

Jefferies Group LLC  
Form 10-K  
January 26, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended November 30, 2017  
Commission file number 1-14947

JEFFERIES GROUP LLC  
(Exact name of registrant as specified in its charter)

|                                                                   |                                         |
|-------------------------------------------------------------------|-----------------------------------------|
| Delaware                                                          | 95-4719745                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

520 Madison Avenue, New York, New York 10022  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (212) 284-2550  
Securities registered pursuant to Section 12(b) of the Act:  
Title of each class: Name of each exchange on which registered:  
5.125% Senior Notes Due 2023 New York Stock Exchange  
4.850% Senior Notes Due 2027 New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Limited Liability Company Interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer   Accelerated filer

Non-accelerated filer   Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes   No   ☒   ☐

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. \$0 as of May 31, 2017.

The Registrant is a wholly-owned subsidiary of Leucadia National Corporation and meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with a reduced disclosure format as permitted by Instruction I(2).

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November 30, 2017  
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JEFFERIES GROUP LLC AND SUBSIDIARIES

PART I

Item 1. Business

Introduction

Jefferies Group LLC is the largest independent U.S.-headquartered global full service, integrated securities and investment banking firm. Our largest subsidiary, Jefferies LLC (“Jefferies”), was founded in the U.S. in 1962 and our first international operating subsidiary, Jefferies International Limited (“Jefferies Europe”), was established in the U.K. in 1986. On March 1, 2013, we became an indirect wholly owned subsidiary of publicly traded Leucadia National Corporation (“Leucadia”) (referred to herein as the “Leucadia Transaction”). Richard Handler, our Chief Executive Officer and Chairman, is Leucadia’s Chief Executive Officer and Brian P. Friedman, our Chairman of the Executive Committee, is Leucadia’s President. Messrs. Handler and Friedman are also Leucadia Directors.

At November 30, 2017, we had 3,450 employees in the Americas, Europe, the Middle East and Asia. Our global headquarters and executive offices are located at 520 Madison Avenue, New York, New York 10022. We also have regional headquarters in London and Hong Kong. Our primary telephone number is 212-284-2550 and our Internet address is jefferies.com.

The following documents and reports are available on our public website:

Earnings Releases and Other Public Announcements

Annual and interim reports on Form 10-K;

Quarterly reports on Form 10-Q;

Current reports on Form 8-K;

Code of Ethics;

Reportable waivers, if any, from our Code of Ethics by our executive officers;

Board of Directors Corporate Governance Guidelines;

Charter of the Corporate Governance and Nominating Committee of the Board of Directors;

Charter of the Compensation Committee of the Board of Directors;

Charter of the Audit Committee of the Board of Directors; and

Any amendments to the above-mentioned documents and reports.

We expect to use our website as a main form of communication of significant news. We encourage you to visit our website for additional information. In addition, you may