board is continually assessing the capital base of the Company which has grown in line with the increases in business activity (see Events After the Reporting Period on page 8).

The Company's financial risk management process, including the ICAAP and ILAAP, is discussed in more detail in note 23.

## 2. CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance as evidenced by the level of senior management oversight and review as discussed in more detail in the Directors' report.

## 3. GENERAL

The Company operates branches in Frankfurt, Paris, Milan, Dubai, Stockholm, Amsterdam and Zurich. The Company is planning to open a new branch in Madrid in 2018.

The Company is authorised and regulated by the FCA in the United Kingdom. The FCA requires a specified minimum level of regulatory capital and liquidity to be maintained by the Company. The Company operates its branch offices in Frankfurt, Paris, Milan, Stockholm and Amsterdam under the passporting regime of the Markets in Financial Instruments Directive with the FCA as the home state regulator. The Zurich branch is authorised by the Swiss Financial Markets Supervisory Authority (FINMA). The Dubai branch is authorised and regulated by the Dubai Financial Services Authority. Jefferies (Switzerland) Limited, a subsidiary of the Company, remains authorised and regulated by FINMA; however, management will place this entity into liquidation during 2018.

The Company is a member of the following exchanges: London Stock Exchange, Euronext, ICE Futures Europe (Financials), Deutsche Boerse, Oslo Bors, SIX Swiss Exchange, Borsa Italia, Nasdaq OMX, HDAT, SENAF, CME Group, Bonddivision and BATS CHI-X Europe.

The Company operates in the primary sovereign debt markets, participating in debt issuances for the governments of Germany, the Netherlands, Portugal and Slovenia. The Company is also a dealer for the European Financial Stability Fund / European Stability Mechanism and a Gilt-edged Market Maker (Retail GEMM).

On behalf of the Board



H M Tucker  
Director

28 February 2018

Vintners Place  
68 Upper Thames Street  
London EC4V 3BJ

# Jefferies International Limited

## DIRECTORS' REPORT

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The directors present their annual report and the audited financial statements of the Company for the year ended 30 November 2017. The information in relation to the Company's future developments is discussed within the Strategic Report.

### 1. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 30 November 2017 (2016: £nil).

### 2. GOING CONCERN

The directors have a reasonable expectation that there are adequate resources, both in terms of liquidity and regulatory capital, for the Company to continue in operational existence for the foreseeable future. This assessment takes into account both the results in the financial year and forecasts for future periods. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

The Company's shareholders' funds increased from £471.4 million as at 30 November 2016 to £501.0 million as at 30 November 2017. The Company had cash of £124.7 million as at 30 November 2017.

### 3. CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance as evidenced by the level of senior management oversight and review.

#### **The Board**

The Board comprises two executive directors and three non-executive directors. The Chairman of the Board is Alan Gibbins (a non-executive director). The Board meets at least quarterly, and additionally when required, and has adopted a schedule of matters specifically reserved for its approval and/or review.

#### **Committees**

The Board is supported in its activities by four Board committees being: (1) Audit Committee; (2) Risk Committee; (3) Remuneration Committee; (4) Nominations Committee; and three management committees being: (1) Risk Management Committee; (2) Conduct Risk Committee; and (3) Operating Committee. The Risk Management Committee and Operating Committee each have sub-committees, including an Asset and Liability Management Committee. Each committee has its charter detailing, amongst other matters, its memberships, duties and responsibilities.

#### ***Audit Committee***

The Audit Committee has three members, all of whom are non-executive directors. It meets at least quarterly and more frequently if necessary. The Audit Committee is appointed by the Board to: review and assess the Company's financial statements, disclosure and regulatory matters; review the management representations and responses to the external auditor; review and evaluate the external auditor (including their independence and objectivity); review the effectiveness of the internal audit function and consider and approve the audit plan; review the design and operating effectiveness of the Company's key internal controls; and review the Company's procedures in relation to whistleblowing, detection of fraud and prevention of bribery.



# Jefferies International Limited

## DIRECTORS' REPORT

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### ***Risk Committee***

The Risk Committee has three members, all of whom are non-executive directors. It meets at least quarterly and more frequently if necessary. The Risk Committee is appointed by the Board to: review material changes, and make recommendations to the Board, in relation to each of the ILAAP, ICAAP and the Risk Management Framework; advise the Board on the Risk Appetite Framework and tolerance across the principal risks which the Company is exposed to for current and future business strategy; review the effectiveness of the risk management processes and internal controls systems; and review the risk identification process for establishing the Company's key risks.

### ***Remuneration Committee***

The Remuneration Committee has three members, all of whom are non-executive directors. It meets at least twice a year. The Remuneration Committee is appointed by the Board to: review the Remuneration Policy Statement on an annual basis and ensure that the remuneration policies comply with the European Banking Authority's Remuneration Code, other legal and regulatory requirements and relevant industry guidance; review the remuneration structures, policies, practices and incentives taking into account the financial condition and future prospects of the Company together with their implications for the risk and risk management of the firm; review the process by which bonus pools have been allocated on an annual basis together with the factors/metrics used to assess individual awards; and on an annual basis review with each European Business Head the proposed compensation for their senior management team, top earners, certain code staff and those who have been found to have committed a conduct breach during the relevant financial year.

### ***Nominations Committee***

The Nominations Committee has three members, all of whom are non-executive directors. It meets at least twice a year. The Nominations Committee is appointed by the Board to: periodically, and at least annually, assess the structure, size, composition, diversity and performance of the Board and make recommendations to the Board with regard to any changes; identify and recommend for approval, by the Board, candidates to fill Board vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the existing Board members; review the results of the Board performance evaluation process that relate to composition of the Board; review succession planning for directors taking into account the skills needed on the Board; and supervision of the induction process for new directors and the on-going training and development of all directors.

### ***Risk Management Committee***

The Risk Management Committee is chaired by Michael Schulz (Chief Risk Officer); the other members comprise the Company's Chief Executive Officer, Chief Financial Officer, Head of Equities, Head of Treasury and the Chief Administrative Officer. It meets monthly and also as needed at the request of a member to review any of the items set out within its mandate. The Risk Management Committee is a discussion, advisory and decision-making forum responsible for oversight and management of the following principal risks: strategic, liquidity and funding, market, credit and operational risk. This includes the review and approval of the policies for each of those principal risks, ensuring the Company operates within its stated risk appetite and overseeing the current and future risk profile of the Company. It also reviews significant changes and additions to the businesses and/or products covered by the risk management processes.

### ***Conduct Risk Committee***

The Conduct Risk Committee is chaired by Michael Schulz (Chief Risk Officer); the other members being the Company's Chief Executive Officer, Chief Financial Officer, Head of Equities, Head of Investment Banking, Head of Wealth Management, the Chief Risk Officer, Head of Compliance, Head of Human Resources and the Group General Counsel. It meets monthly and also as needed at the request of a member to review any of the items set out within its mandate.

# Jefferies International Limited

## DIRECTORS' REPORT

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The Conduct Risk Committee is the primary executive body for the oversight of conduct risk and is appointed by the Board to: identify, manage and oversee the profile of conduct risk within the Company from a risk appetite perspective; ensure the Company has adequate arrangements in place to manage conduct risk; review significant conduct risk matters as they arise (both business and employee related); and provide oversight of business activities/transactions, clients or counterparties identified as posing potentially significant conduct risk to the Company.

### *Operating Committee*

The Operating Committee is chaired by Huw Tucker (Chief Financial Officer) with the other members being the heads of the key corporate / control functions and the Chief Operating Officers of each of the main business divisions of the Company. It meets on a monthly basis and is the main forum for coordination and communication between the control managers.

### *Asset and Liability Management Committee*

The Asset and Liability Management Committee, which is chaired by Huw Tucker (Chief Financial Officer), supports the Risk Management Committee and the Board in the oversight of liquidity risk exposures and funding strategy, balance sheet, capital and liquidity risk management, including development of the liquidity risk management framework and the stress testing methodology. It also acts as a steering committee for the ILAAP and ICAAP. The Committee meets on a monthly basis.

## **4. EVENTS AFTER THE END OF THE REPORTING PERIOD**

Since the financial year end the Company has made two capital investments into its Swiss subsidiary, Jefferies (Switzerland) Limited. The Company invested £2.3 million on 8 December 2017 and £1.5 million on 9 January 2018. The additional capital was required to ensure that Jefferies (Switzerland) Limited continue to operate within the capital requirement thresholds as stipulated by the Swiss regulator.

On 30 January 2018, the Company issued an additional £22.4 million in share capital to its immediate parent, Jefferies International (Holdings) Limited. The increase in capital is part of the Board's on-going plan to strengthen the Company's capital base.

On 22 February 2018, the Company repaid £137.3 million worth of subordinated loan notes to Jefferies International Finance Limited (JIFL) that were outstanding as at 30 November 2017 (see note 17). On the same date the Company issued shares to JIFL for an amount equal to the repaid subordinated loan notes, £137.3 million, making JIFL a minority owner of the Company. JIFL is a company, incorporated in the Cayman Islands, that is wholly owned by Jefferies Group LLC.

On 28 February 2018, the Company's parent as at 30 November 2017, Jefferies International (Holdings) Limited, sold its entire shareholding in the Company to Jefferies Holdings II Limited (JHII). As a result, as at 28 February 2018 the Company's majority owner is JHII alongside the minority owner JIFL, as mentioned above. JHII is a company, incorporated in the Cayman Islands, that is ultimately wholly owned by Jefferies Group LLC.

# Jefferies International Limited

## DIRECTORS' REPORT

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### 5. DIRECTORS

The directors who held office during the year and up to the date of signing the financial statements are detailed below:

W P Campbell	<i>(non - executive director)</i>	Resigned 30 November 2017
T E Cronin	<i>(executive director)</i>	
A B Gibbins	<i>(non - executive director)</i>	
A R Gillespie	<i>(non - executive director)</i>	Resigned 27 September 2017
JM Katz	<i>(non - executive director)</i>	Appointed 6 November 2017
E Keen	<i>(executive director)</i>	Resigned 8 August 2017
D B E Lester	<i>(executive director)</i>	Resigned 3 August 2017
J M Maryles	<i>(non - executive director)</i>	
H M Tucker	<i>(executive director)</i>	

The directors have no interest in the Company's shares. The executive directors are eligible to participate in a share-based incentive scheme managed by the ultimate parent company, Leucadia National Corporation.

The Company has qualifying third party indemnity provisions for the benefit of its directors which were in force during the year and remain in force at the date of this report.

### 6. EMPLOYER POLICY

The Company aims to keep employees informed of the progress of the businesses within the Jefferies Group. The text of public announcements is made available to employees (via e-mail) simultaneously with release to the media. Senior management provides regular briefings to all staff concerning business performance and strategy.

It is the policy and practice of the Company to provide equal employment opportunities for all employees and applicants. The Company does not discriminate on the basis of sex, race, religion, age, nationality, ethnic origin, marital status, disability or sexual orientation. Any such discrimination by an employee or other persons working for the Company will be treated as gross misconduct and could lead to dismissal.

The Company gives full and fair consideration to applications for employment by disabled persons, having regard to their particular aptitudes, abilities and the requirements of the role. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. If members or staff become disabled the Company seeks to support the individual and complies with its obligations to consider and implement reasonable adjustments to the individual's role.

### 7. STATEMENT ON DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

# Jefferies International Limited

## DIRECTORS' REPORT

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### 8. INDEPENDENT AUDITOR

On 12 April 2017 Deloitte LLP were appointed as the Company's statutory auditor. Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

On behalf of the Board



H M Tucker  
Director  
28 February 2018

Vintners Place  
68 Upper Thames Street  
London EC4V 3BJ

# **Jefferies International Limited**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards Financial Reporting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Jefferies International Limited**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JEFFERIES**  
**INTERNATIONAL LIMITED**

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**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**OPINION**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Jefferies International Limited (the 'Company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

**BASIS FOR OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**CONCLUSIONS RELATING TO GOING CONCERN**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

**OTHER INFORMATION**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

# **Jefferies International Limited**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JEFFERIES INTERNATIONAL LIMITED**

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### **RESPONSIBILITIES OF DIRECTORS**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **USE OF OUR REPORT**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Jefferies International Limited**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JEFFERIES**  
**INTERNATIONAL LIMITED**

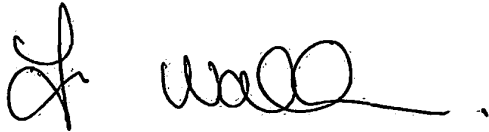
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**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Fiona Walker FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK

28 February 2018



Jefferies International Limited  
Year ended 30 November 2017

Income statement

		Year ended 30 November	
	Note	2017 £000	2016 £000
<b>Revenue</b>	4	476,956	364,998
<b>Administrative expenses</b>		(403,354)	(365,772)
<b>Operating profit / (loss)</b>	5	73,602	(774)
<b>Impairment of investment in subsidiary</b>	10	(2,466)	-
<b>Profit / (loss) before interest and taxation</b>		71,136	(774)
<b>Finance income</b>	7	4,065	2,806
<b>Finance costs</b>	7	(41,223)	(27,089)
<b>Profit / (loss) on ordinary activities before taxation</b>		33,978	(25,057)
<b>Income tax on ordinary activities</b>	8	(4,412)	3,369
<b>Profit / (loss) for the financial year</b>		29,566	(21,688)

The profit / (loss) for the financial year resulted from continuing operations.

The notes on pages 19 to 53 are an integral part of these financial statements.

Jefferies International Limited  
Year ended 30 November 2017

Statement of comprehensive income

	Year ended 30 November	
	2017	2016
	£000	£000
<b>Profit / (loss) for the financial year</b>	<b>29,566</b>	<b>(21,688)</b>
Other comprehensive income: items that will not be reclassified to profit or loss		
Currency translation difference on foreign currency net investments	25	762
<b>Other comprehensive income for the year</b>	<b>25</b>	<b>762</b>
<b>Total comprehensive income / (loss) for the financial year</b>	<b>29,591</b>	<b>(20,926)</b>

The notes on pages 19 to 53 are an integral part of these financial statements.

**Jefferies International Limited**  
As at 30 November 2017

**Statement of financial position**

		As at 30 November	
	Note	2017 £000	2016 £000
<b>Fixed assets</b>			
Property, plant, equipment and intangible fixed assets	9	25,516	22,385
Investments	10	6,687	9,102
<b>Current Assets</b>			
Financial assets classified as held for trading	11	3,061,375	2,944,072
Trade and other receivables	13	4,269,777	4,058,528
Deferred tax asset	19	11,612	14,467
Cash and cash equivalents		124,736	132,310
<b>Current liabilities</b>			
Financial liabilities classified as held for trading	14	(2,368,934)	(2,967,370)
Creditors: amounts falling due within one year	16	(4,107,343)	(3,368,654)
<b>Net current assets</b>		<b>991,223</b>	<b>813,353</b>
<b>Total assets less current liabilities</b>		<b>1,023,426</b>	<b>844,840</b>
Creditors: amounts falling due after more than one year	17	(518,814)	(371,930)
Provisions for liabilities	18	(3,589)	(1,478)
<b>Net assets</b>		<b>501,023</b>	<b>471,432</b>
<b>Equity</b>			
Ordinary shares	22	326,025	326,025
Share premium		2,162	2,162
Capital contribution		99,429	99,429
Foreign exchange translation		2,236	2,211
Retained earnings		71,171	41,605
<b>Total shareholders' funds</b>		<b>501,023</b>	<b>471,432</b>

The notes on pages 19 to 53 are an integral part of these financial statements.

The financial statements on pages 15 to 53 were approved by the board of directors on 28 February 2018 and were signed on its behalf by:



H M Tucker  
Director

Jefferies International Limited  
Year ended 30 November 2017

Statement of changes in equity

	Ordinary shares £000	Share premium £000	Capital contribution reserve £000	Foreign exchange translation £000	Retained earnings £000	Total £000
Balance as at 1 December 2016	326,025	2,162	99,429	2,211	41,605	471,432
Profit for the financial year	-	-	-	-	29,566	29,566
Foreign currency translation differences	-	-	-	25	-	25
Total comprehensive income / (loss) for the year	-	-	-	25	29,566	29,591
Credit related to equity-settled share-based payments	-	-	527	-	-	527
Charge from parent for equity-settled share-based payment	-	-	(527)	-	-	(527)
Total transactions with owners, recognised directly in equity	-	-	-	-	-	-
Balance as at 30 November 2017	326,025	2,162	99,429	2,236	71,171	501,023
Balance as at 1 December 2015	326,025	2,162	99,429	1,449	63,293	492,358
Loss for the financial year	-	-	-	-	(21,688)	(21,688)
Foreign currency translation differences	-	-	-	762	-	762
Total comprehensive income / (loss) for the year	-	-	-	762	(21,688)	(20,926)
Credit related to equity-settled share-based payments	-	-	825	-	-	825
Charge from parent for equity-settled share based payment	-	-	(825)	-	-	(825)
Total transactions with owners, recognised directly in equity	-	-	-	-	-	-
Balance as at 30 November 2016	326,025	2,162	99,429	2,211	41,605	471,432

The notes on pages 19 to 53 are an integral part of these financial statements.

## Notes to the financial statements

### 1. General information

The Company provides a range of financial services to clients including trading capabilities within the fixed income, equities and derivatives markets; as well as advisory services within investment banking and wealth management.

The Company is the principal operating subsidiary for Jefferies International (Holdings) Limited which in turn is an intermediate holding company for Jefferies Group LLC. Jefferies Group LLC is a full-service investment banking firm owned by Leucadia National Corporation, a company listed on the New York Stock Exchange. Both Jefferies Group LLC and Leucadia National Corporation are incorporated in the United States of America.

The Company is a private limited company and is incorporated and domiciled in the United Kingdom, with branches operating in Frankfurt, Paris, Milan, Dubai, Stockholm, Amsterdam and Zurich. The address of its registered office is Vintners Place, 68 Upper Thames Street, London EC4V 3BJ.

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### 2.1 Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101 ("FRS 101") – Reduced Disclosure Framework. The financial statements have been prepared under the historical cost convention, as modified to include certain assets and liabilities at fair value (see 2.7 below) and in accordance with applicable accounting standards and company law in the United Kingdom.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
- the following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information); and
  - 111 (cash flow statement information).
- the requirement of IAS 7 'Statement of Cash Flows';
- paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- paragraph 17 of IAS 24, 'Related party disclosure' (key management compensation);
- IAS 24 'Related Party Disclosures' requirements to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share-based Payment'; and
- the requirements of paragraphs 91 – 99 of IFRS 13 'Fair Value Measurement' to the extent that they apply to assets and liabilities other than financial instruments.

**2.2 New and amended standards adopted by the Company**

There were no new standards adopted during the year ended 30 November 2017. The accounting policies adopted are consistent with those of the previous year.

**2.3 Going concern**

The Company's shareholders' funds increased from £471.4 million in 2016 to £501.0 million in 2017 due to the profits generated by the Company in the year. The Company had cash of £124.7 million as at 30 November 2017 (2016: £132.3 million).

The risks and uncertainties facing the Company are discussed in the Strategic Report and in note 23. Taking these factors into account, the directors are satisfied that the Company will continue to have adequate resources to continue in operational existence for the foreseeable future and consequently present these financial statements on a going concern basis.

**2.4 Group consolidation**

As permitted by s401 of the Companies Act 2006 the Company is not preparing consolidated group financial statements as it is consolidated within the consolidated group financial statements of Jefferies Group LLC which is a company registered in the United States of America (see note 28).

**2.5 Cash at bank and in hand**

Cash at bank and in hand includes cash in hand and deposits held at call with banks.

**2.6 Revenue**

Revenue is generated from the following categories of business:

- **Principal transactions revenue:** the Company's principal transactions revenue includes movements in the fair value of financial instruments and trading profits and losses, including dividends and interest coupons, earned from dealing and principal trading in financial instruments. The Company's principal transactions revenue is accounted for on the trade date of the related transaction.
- **Commission revenue:** commission revenue and fees are derived from sales activities and are accounted for on the trade date of the related transaction.
- **Investment banking fees:** advisory and underwriting fees are recognised on an accruals basis and recorded in the income statement in the period earned provided they are receivable under the terms of the contract and collectability is reasonably assured.
- **Interest income and expense recognition:** interest income and expense presented in the income statement includes interest on financial assets and liabilities and short-term and long-term funding. Interest income and expense is accounted for in the income statement using the effective interest method and are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.
- **Service fee income:** service fee income comprises intercompany transfer pricing arrangements between related business entities and is calculated and recognised on an accruals basis.

**2.7 Financial instruments**

Financial instruments are those trading assets and liabilities including derivatives, which the Company acquires or incurs principally for the purpose of selling in the near term or held as part of a portfolio that is managed together for short-term profit making. All financial instruments are classified as held for trading purposes under IAS 39.

Financial instruments are initially recognized on trade date at fair value and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to income statement (i.e. Fair Value Through Profit and Loss). All changes in the fair value are recognised as part of principal transactions revenue in the income statement. Derivatives are held for both economic hedging and trading purposes and arise from customer and proprietary trading activities.

In accordance with International Accounting Standard (IAS) 32 the Company's derivative trading positions are presented gross within trading assets and trading liabilities on the face of the statement of financial position unless the Company has both the legal right and the intention to settle net with the counterparties to the contracts (see 2.10 below). Legally enforceable netting agreements and collateral held against those trading positions significantly reduce the net exposure of the Company to potential loss in the event of a counterparty default.

**Trade debtors and creditors**

Trade debtors and creditors are all balances owed to and by the Company, at the date of the statement of financial position, in relation to its trading activities. Trade debtors and creditors are recorded on the trade date of the transaction. Trade debtors and creditors are initially recorded at fair value with subsequent measurement on an amortised cost basis.

A significant component of trade debtors and creditors is "securities awaiting settlement" balances associated with financial instrument trades entered into by the Company that have yet to reach their settlement date. Settlement periods vary in length according to market practice and convention but are typically short term. The amounts included within trade debtors and trade creditors represent the receivables and payables due to and from the Company on settlement date.

**2.8 Impairment of financial assets**

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of financial assets classified as trade debtors or investments in subsidiary undertakings. Impairment losses are recognised if there is objective evidence that one or more events have incurred which will have an adverse impact on the expected future cash flows of an asset or group of assets and the expected impact can be reliably estimated.

In relation to trade debtors, if the present value of expected cashflows is less than the carrying amount, then a provision for doubtful debts will be made against the receivables.

Impairment losses on investments in subsidiary undertakings are measured at the difference between the cost and the current estimated recoverable amount. When the recoverable amount is less than the cost, an impairment expense is recognised in the income statement and the carrying value of the asset is reduced.

**2.9 Derecognition**

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

**2.10 Offsetting**

The Company only offsets financial assets and liabilities and presents the net amount in the statement of financial position where it:

- currently has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and liability simultaneously.

In the vast majority of cases the Company's net position on multiple transactions with the same counterparty is governed by Master Netting Agreements.

**2.11 Financing transactions, stock borrowing and lending**

The Company enters into repurchase and reverse repurchase agreements and securities borrowed and loaned transactions to accommodate customers and earn interest rate spreads, obtain securities for settlement and finance inventory positions.

**(i) Repurchase and reverse repurchase agreements**

Repurchase and reverse repurchase agreements, accounted for as collateralised financing transactions, are recorded at their contractual amounts plus accrued interest. Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised on, or derecognised from, the statement of financial position respectively, unless the risk and rewards of ownership are received or relinquished.

To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily and the Company may require counterparties to deposit additional collateral or may return collateral pledged when appropriate.

All repurchase and reverse repurchase activities are transacted under master agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. The Company offsets certain repurchase and reverse repurchase agreement balances with the same counterparty on the statement of financial position when there is a clear intention to settle on a net basis (see note 2.10 above).

**(ii) Securities borrowed and loaned transactions agreements**

Securities borrowed and loaned transactions agreements, accounted for as collateralised financing transactions, are recorded at their contractual amounts plus accrued interest. Securities received under securities borrowed agreements and securities delivered under securities loaned agreements are not recognised on, or derecognised from, the balance sheet respectively, unless the risk and rewards of ownership are received or relinquished.

The Company receives collateral in the form of cash or other securities for securities loaned transactions.

On a daily basis, the Company monitors the market value of securities borrowed or loaned against the collateral value, and the Company may require counterparties to deposit additional collateral or may return collateral pledged, when appropriate. Substantially all securities borrowed and securities loaned activities are transacted under master agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. For securities borrowed and loaned transactions, the fees received or paid by the Company are recorded as interest revenue or expense.

Securities borrowed or loaned are not recognised on, or derecognised from, the statement of financial position respectively, unless the risk and rewards of ownership are received or relinquished.



**2.12 Property, plant and equipment**

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

- 1: Leasehold improvements - over the life of the lease.
- 2: Fixtures, fittings and equipment – 3 to 10 years.

Assets under construction are stated at cost, net of any provision for impairment. The assets are not depreciated until construction has been completed and the assets are in service.

**2.13 Intangible assets**

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available;
- the expenditure attributable to the software product during the development can be reliably measured.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which varies from three to seven years.

**2.14 Investments and shares in subsidiary undertakings**

Investments and shares in subsidiary undertakings are recorded at cost less any provisions for impairment in value.

**2.15 Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognized in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either same taxable entity or different taxable entities with there is an intention to settle the balances on a net basis.

**2.16 Foreign currencies**

The Company uses Pound Sterling as its functional and reporting currency.

Monetary assets and liabilities denominated in foreign currencies are translated into Pound Sterling at the rates of exchange ruling at the year end. The results of overseas branches are translated into Pound Sterling at the average rates of exchange for the year.

Exchange differences arising from translation of the branches' results for the year from the average rate to the exchange rate ruling at the year-end are accounted for in other comprehensive income.

Other exchange differences are recognised in the income statement at the average rates of exchange for the year.

**2.17 Pension costs**

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The amounts charged to the income statement represent the contribution payable in respect of the accounting period.

**2.18 Leased assets**

An operating lease is a lease that does not transfer substantially all risks and rewards of ownership of an asset to the lessee. The Company only holds operating leases.

Under an operating lease the leased asset is not recognised on the Company's statement of financial position. Operating lease rentals (net of any lease incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the lease.

**2.19 Share-based payments**

The share awards programme allows employees of the Company to acquire shares in the ultimate parent company, Leucadia National Corporation. As this scheme awards equity of the ultimate parent company, Leucadia National Corporation, these transactions are accounted for on an equity-settled basis.

The fair value of share awards granted is recognised as an employee compensation expense. The amount of compensation expense is determined by reference to the fair value of the share awards on grant date. Share awards granted to an employee on commencement of employment are charged to the income statement immediately at the point of grant unless there is a required service period whereupon it is charged over the requisite service period on a straight-line basis.

The capital contribution reserve is credited with the share based payment contributions charge for the year and debited to the extent that a recharge is made to the Company by Jefferies Group LLC.

A share award may be forfeited if an employee ceases to be employed by the Company before the end of the vesting period, if they breach the forfeiture provisions of that award. If the award of shares is forfeited during the vesting period, the life to date charge is reversed in income statement at the time of forfeiture.

**2.20 Deferred compensation**

The Company has made remuneration payments to certain employees as part of agreements that stipulate a minimum service period. In accordance with IAS 19 the Company recognises the cost over the stipulated service period to match the provision of the services by the employee.

**2.21 Ordinary share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax from the proceeds. Differences between the par value of the shares issued and the issue price are recognised in the share premium account.

**2.22 Subordinated loan notes**

The Company has issued subordinated loan notes to fellow group subsidiary, Jefferies International Finance Limited, and Jefferies Group LLC. The subordinated loan notes are recorded on settlement-date, initially at fair value with subsequent measurement on an amortised cost basis utilising the effective interest rate.

**2.23 Cash held in segregated accounts**

As required by the FCA, the Company has segregated bank and broker accounts set up for certain clients under the FCA's Client Money Rules. The cash held in these segregated accounts is required to be separately segregated from that in the non-segregated bank accounts and held by the Company as statutory trustee for those clients. Segregated cash balances are not recorded on the Company's statement of financial position.

**2.24 Segmental information**

The Company does not fall within the scope of IFRS 8 as a result, no segmental information has been included in this report.

**3. Use of estimates and uncertainty**

The preparation of the Company's financial statements requires management to make judgements and estimates that affect the financial statements and related disclosures. The significant areas of judgement and estimation that could have a material impact on the assets and liabilities of the Company are listed below.

**(i) Valuation of financial instruments**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and assumptions that are based primarily on market conditions existing at the end of each reporting period. The valuation techniques apply those selected assumptions to estimate the fair value of the financial assets at each reporting date. Note 15 sets out the fair value of the Company's financial instruments as at 30 November 2016 and 30 November 2017.

**(ii) Impairment of assets**

At each reporting date the Company assesses all financial assets that are recognised at amortised cost, for any indicators of impairment. The assessment involves judgement relating to the creditworthiness of the counterparty and market conditions. If the Company makes an assessment that impairment has occurred then an estimate of the probable financial loss is made and recorded. The Company's trade and other receivables, as at the financial year-end, are detailed in note 13.

**(iii) Recognition of provision for litigation costs**

The Company is involved in several litigation processes that have undeterminable future outcomes. The Company has made certain judgements, after consulting with independent legal experts, regarding the probable outcome of those litigation processes. Once a judgement on the outcome has been determined then the Company will estimate, again after consulting with independent legal experts, the probable financial loss associated. The litigation provision recognised by the Company at the financial year end is detailed in note 18.

**(iv) Recognition of deferred tax assets:**

The Company recognises deferred tax assets to the extent that those assets can be utilised against future profits. The Company forecasts future profit, over the short to medium term, based on several judgements and assumptions relating to macro-economic, market and strategic factors. These judgements and assumptions then form the basis of the Company's estimate of future profitability which support the recognition of the deferred tax assets. The Company's deferred tax assets as at the financial year-end are detailed in see note 19.

The Company believes that the judgment and estimates utilised in preparing the financial statements are reasonable, relevant and reliable however actual results could differ from these estimates.

**Jefferies International Limited**  
**Year ended 30 November 2017**

**4. Revenue**

Analysis of revenue by category:

	2017 £000	2016 £000
Principal transactions	223,383	133,350
Commissions	90,297	76,801
Investment banking fees	145,450	128,331
Service fee income	60,452	35,035
Other income	2,778	11,436
Total non-interest revenue	522,360	384,953
Trading interest income	104,651	99,520
Trading interest expense	(150,055)	(119,475)
Net trading interest	(45,404)	(19,955)
Total revenue	476,956	364,998

**5. Operating profit / (loss)**

Operating profit / (loss) is stated after charging / (crediting):

	2017 £000	2016 £000
Wages and salaries	220,140	194,557
Social security costs	29,549	29,814
Other pension costs	7,930	7,769
Share-based payments	527	825
Staff costs	258,146	232,965
Operating lease charges	4,336	4,171
Depreciation of fixed assets	5,893	3,908
Gain on foreign currency revaluation	(2,596)	(11,338)
Audit fee payable to the Company's auditor:		
- audit related assurance	550	544
- non-audit related assurance	490	85

**Jefferies International Limited**  
**Year ended 30 November 2017**

**6. Employees and directors**

**Employees**

The monthly average number of employees (including executive directors) employed by the Company during the year was:

By activity	2017 No.	2016 No.
Front office	539	542
Administration	266	264
	<b>805</b>	<b>806</b>

**Directors:**

The director's remuneration was as follows:

	2017 £000	2016 £000
Aggregate remuneration	8,049	6,912
Compensation for loss of office	-	65
Pension contributions	7	318

Of the directors who served during the year, four executive directors were members of the defined contribution plan, operated for all eligible employees of the Company (2016 – four directors).

**Highest paid director**

The highest paid directors' remuneration was as follows:

	2017 £000	2016 £000
Aggregate remuneration	2,666	2,598

**7. Interest income and expense**

**Finance income**

	2017 £000	2016 £000
Bank interest income	170	1
Interest receivable from group undertakings	3,753	2,665
Other interest receivable	142	140
<b>Total finance income</b>	<b>4,065</b>	<b>2,806</b>

**Finance expense**

	2017 £000	2016 £000
Interest payable to group undertakings	39,117	26,743
Other interest payable	2,106	346
<b>Total finance expense</b>	<b>41,223</b>	<b>27,089</b>

**Jetteries International Limited**  
**Year ended 30 November 2017**

8. Income tax

Tax expense included in profit or loss:

	2017 £000	2016 £000
Current tax:		
- Adjustment in respect of prior years	(236)	(746)
- Overseas tax	1,793	736
<b>Total current tax</b>	<b>1,557</b>	<b>(10)</b>
Deferred tax:		
Origination and reversal of temporary differences	2,121	(4,157)
Adjustments in respect of prior years	81	858
Impact of change in tax rate	653	(60)
<b>Total deferred tax</b>	<b>2,855</b>	<b>(3,359)</b>
<b>Tax on profit / (loss) on ordinary activities</b>	<b>4,412</b>	<b>(3,369)</b>

The tax expense for the year is lower (2016: higher) than the standard rate of corporation tax in the United Kingdom for the year ended 30 November 2017 of 19.33% (2016: 20.00%). The differences are explained below:

	2017 £000	2016 £000
Profit / (loss) on ordinary activities before taxation	33,978	(25,057)
Tax thereon at the standard rate of corporation tax in the United Kingdom of 19.33% (2016: 20.00%)	6,568	(5,011)
Adjustments in respect of prior years	(155)	112
Disallowed expenses	485	462
Late paid interest	(4,957)	-
Restricted stock expense / (credit)	51	(152)
Higher tax rates on overseas earnings	1,793	736
Depreciation on non-qualifying assets	31	29
Expense relief for foreign tax	(321)	(126)
Unpaid group relief	-	176
Effect of lower future tax rates	447	(59)
Impairment of investment	476	-
Other	(6)	464
<b>Tax on profit / (loss) on ordinary activities</b>	<b>4,412</b>	<b>(3,369)</b>

Deferred taxation relating to capital allowances and other temporary differences is provided only in so far as a liability or asset is expected to crystallise in the foreseeable future.

The Finance Act 2015 enacted a 1% reduction in the main UK corporation tax rate to 19% with effect from 1 April 2017 with a further reduction to 17% with effect from 1 April 2020. As this change in the rate was substantively enacted prior to 30 November 2017, it has been reflected in the deferred tax asset in these financial statements.

**Jefferies International Limited**  
**Year ended 30 November 2017**

**9. Property, plant, equipment and intangible fixed assets**

	2017 £000	2016 £000
Property, plant and equipment	12,403	12,287
Intangible fixed assets	13,113	10,098
<b>Total property, plant, equipment and intangible fixed assets</b>	<b>25,516</b>	<b>22,385</b>

The intangible fixed assets are all software assets, both internally generated and purchased from third parties.

**Property, plant and equipment**

	Leasehold Improvements £000	Fixtures, Fittings & Equipment £000	Assets Under Construction £000	Total £000
<b>At 30 November 2016</b>				
Cost	24,739	14,213	1,166	40,118
Accumulated depreciation and impairment	(18,198)	(9,633)	-	(27,831)
<b>Net book amount</b>	<b>6,541</b>	<b>4,580</b>	<b>1,166</b>	<b>12,287</b>
<b>At 30 November 2017</b>				
Additions	961	1,131	1,805	3,897
Transfer	(3)	(11)	14	-
Depreciation	(2,264)	(1,517)	-	(3,781)
<b>Closing net book amount</b>	<b>5,235</b>	<b>4,183</b>	<b>2,985</b>	<b>12,403</b>
<b>At 30 November 2017</b>				
Cost	25,697	15,333	2,985	44,015
Accumulated depreciation and impairment	(20,462)	(11,150)	-	(31,612)
<b>Net book amount</b>	<b>5,235</b>	<b>4,183</b>	<b>2,985</b>	<b>12,403</b>

The amounts in assets under construction relate primarily to the construction of an off-site data centre that will be operational in the financial year ending 30 November 2018.

**Intangible fixed assets**

	Capitalised Software £000	Assets Under Construction £000	Total £000
<b>At 30 November 2016</b>			
Cost	9,167	5,085	14,252
Accumulated depreciation and impairment	(4,154)	-	(4,154)
<b>Net book amount</b>	<b>5,013</b>	<b>5,085</b>	<b>10,098</b>
<b>At 30 November 2017</b>			
Additions	4,174	1,007	5,181
Transfer	1,214	(1,214)	-
Disposal	-	(54)	(54)
Depreciation	(2,112)	-	(2,112)
<b>Closing net book amount</b>	<b>8,289</b>	<b>4,824</b>	<b>13,113</b>
<b>At 30 November 2017</b>			
Cost	14,555	4,824	19,379
Accumulated depreciation and impairment	(6,266)	-	(6,266)
<b>Net book amount</b>	<b>8,289</b>	<b>4,824</b>	<b>13,113</b>

The amounts in assets under construction relate to the development of trading system software assets that will be operational in the financial year ending 30 November 2018.



**Jefferies International Limited**  
**Year ended 30 November 2017**

**10. Investments**

	2017			2016		
	Shares in Group Undertakings £000	'Available for sale' investments £000	Total £000	Shares in Group Undertakings £000	'Available for sale' investments £000	Total £000
As at 1 December	8,880	222	9,102	2,467	522	2,989
Additions	23	20	43	6,413	67	6,480
Disposal	-	-	-	-	(367)	(367)
Impairment	(2,466)	-	(2,466)	-	-	-
Revaluation	-	8	8	-	-	-
At 30 November	6,437	250	6,687	8,880	222	9,102

The Company owns 100% of the ordinary share capital of Jefferies (Switzerland) Limited, an introducing broking company incorporated in Switzerland, currently in the process of being liquidated. In the year, the Company fully impaired its investment, with a carrying value of £2,466,344, in Jefferies (Switzerland) Limited.

The Company owns 100% of the ordinary share capital of LongAcre Partners Limited, a dormant former private equity investment company that is due to be liquidated in 2018. The Company owns 100% of the ordinary share capital of several dormant UK companies which have negligible net asset value. In the year, the Company acquired 100% of the share capital of a newly incorporated German company, Jefferies GmbH.

The 'available for sale' investments are unlisted shares in the Swift payment system.

**11. Financial assets classified as held for trading**

	2017 £000	2016 £000
Equities	153,723	72,571
Debt securities - Corporate	637,398	341,324
Debt securities - Government	1,566,458	1,849,141
Asset-backed securities	107,289	119,419
Derivatives	596,507	561,617
	3,061,375	2,944,072

**12. Transfers of financial assets, including collateral pledged and held**

In the ordinary course of business, the Company enters into various arrangements including selling securities under agreements to repurchase, purchasing securities under agreements to resell, to accommodate clients' needs and finance the Company's inventory positions.

The Company pledges certain financial instruments owned to collateralise repurchase agreements and other securities financing transactions. In many cases the secured counterparties will have the right to sell or repledge the collateral transferred by the Company. Pledged financial instruments that can be sold or repledged by the secured party are identified as held for trading in the statement of financial position. The Company has determined that it retains substantially all the risks and rewards of these financial instruments and therefore has not derecognised them. In addition, it recognises a financial liability in respect of the consideration received.

As at 30 November 2017 and 30 November 2016 the approximate fair value of financial assets which had been sold or otherwise transferred, but which for accounting purposes remained recognised on the statement of financial position were £2.3 billion and £2.4 billion respectively.

The Company receives securities as collateral under resale agreements and securities borrowing transactions. The Company also receives securities as collateral in connection with securities-for-securities transactions in which the Company is the lender of securities. In many instances, the Company is permitted by contract or custom to re-hypothecate the securities received as collateral.

As at 30 November 2017 and 30 November 2016 the approximate fair value of securities received as collateral by the Company that may be sold or re-pledged were £3.0 billion and £3.4 billion respectively. As at 30 November 2017 and 30 November 2016 a substantial portion of the securities received by the Company had been sold or re-pledged.

**13. Trade and other receivables**

	2017 £000	2016 £000
Amounts owed by group undertakings	10,370	11,826
Securities borrowing	677,727	455,640
Securities awaiting settlement	1,783,544	2,098,499
Reverse repurchase agreements	1,271,583	1,234,561
Investment banking receivables	15,450	6,182
Other trade receivables	459,367	199,916
Employee related receivables	39,934	43,215
Other debtors	3,664	3,683
Prepayments and accrued income	8,138	5,006
	<b>4,269,777</b>	<b>4,058,528</b>

Certain employee related receivables and prepayments amounting to £42,566,152 (2016: £43,545,308) fall due after more than one year.

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

**Jefferies International Limited**  
**Year ended 30 November 2017**

As of 30 November 2017, investment banking receivables of £1,181,596 (2016: £1,995,366) were past due and impaired. The ageing analysis of these trade receivables is as follows:

	2017 £000	2016 £000
3 to 6 months	30	311
6 to 9 months	-	502
9 to 12 months	-	125
Over 12 months	1,152	1,057
	<b>1,182</b>	<b>1,995</b>

The Company's policy is to recognise a provision for doubtful debts based on the number of days a receivable is past its contractual settlement date ("past due"). If a debt is 90 days past due a provision of 25% of the total receivable will be recognised; on 120 days past due a 50% provision is recognised; on 180 days past due a 75% provision is recognised; and on 210 days past due a 100% provision is recognised. Once there is no reasonable likelihood of settlement then the receivable is written off against the provision for doubtful debt with any excess amount being charged to the income statement.

The vast majority of the Company's receivables relate to the trading of financial instrument in which the Company transacts with other financial institutions on much shorter settlement-date time horizons. As such the concept of "past due" is less relevant to these sector specific transactions.

No other financial assets were either past due or impaired as at 30 November 2017 apart from those included in the table above.

**14. Financial liabilities classified as held for trading**

	2017 £000	2016 £000
Equities	175,563	180,027
Debt securities - Corporate	169,973	176,954
Debt securities - Government	1,425,249	2,034,054
Derivatives	598,149	576,335
	<b>2,368,934</b>	<b>2,967,370</b>

**Jefferies International Limited**  
**Year ended 30 November 2017**

**15. Fair value estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1:** quoted prices in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 November 2017:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets:</b>				
Equities	153,197	166	610	153,973
Debt securities - Corporate	-	634,563	2,835	637,398
Debt securities - Government	1,022,370	544,088	-	1,566,458
Asset-backed securities	-	94,923	12,366	107,289
Derivatives	326	595,814	367	596,507
<b>Total assets</b>	<b>1,175,893</b>	<b>1,869,554</b>	<b>16,178</b>	<b>3,061,625</b>
<b>Financial liabilities:</b>				
Equities	175,556	-	7	175,563
Debt securities - Corporate	-	169,973	-	169,973
Debt securities - Government	906,964	518,285	-	1,425,249
Derivatives	49	596,633	1,467	598,149
<b>Total liabilities</b>	<b>1,082,569</b>	<b>1,284,891</b>	<b>1,474</b>	<b>2,368,934</b>

There were no material transfers between levels 1 and 2 during the year.

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 November 2016:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets:</b>				
Equities	70,933	716	1,144	72,793
Debt securities - Corporate	-	334,930	6,394	341,324
Debt securities - Government	1,161,389	687,752	-	1,849,141
Asset-backed securities	-	104,043	15,376	119,419
Derivatives	196	561,421	-	561,617
<b>Total assets</b>	<b>1,232,518</b>	<b>1,688,862</b>	<b>22,914</b>	<b>2,944,294</b>
<b>Financial liabilities:</b>				
Equities	180,025	2	-	180,027
Debt securities - Corporate	-	176,954	-	176,954
Debt securities - Government	1,131,045	903,009	-	2,034,054
Derivatives	-	575,384	951	576,335
<b>Total liabilities</b>	<b>1,311,070</b>	<b>1,655,349</b>	<b>951</b>	<b>2,967,370</b>

Note that the equities balance includes the "available for sale" assets within investments (see note 10).

All financial instruments are recorded at fair value. Certain other financial assets and financial liabilities, such as trade receivables and subordinated debt, are recorded at amortised cost which is considered not to be materially different from the fair value of those particular assets and liabilities.

**Jefferies International Limited**  
**Year ended 30 November 2017**

**(i) Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange. For instruments which do not trade on an exchange a market is considered active where we observe readily available executable prices from other market participants. The quoted market price used for financial assets held by the Company is the current exit price. These instruments are included in level 1.

**(ii) Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**(iii) Financial instruments in level 3**

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the year ended 30 November 2017:

	Equity shares	Debt securities	Asset- backed securities	Derivatives	Total
Level 3 analysis	£000	£000	£000	£000	£000
Balance as at 1 December 2016	1,144	6,394	15,376	(951)	21,963
Total gains/(loss) recognised in revenue within profit or loss	298	109	1,973	(953)	1,427
Purchases	586	28,718	12,514	-	41,818
Sales	(1,374)	(29,116)	(15,127)	-	(45,617)
Settlements	-	-	(565)	-	(565)
Transfers into Level 3	111	202	230	804	1,347
Transfers out of Level 3	(162)	(3,472)	(2,035)	-	(5,669)
Balance at 30 November 2017	603	2,835	12,366	(1,100)	14,704

The following table presents the changes in level 3 instruments for the year ended 30 November 2016:

	Equity shares	Debt securities	Government Agency Sovereigns	Asset- backed securities	Derivatives	Total
Level 3 analysis	£000	£000	£000	£000	£000	£000
Balance as at 1 December 2015	1,244	3,205	79	5,661	(1,075)	9,114
Total gains recognised in revenue within profit or loss	(1,830)	(1,697)	21	1,259	942	(1,305)
Purchases	2,164	11,243	-	16,187	-	29,594
Sales	(433)	(12,012)	(100)	(7,359)	-	(19,904)
Settlements	-	(8)	-	(3,154)	-	(3,162)
Transfers into Level 3	-	7,158	-	5,766	-	12,924
Transfers out of Level 3	(1)	(1,495)	-	(2,984)	(818)	(5,298)
Balance at 30 November 2016	1,144	6,394	-	15,376	(951)	21,963

Transfers into and out of level 3

Transfers into and out of level 3 are primarily due to the availability and observability of market data. In the year, there was overall a greater availability of current prices to support the fair value of certain debt and asset-backed securities which resulted in a net amount of £4.3 million in financial assets being moved out of level 3.

Use of valuation techniques

**Cash Instruments**

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Level 3 cash instruments are initially valued at transaction price, which is the best initial estimate of fair value. Subsequently, the Company uses other methodologies to determine fair value, which vary based on the type of instrument.

The Company's valuation of level 3 cash instruments is based on discounted cash flow techniques or a market based approach. The nature of significant inputs used to determine the fair values of each type of level 3 cash instrument are described below.

Equities: recent third-party completed and pending transactions are the best evidence for any change in fair value. When these are not available then market comparable prices are used.

Debt securities: significant inputs are generally determined on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Additionally, a market based approach may be used whereby price information gathered through interaction with other market participants is taken into consideration.

Asset-backed securities: significant inputs are generally determined on relative value analysis and include:

- Market yields implied by transactions or similar or related assets;
- Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
- Timing of expected future cash flows (duration) which in certain cases, may incorporate the impact of other unobservable inputs (e.g. cumulative loss rates and loss severities).

**Derivatives**

The Company has a minimal amount of level 3 derivatives which are only classified as such due to some form of credit feature embedded within the derivative (e.g. uncollateralized interest rate swaps). The key observable inputs into the derivative pricing models used are credit spreads and default probabilities where either benchmark levels or "worst-case" scenarios (in the case of default probability) are utilised.

**Jetteries International Limited**  
**Year ended 30 November 2017**

**Significant unobservable inputs used in level 3 fair value measurement**

The table below presents the ranges of significant unobservable inputs used to value the Company's level 3 financial instruments, as well as the related weighted averages.

Financial assets / (liabilities) held for trading	Valuation techniques and significant unobservable inputs	Range / value of significant unobservable inputs (weighted average)	
		As at 30 November 2017	As at 30 November 2016
<b>Equities</b> (£0.6 million and £1.1 million of level 3 assets as of November 2017 and November 2016 respectively)	<u>Market comparables:</u> Underlying stock price	£47	£106
<b>Debt securities – Corporate</b> (£2.8 million and £6.4 million of level 3 assets as of November 2017 and November 2016 respectively)	<u>Market comparables:</u> Transaction level “EBITDA” (a) multiples	£44 - £77 (£59) -	£21 3.3
<b>Asset-backed securities</b> (£12.4 million and £15.4 million of level 3 assets as of November 2017 and November 2016 respectively)			
Collateralised debt obligations	<u>Discounted cash flows:</u> Constant prepayment rate Constant default rate Loss severity Yield <u>Scenario analysis:</u> Estimated recovery percentage	20% 2% 30% 2.8% 8.0% - 40.0% (22.1%)	10% - 20% (16.3%) 2% 70% 7% - 10.6% (8.3%) 7.85% - 37.9% (29.4%)
Commercial mortgage backed securities	<u>Discounted cash flows:</u> Yield Cumulative loss rate Loss severity Duration (years)	26.4% 7.5% 61.0% 1	11% 58% - -
Residential mortgage backed securities	<u>Discounted cash flows:</u> Constant prepayment rate Constant default rate Loss severity Yield Duration (years)	- - - 8.9% 13.95	0% - 4% (2.8%) 1% - 3.0% (1.8%) 40% - 55% (45.1%) 4.9% - 7.0% (5.9%) -

Jefferies International Limited  
Year ended 30 November 2017

Financial assets / (liabilities) held for trading	Valuation techniques and significant unobservable inputs	Range / value of significant unobservable inputs (weighted average)	
		As at 30 November 2017	As at 30 November 2016
<b>Asset-backed securities (continued)</b>	<u>Discounted cash flows:</u>		
Other asset backed securities	Constant prepayment rate	-	4%
	Yield	5.3%	3.9%
	Duration (years)	6	-
<b>Derivatives</b> (£1.1 million and £1.0 million of level 3 liabilities as of November 2017 and November 2016 respectively)	<u>Market approach</u>		
	Credit spread	800 bps	-
	<u>Option model:</u>		
	Volatility	-	45%

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of the financial instruments.
- Weighted averages are calculated by weighing each input by the relative fair value of the financial instruments.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one financial asset. Accordingly, the ranges of inputs presented above do not represent uncertainty in, or possible ranges of, fair value measurements of the Company's level 3 assets.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both techniques.

The fair value of financial assets and financial liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact of using reasonably possible alternative assumptions for the valuations, including significant unobservable inputs, has been quantified as at 30 November 2016 and 30 November 2017, as approximately £1.6 million and £1.4 million respectively, for favourable changes and £1.8 million and £1.6 million, respectively, for unfavourable changes. In determining reasonably possible alternative assumptions, a detailed position level review has been performed to identify and quantify instances where potential uncertainty exists. This review has considered the positions' fair value over a range of available market information.



**Jefferies International Limited**  
**Year ended 30 November 2017**

**16. Creditors: amounts falling due within one year**

	2017 £000	2016 £000
Bank loans and overdrafts	857	4,981
Amounts owed to group undertakings	178,241	275,649
Securities lending	611,368	298,820
Securities awaiting settlement	2,011,857	1,971,639
Repurchase agreements	975,475	616,810
Other trade payables	187,865	82,891
Other creditors:		
- Taxation and social security	5,324	4,894
- Group relief payable	-	3,096
- Overseas corporation tax	531	371
- Other creditors	38,706	40,523
- Accruals and deferred income	97,119	68,980
	<b>4,107,343</b>	<b>3,368,654</b>

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

**17. Creditors: amounts falling due after more than one year**

	2017 £000	2016 £000
Amounts falling due between one and five years:		
Amounts owed to group undertakings	48,511	11,798
Accruals and deferred income	194	376
	<b>48,705</b>	<b>12,174</b>
Amounts falling due after more than five years:		
Subordinated loan notes	375,822	257,825
Subordinated loan	94,287	101,931
	<b>470,109</b>	<b>359,756</b>
	<b>518,814</b>	<b>371,930</b>

As at 30 November 2017 the Company had several outstanding long-term loans from fellow Jefferies Group entities: £20.7 million from Jefferies Hong Kong Limited repayable on 1 January 2019; £19.7 million from Jefferies Bache Limited repayable on 1 December 2018; and £8.1 million from Jefferies International (Holdings) Limited repayable on 31 October 2045.

Jefferies Group LLC is the lender of £99.8 million worth of the subordinated loan notes of which £81.3 million matures on 30 April 2033 and £18.5 million matures on 31 May 2034. The lender of the remaining £276.0 million worth of subordinated loan notes is Jefferies International Finance Limited, ultimately owned by Jefferies Group LLC, of which £137.4 million matures on 30 June 2030; £103.5 million matures on 30 April 2033; and £35.1 million matures on 30 Nov 2036.

Jefferies Group LLC is the lender of a £38.8 million subordinated loan which matures on 30 June 2036. The lender of the remaining £55.5 million subordinated loan is Jefferies International Finance Limited which matures on 31 December 2030.

Interest is charged at a fixed rate of 7.5% per annum on both the subordinated loan notes and the subordinated loan.

**Jefferies International Limited**  
**Year ended 30 November 2017**

**18. Provisions for liabilities**

	Legal provision £000	Severance provision £000	Dilapidations provision £000	Total £000
As at 1 December 2016	489	989	-	1,478
Charge to the income statement	410	3,889	542	4,841
Amount capitalised	-	-	540	540
Amount utilised	(472)	(2,798)	-	(3,270)
As at 30 November 2017	427	2,080	1,082	3,589

**Legal provision**

Provision relates to an estimate of costs on several specific legal matters that were unresolved at the balance sheet date. We estimate that the matters will be resolved within twelve months of the balance sheet date.

**Severance provision**

The provision relates to severance costs arising for current ongoing restructuring plans. The affected employees had been informed of the restructuring plans as at 30 November 2017 and those plans will be completed within twelve months.

**Dilapidations provision**

The Company is planning to relocate from its current London office premises in 2019. The lease on the current office in London contain obligations relating to returning the premises in a defined state of repair, decorative condition and layout. The provision is an estimate of the cost of satisfying the lease obligations that were present as at 30 November 2017.

**Jefferies International Limited**  
**Year ended 30 November 2017**

**19. Deferred tax**

The deferred tax asset consists of:

	2017 £000	2016 £000
Deferred tax assets due within 12 months	3,356	4,972
Deferred tax assets due after 12 months	8,256	9,495
<b>Total deferred tax assets</b>	<b>11,612</b>	<b>14,467</b>

	Accelerated depreciation	Unrelieved losses	Contributions to trusts	Share award expenses	Other timing differences	Total
Deferred tax assets	£000	£000	£000	£000	£000	£000
At 1 December 2015	5,033	-	1,176	716	4,105	11,030
Charged / (credited) to the income statement	881	3,950	(65)	(36)	(1,293)	3,437
At 30 November 2016	5,914	3,950	1,111	680	2,812	14,467
Charged / (credited) to the income statement	940	(807)	-	(176)	(2,812)	(2,855)
At 30 November 2017	6,854	3,143	1,111	504	-	11,612

The Company has an unrecognized deferred tax asset of £937,337 as at 30 November 2017.

The Finance Act 2015 enacted a 1% reduction in the main UK corporation tax rate to 19% with effect from 1 April 2017 with a further reduction to 17% with effect from 1 April 2020. As this change in the rate was substantively enacted prior to 30 November 2017, it has been reflected in the deferred tax asset in these financial statements.

**Jefferies International Limited**  
**Year ended 30 November 2017**

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**20. Defined contribution pension scheme**

The Company provides a defined contribution scheme for its employees.

The amount recognized as an expense for the defined contribution scheme was:

	2017 £000	2016 £000
Current year contributions	7,930	7,769

The pension contributions for November 2017, which amounted to £657,999, were due at the year end and are included within creditors.

**21. Share-based payments**

Certain employees of the Company, along with other Jefferies Group employees, have been awarded shares in Leucadia National Corporation as part of their emoluments. The shares are restricted for a stipulated period from date of award according to certain vesting criteria (primarily based on employment service period).

The Company runs a Restricted Stock Award (RSA) and a Restricted Stock Unit (RSU) incentive schemes. The RSA scheme awards actual shares whereas the RSU scheme awards units based on the value of the shares.

The Company recognises a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity as a contribution of capital. The Company reimburses Jefferies Group for the cost of the share awards through the intercompany accounts.

As at 30 November 2017 there were 28,770 RSAs (2016: 45,301) and 151,446 RSUs (2016: 230,375) outstanding. The weighted average fair value of the RSUs granted during the year was \$19.41(2016: \$13.91). There were no RSAs granted in the year.

**22. Share capital**

Ordinary shares of £1.00 each

Authorised, allotted and fully paid	No.	£000
At 1 December 2016 and 30 November 2017	326,024,735	326,025

23. Financial risk management

**Market Risk**

Market risk arises from the uncertainty inherent within changing market prices and rates, the correlations between these factors and the level of any volatility. The Company's main market risks are driven by changes in yield curves, equity prices, credit spreads, product optionality, basis risk, volatility and currency movements. Market risk may arise from a variety of Company's activities including: market-making, trading, underwriting and investing. The Company's strategy for managing market risk exposure includes diversified portfolios, controlled trading volumes and establishing economic hedges in related securities or derivatives.

The Market Risk Management team ('Market Risk Management') is a function, independent of the revenue-generating units, that monitors all the Company's trading activity, in accordance with the Market Risk Policy as approved by the Risk Management Committee. Market Risk Management report directly to the International Chief Risk Officer ("CRO") and to the global heads of Market Risk Management. Market Risk Management is responsible for setting and monitoring market risk limits and indicators based on a variety of measures which capture different aspects of market risk. It is the responsibility of Market Risk Management to report daily on compliance against these metrics including appropriate escalation of any limit breaches.

Market Risk Management uses a wide range of techniques to manage the market risks inherent in the Company's business activities, including Value-at-Risk ("VaR"). VaR is a useful tool for internal reporting purposes although there are some widely acknowledged limitations in its application. As a result, Market Risk Management uses other methodologies to supplement the VaR calculations in assessing, monitoring and managing market risk. Other key measures used include: inventory position and exposure limits on a gross and net basis; scenario analysis and stress tests; Risks-Not-in-VaR reports; sensitivity analysis, exposure concentrations; aged inventory; control of Level 3 assets; counterparty exposure; leverage; cash capital; and performance analysis metrics. It should be noted that VaR is not used in the assessment of the Company's regulatory capital requirements.

The primary techniques used by the Company to measure market risk are VaR and the "expected losses" analysis generated by a targeted series of stress tests. Limits set within the stress tests are at a trading position, portfolio, business line or legal entity level dependent on relevance. The analysis includes any economic hedges used by the trading desks to manage the risk within their trading portfolios.

Value at Risk analysis

The Company estimates VaR using a model which simulates revenue and loss distributions by applying historical market changes to the Company's current trading portfolio. The simulation generates a "one-day" VaR measure of potential trading book losses, over a one year historical look-back period, to a 95% confidence level. This implies that, on average, the Company expects its start of day trading portfolio to incur a loss equal to the VaR amount on one out of every twenty trading days. This approach is consistent with the Company's market risk policy and supports the Company's market risk appetite as set by the Board.

In addition to calculating a firm-wide VaR, the Company also calculates VaR at a more granular trading strategy level. VaR is reported and reviewed daily against all VaR limits in the market risk limit hierarchy.

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**Value-at-Risk (VaR) (1)**

	VaR at 30 November 2017 £000	Daily VaR for 2017		
		Average £000	High £000	Low £000
Fixed Income	1,191	1,520	2,908	763
Equities	576	542	1,087	214
Less divisional diversification (2)	(300)	(403)	n/a	n/a
<b>Total Company VaR</b>	<b>1,467</b>	<b>1,659</b>	<b>3,125</b>	<b>921</b>

	VaR at 30 November 2016 £000	Daily VaR for 2016		
		Average £000	High £000	Low £000
Fixed Income	1,274	1,980	3,250	945
Equities	256	389	1,104	145
Less divisional diversification (2)	(195)	(265)	n/a	n/a
<b>Total Company VaR</b>	<b>1,335</b>	<b>2,104</b>	<b>3,264</b>	<b>1,014</b>

(1) For the VaR numbers reported above, a one-day time horizon, with a one year look-back period, and a 95% confidence level were used.

(2) The diversification effect is not applicable for the maximum and minimum VaR values as the firmwide VaR and the VaR values for the two categories might have occurred on different days during the year. The aggregated VaR presented here is less than the sum of the individual components (*i.e.*, fixed income, equities) due to the benefit of diversification among the four risk categories. Diversification benefit equals the difference between aggregated VaR and the sum of VaRs for the two categories and arises because these are not perfectly correlated.

**Risks not in VaR (RNIV)**

Market Risk Management produces analysis identifying risks not included within the VaR, describing the nature of these risks and their materiality to the business. RNIV is tracked via a quarterly submission to the Risk Management Committee to ensure RNIV remains within an acceptable range. The RNIV list remained minimal throughout 2017.

**Stress Testing**

Stress testing is used to analyse the potential impact of severe but plausible market stresses on the current trading portfolios both Company-wide and within business segments. The Company's stress tests are designed to consider the impact of:

- tail risk and extreme events, *i.e.* capturing market moves beyond the confidence levels assumed in the VaR calculations;
- breakdown in correlations; and
- non-linear risks.

The stress testing methodology assesses illiquid and concentrated positions through the application of longer liquidity horizons for these specific positions. Additionally, trading positions with embedded leverage are assessed through more severe risk factors within the stress tests.

The stress scenarios comprise both historical and hypothetical market environments, and generally involve simultaneous changes of many risk factors. Indicative market changes in the Company's scenarios include, but are not limited to, a large widening of credit spreads; a substantial decline in equities markets; significant moves in selected emerging and European markets; large moves in

interest rates; and changes in the shape of the yield curve. In addition, Market Risk Management also performs ad hoc stress tests and develops new scenarios as market conditions dictate. Stress testing is performed and reported at least daily as part of the risk management process.

### **Credit Risk**

Credit risk arises in the normal course of the Company's business activities with other broker-dealers, customers and as a member of exchanges and clearing organisations. The Company's main credit risks arise from the Repurchase and Stock Loan desks, Over-The-Counter ("OTC") derivative transactions, free of payment transactions and long-dated settlement cash trades.

Credit risk is managed by the Company's Credit Risk Management team ('Credit Risk Management'), in accordance with the Credit Risk Policy, which is responsible for identifying counterparty credit risk throughout the trading businesses, establishing counterparty limits, and managing and monitoring those credit limits.

The policy is approved annually by the Risk Management Committee and includes:

- defining credit limit guidelines and credit limit approval processes;
- considering large exposures to a single counterparty, or groups of connected counterparties, counterparties in the same country or region, and/or in the same industry (sector);
- 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 Risk Policy;
- negotiating, approving and monitoring credit terms in legal and master documentation;
- determining the analytical standards and risk parameters for on-going management and monitoring credit risk books;
- actively managing daily exposure, exceptions, and breaches; and
- monitoring daily margin call activity and counterparty performance (in concert with the Company's Collateral Management Departments).

### **Credit Limit Assessment**

All clients of the Company must go through a formal on-boarding process. This process includes an assessment of the credit quality of the client, which is then used to assign credit limits to the Company's transactions with that client. Each credit assessment involves a detailed investigation into the client's financial stability, leverage, liquidity, capital position, and other relevant risk factors. Where a client is rated by at least one of the three major external credit rating agencies, then that rating is typically considered. Alternatively, an internal risk rating model is used, together with detailed credit analysis, to assign a credit rating to each client. It is the responsibility of Credit Risk Management to regularly review and update all credit ratings assigned to clients. Any significant changes to a client's financial position require a re-evaluation of credit limits applied.

### **Limit Framework Methodology**

Credit Risk Management assess counterparty credit risk and set credit limits at the counterparty group level; for each individual client; and by specific product type. Clients are grouped in a hierarchy by common ultimate parent. Limits must be approved per appropriate credit authorities and set up in credit and trading systems before trading commences. Limits are measured in terms of potential exposure. Credit limit and exposure methodology includes:

- credit limit types: 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.

The Company sets limits within those contained in the large exposures regime to constrain regulatory capital to counterparty credit exposures.

#### Credit Risk Mitigation

The Company utilises credit risk mitigation to manage counterparty risk, including the use of offsetting assets against liabilities ("netting") and the receipt of collateral to reduce credit risk exposures, subject to the relevant legal agreements meeting the requirements set out in the Capital Requirements Regulation ("CRR"). The Company uses industry standard legal documentation: International Swaps and Derivatives Association (ISDA), Global Master Repurchase Agreement (GMRA), Global Master Securities Lending Agreement (GMSLA), for its agreements with counterparties which improves the management and legal certainty of its arrangements.

The key credit risk mitigating approach used within the Company is requiring counterparties to post collateral (also known as margin) under the terms of a Credit Support Annex ("CSA"). The appropriate level of collateralisation for each client is set by Credit Risk Management within the legal negotiation process.

This process will assess the projected transaction values, in accordance with the contractual legal agreement, and may include setting unsecured threshold levels, Minimum Transfer Amounts ('MTA'), and acceptable collateral. Typically, this entails a preliminary review of the credit risk for the counterparties.

All activities undertaken within our business lines are governed by legal agreements with counterparties. Our Legal Department conducts negotiations, drafting and review of agreements. They enforce the collateral and margin agreements, including initiation of collections and taking legal action where appropriate. Credit Risk Management are party to the negotiation process and provide approval for any non-standard terms.

The Company seeks to receive liquid, easy to settle, and high quality collateral from counterparties. The types of collateral considered include cash, fixed income securities (predominantly government bonds), bank guarantees (letters of credit), equity stocks (highly liquid shares listed on major exchanges) and convertible bonds.

#### Derivatives

The Company is exposed to credit risk via transactions in OTC derivatives. In addition to the CSA agreements, ISDA master netting agreements are in place for all counterparties domiciled in countries where the netting of positions is legally enforceable. These agreements allow the Company to offset any payables and receivables with the same counterparty and in the event of a counterparty default only the net obligation is considered. The Company's ISDA agreements are governed by either UK or US law depending on the location and preference of the counterparty. Under UK agreements the title of any non-cash collateral received is transferred to the Company allowing re-use. Under US agreements Jefferies LLC act as custodian and the Company rehypothecates any non-cash collateral received for re-use if allowed under the agreement. In addition to these agreements the Company manages its risk exposure through diversification and various hedging strategies. These hedging activities include the purchase or sale of underlying financial assets and entering derivative contracts (e.g. futures, swaps and options).

#### Securities Financing

The Company requires that counterparties with material securities financing exposures are subject to an appropriate master netting agreement. For repurchase agreements a Global Master Repurchase Agreement is required and for stock lending activity a Global Master Securities Lending Agreement is required. The agreements allow the Company to settle all cash obligations to the counterparty on a net basis in the event of a counterparty default, including the liquidation of any collateral held. All securities financing master agreements are governed by UK law which requires the title transfer of any security borrowed or lent under the agreement.

This allows the Company to re-use any collateral received through securities financing transactions. The Company monitors the value of collateral received against the liabilities attached to such transactions and appropriate rate reductions ("haircuts") are applied to the loans provided to



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counterparties based on the quality of collateral received. Daily margining is performed to reduce credit exposure driven by significant fluctuations in the market value of collateral.

The following financial assets and liabilities are subject to offsetting under IAS 32 *Financial Instruments: Presentation*, enforceable master netting arrangements and similar agreements.

As at 30 November 2017	Gross amounts £000	Netting in Statement of Financial Position £000	Net amounts in Statement of Financial Position £000	Related amounts not set - off in the Statement of Financial Position		Net amounts £000
				Additional amounts available for set-off £000	Available collateral £000	
<b>Financial assets:</b>						
Financial assets held for trading:						
Derivatives	726,123	(129,616)	596,507	(404,994)	(46,947)	144,566
Reverse repurchase agreements	2,237,148	(965,565)	1,271,583	(259,072)	(1,005,976)	6,535
Trade receivables	4,032,667	(1,774,306)	2,258,361	(306,071)	(150,856)	1,801,434
<b>Total</b>	<b>6,995,938</b>	<b>(2,869,487)</b>	<b>4,126,451</b>	<b>(970,137)</b>	<b>(1,203,779)</b>	<b>1,952,535</b>
<b>Financial liabilities:</b>						
Financial liabilities held for trading:						
Derivatives	(727,765)	129,616	(598,149)	404,994	150,856	(42,299)
Repurchase agreements	(1,941,040)	965,565	(975,475)	259,072	716,117	(286)
Trade payables	(3,974,028)	1,774,306	(2,199,722)	306,071	46,947	(1,846,704)
<b>Total</b>	<b>(6,642,833)</b>	<b>2,869,487</b>	<b>(3,773,346)</b>	<b>970,137</b>	<b>913,920</b>	<b>(1,889,289)</b>

As at 30 November 2016	Gross amounts £000	Netting in Statement of Financial Position £000	Net amounts in Statement of Financial Position £000	Related amounts not set - off in the Statement of Financial Position		Net amounts £000
				Additional amounts available for set-off £000	Available collateral £000	
<b>Financial assets:</b>						
Financial assets held for trading:						
Derivatives	715,322	(153,705)	561,617	(461,367)	(59,031)	41,219
Reverse repurchase agreements	2,965,850	(1,731,289)	1,234,561	(145,899)	(1,061,799)	26,863
Trade receivables	4,110,650	(1,806,053)	2,304,597	(262,036)	(14,329)	2,028,232
<b>Total</b>	<b>7,791,822</b>	<b>(3,691,047)</b>	<b>4,100,775</b>	<b>(869,302)</b>	<b>(1,135,159)</b>	<b>2,096,314</b>
<b>Financial liabilities:</b>						
Financial liabilities held for trading:						
Derivatives	(730,040)	153,705	(576,335)	461,367	76,192	(38,776)
Repurchase agreements	(2,348,099)	1,731,289	(616,810)	145,899	470,911	-
Trade payables	(3,860,582)	1,806,052	(2,054,530)	262,036	15,576	(1,776,918)
<b>Total</b>	<b>(6,938,721)</b>	<b>3,691,046</b>	<b>(3,247,675)</b>	<b>869,302</b>	<b>562,679</b>	<b>(1,815,694)</b>

**Past due and impaired exposures**

For investment banking fees and certain commissions, payment terms are agreed as part of the client engagement letter. The Company recognises provision for losses where receivables are past their contractual due date (see note 13).

In terms of impaired exposures, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Where this evidence exists, the assets are re-measured to reflect the present value of expected future cash flows. The

# Jefferies International Limited

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difference between the carrying amount and the present value of expected future cash flows is recognised in the income statement for the year.

The maximum exposure to credit risk of the Company as at 30 November 2017 is disclosed below, based on the carrying amounts of the financial assets the Company believes are subject to credit risk. Where the Company enters into credit enhancements, including receiving cash and security as collateral, under master netting agreements, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

The “unrated” balance in ‘Maximum exposure to credit risk by credit rating’ represents the pool of counterparties that either do not require a rating or are under review. The unrated counterparties are largely private companies which are transacting with the Company on a “Delivery against Payment” basis which significantly reduces the Company’s exposure to any potential financial loss from a counterparty default.

Financial assets classified as held for trading, excluding derivatives, are subject to traded credit risk through exposure to the issuer of the financial asset; the Company manages this issuer credit risk through its market risk management infrastructure and this traded credit risk is incorporated within the VaR measures included in the market risk disclosure.

Class	Gross credit exposure £000	2017	Net credit exposure £000	Gross credit exposure £000	2016	Net credit exposure £000
		Credit enhancements £000			Credit enhancements £000	
Financial assets held for trading:						
Derivatives	596,507	(451,941)	144,566	561,617	(520,398)	41,219
Reverse repurchase agreements	1,271,583	(1,265,048)	6,535	1,234,561	(1,207,698)	26,863
Stock borrow agreements	677,727	(635,301)	42,426	455,640	(441,996)	13,644
Trade receivables	2,258,361	(456,927)	1,801,434	2,304,597	(276,365)	2,028,232
<b>Total</b>	<b>4,804,178</b>	<b>(2,809,217)</b>	<b>1,994,961</b>	<b>4,556,415</b>	<b>(2,446,457)</b>	<b>2,109,958</b>

Maximum exposure to credit risk by credit rating:

	2017 £000	2016 £000
AAA to AA-	1,081,253	3,136,712
A+ to BBB-	3,147,840	1,273,459
BB+ and lower	108,614	2,918
Unrated	466,471	143,326
<b>Total</b>	<b>4,804,178</b>	<b>4,556,415</b>

### Liquidity Risk

Liquidity Risk is defined as the risk that the Company, although solvent, does not have sufficient financial resources available to meet its cash or funding obligations as they fall due, or can secure such resources only at excessive cost.

The Company’s main liquidity risks are wholesale secured funding risk, intraday liquidity risk and off balance sheet liquidity risk. Liquidity risk is managed through the implementation of the Liquidity Risk Management Framework; this sets out the liquidity risk appetite statement and limits; identifies the liquidity risks inherent in the business and funding models; and sets out the tools through which those liquidity risks are measured, managed, monitored and controlled including stress testing, early warning indicators, liquid asset buffer management, and cash and intra-day liquidity usage management. Liquidity risk is assessed as part of the Individual Liquidity Adequacy Assessment Process (“ILAAP”) as approved by the Board.

### Stress Testing

The Liquidity Risk Management team ('Liquidity Risk Management') undertake daily stress tests which assess the potential stressed outflows under a range of severe but plausible market conditions. The stress tests consider idiosyncratic, market-wide, and combined stress scenarios. The idiosyncratic stress relates to Company-specific events, for example, a ratings downgrade. The market-wide scenario refers to exogenous events which impact the whole market. The combined scenario considers both idiosyncratic and market-wide stress factors. The stress tests include stress parameters covering the Company's main sources of risk including the financing of the trading portfolio, stock borrow-lending activities, intra-day liquidity risk, and off-balance-sheet risk. The Firm monitors the "worst case" liquidity outflows of these scenarios, compared against the Firm's Individual Liquidity Guidance ('ILG'), to ensure it has adequate liquid resources. The stress scenarios and parameters are subject to review and approval by the European Asset and Liability Management Committee ("ALCO") and the Risk Management Committee.

### Funding Sources and Financial Liabilities

The Company finances its balance sheet through a combination of in-house capital, secured financing transitions and wholesale unsecured funding from Jefferies Group LLC and other fellow affiliate companies within the Jefferies Group.

The table below analyses the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months £000	Between 3 months and 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
At 30 November 2017						
Financial liabilities classified as held for trading	1,775,461	15,401	43,355	222,189	312,528	2,368,934
Amounts owed to group undertakings	166,971	11,270	40,424	-	478,196	696,861
Securities lent collateral	611,368	-	-	-	-	611,368
Securities awaiting settlement	2,011,857	-	-	-	-	2,011,857
Repurchase collateral	792,760	182,715	-	-	-	975,475
Other trade payables	187,865	-	-	-	-	187,865
Other creditors	139,718	2,187	765	61	-	142,731
Provision for liabilities	2,507	-	1,082	-	-	3,589
Total - on balance sheet	5,688,507	211,573	85,626	222,250	790,724	6,998,680
Operating leases	1,216	3,619	4,443	1,705	1,785	12,768
Total - off balance sheet	1,216	3,619	4,443	1,705	1,785	12,768
Total financial liabilities	5,689,723	215,192	90,069	223,955	792,509	7,011,448

It should be noted that a significant proportion of the Company's trade payables (e.g. Securities awaiting settlement) are on industry standard short settlement cycles and therefore the majority of the liabilities fall within the "less than 3 months" category.

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	Less than 3 months £000	Between 3 months and 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
At 30 November 2016						
Financial liabilities classified as held for trading	2,410,768	21,366	21,320	170,703	343,213	2,967,370
Amounts owed to group undertakings	143,438	55,962	18,188	-	429,615	647,203
Securities lent collateral	298,820	-	-	-	-	298,820
Securities awaiting settlement	1,971,639	-	-	-	-	1,971,639
Repurchase collateral	597,987	12,202	6,621	-	-	616,810
Other trade payables	82,891	-	-	-	-	82,891
Other creditors	110,489	11,098	786	848	-	123,221
Provision for liabilities	1,478	-	-	-	-	1,478
Total - on balance sheet	5,617,510	100,628	46,915	171,551	772,828	6,709,432
Operating leases	1,225	3,588	4,584	5,775	426	15,598
Total - off balance sheet	1,225	3,588	4,584	5,775	426	15,598
Total financial liabilities	5,618,735	104,216	51,499	177,326	773,254	6,725,030

**24. Capital management**

Maintaining a strong capital base is a fundamental aspect of the Company's overall risk governance structure. The Company's capital base is maintained well above all minimum capital requirements whether imposed internally or externally. The Capital Management Framework ('CMF') includes Strategic Risk appetite statements and the capital limit framework, supported by a comprehensive set of monitoring metrics, management information, and appropriate oversight to ensure that adequate capital is held against all material capital risks.

***Governance***

Capital adequacy, including resources and requirements, is monitored and managed daily. The Company's capital management is overseen by various committees reporting up to the Board, including the Risk Management Committee, and the European ALCO. Management information on capital ratios, solvency ratios, capital utilisation, key risk indicators and trends are reported to these Board committees in order to support the Company's strategic decision-making process.

***Capital Management and Own Funds***

The objective of the capital management approach is to ensure that adequate capital resources are available to support the Company's businesses given the market environment. Capital forecasts are evaluated both short-term (less than three months) as well as medium-term (minimum of three years) with the following objectives:

- to support the Board-approved strategic objectives and business plans; and
- to remain adequately capitalised in order to be able to withstand losses during periods of stressed conditions without material franchise or business impact.

The size and composition of the Company's capital base is determined by a number of factors including the minimum regulatory capital requirements as well as the capital planning methodologies and processes, in particular the ICAAP. They may also be impacted by other factors such as rating agency guidelines for the Company, business initiatives and opportunities; cost and availability of short term and long term funding; stress testing analysis (which assesses the potential future losses due to adverse changes in the business and market environment); as well as regulatory changes such as Basel and the Capital Requirements Regulation ("CRR").

The Company's regulatory capital includes ordinary share capital, capital contributions, other capital reserves, and subordinated debt. All the Company's ordinary share capital and subordinated debt is held by other Jefferies Group entities. The Company has not issued any other financial instruments that qualify as additional tier 1 instruments under the Basel III / CRDIV framework.

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The table below shows the composition and size of the Company's own funds based on the Company's audited financial statements. The Company's Pillar 3 disclosures provide information on the key features of the Tier 1 and Tier 2 capital instruments.

	Year ended 30 November	
	2017 £000	2016 £000
Total borrowings [Tier 2]	470,109	359,756
Total equity [Tier 1]	471,432	471,432
Regulatory deductions	(54,198)	(5,912)
Regulatory capital ("Own funds")	887,343	825,276
Trading profit (unaudited)	29,566	-
Total capital	916,909	825,276

Note: trading profit for the year ended 30 November 2017 will not be included in the Company's regulatory capital until these financial statements have been audited and approved by the Board.

**Application of the Pillar 1 Framework**

The Firm's regulatory capital requirements ('own funds requirements') for market, credit and operational risk are calculated based on standardised approaches set out in the Capital Requirements Regulation under the Pillar 1 framework. The Pillar 1 Framework includes additional requirements for capital buffers (including the conservation buffer and the countercyclical buffer).

**Application of the Pillar 2 Framework**

As part of the capital planning process the Company seeks to ensure that it will maintain capital resources in excess of the minimum regulatory capital requirements under both normal and stressed conditions. Stress testing, covering a range of severe but plausible scenarios, therefore informs decisions on the size and quality of capital buffers required to ensure capital adequacy. These results are incorporated into the capital planning process.

The minimum regulatory capital requirement for the Company has been agreed with the FCA through the FCA's Supervisory Review and Evaluation Process ('SREP') which sets the Individual Capital Guidance ('ICG'). The level of Pillar 2 capital held reflects the risks inherent in the business model and products traded as well as the governance, control and risk management infrastructure. This is documented annually in the ICAAP. The assessment is reviewed by the FCA and the final ICG levels agreed.

The Company's on-going compliance with the internal capital management targets and 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.

The ICAAP assesses:

- current and future capital adequacy under typical operating conditions and stressed operating environments over the capital planning horizon and in line with the stress testing framework; and
- internal capital adequacy thresholds relating directly to the Board-approved risk appetite and in line with the capital management framework.

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## Year ended 30 November 2017

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Following the application of the Pillar 2 framework, the Company identifies the capital buffers and ratios that it is required to comply with. These buffers set out:

- the minimum Solvency Ratio, CET1 Ratio and Total Capital Ratio. The regulatory Leverage Ratio is also considered; and
- any capital buffers required to be held, including any amounts to be held in normal trading conditions, above stipulated minimum thresholds to reduce the risk of breach.

The Company maintained compliance with all minimum regulatory and internal thresholds throughout the year.

### 25. Contingent liabilities

The Italian Taxation Authorities have issued the Company with an assessment in relation to the taxable revenues arising from the trading activities of the Company's branch in Milan. Management disagrees with the position taken by the Italian Taxation Authorities and are currently engaged in discussions with those authorities, by invoking the Taxation Agreement Procedure process available in Italy to resolve the issue. At this stage, we do not believe there will be any future economic outflow from the Company related to this matter.

Other than the matter above, the Company had no other material contingent liabilities to report as at 30 November 2017.

### 26. Capital and other commitments

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following years:

	2017 £000	2016 £000
Not later than one year	4,835	4,813
Later than one year and not later than five years	6,148	10,359
Later than five years	1,785	426
	12,768	15,598

Most of the Company's operating lease commitments are property leases relating to the Company's office premises.

### 27. Related parties' transactions

There are no transactions with related parties to report outside of the inter-group transactions that are covered by the exemption afforded by FRS 101 from the disclosure requirements of IAS 24 'Related Party Disclosures' (see note 2.1).

**28. Controlling parties**

The immediate parent undertaking is Jefferies International (Holdings) Limited. Copies of the Jefferies International (Holdings) Limited's financial statements are available from Companies House, Crown Way, Cardiff, CF14 3UZ. The Company's immediate parent has changed after the reporting date (see note 29).

Jefferies Group LLC, a company incorporated within the United States of America, is the top company within the Jefferies Group which produces consolidated Jefferies Group financial statements that are available either on request from 520 Madison Avenue, New York, New York 10022, United States of America or from the Investors Relations section on [www.jefferies.com](http://www.jefferies.com). Jefferies Group LLC is the smallest group to consolidate these financial statements.

The ultimate parent undertaking the largest group to consolidate these financial statements is Leucadia National Corporation. Copies of the financial statements of Leucadia National Corporation are available on request from 520 Madison Avenue, New York, New York 10022, United States of America.

**29. Events after the end of the reporting period**

Since the financial year end the Company has made two capital investments into its Swiss subsidiary, Jefferies (Switzerland) Limited. The Company invested £2.3 million on 8 December 2017 and £1.5 million on 9 January 2018. The additional capital was required to ensure that Jefferies (Switzerland) Limited continued to operate within the capital requirement thresholds as stipulated by the Swiss regulator.

On 30 January 2018, the Company issued an additional £22.4 million in share capital to its immediate parent, Jefferies International (Holdings) Limited. The increase in capital is part of the Board's on-going plan to strengthen the Company's capital base.

On 22 February 2018, the Company repaid £137.3 million worth of subordinated loan notes to Jefferies International Finance Limited (JIFL) that were outstanding as at 30 November 2017 (see note 17). On the same date the Company issued shares to JIFL for an amount equal to the repaid subordinated loan notes, £137.3 million, making JIFL a minority owner of the Company. JIFL is a company, incorporated in the Cayman Islands, that is ultimately wholly owned by Jefferies Group LLC.

On 28 February 2018, the Company's parent as at 30 November 2017, Jefferies International (Holdings) Limited, sold its entire shareholding in the Company to Jefferies Holdings II Limited (JHII). As a result, as at 28 February 2018 the Company's majority owner is JHII alongside the minority owner JIFL, as mentioned above. JHII is a company, incorporated in the Cayman Islands, that is ultimately wholly owned by Jefferies Group LLC.

**Other information**

**COUNTRY-BY-COUNTRY REPORTING**

The Company is required to prepare and publish Country-by-Country information under the Capital Requirements (Country-by-Country Reporting) Regulations 2013. These disclosures will be available by 30 April 2018 at [www.jefferies.com/Investor Relations/Other Information](http://www.jefferies.com/Investor Relations/Other Information).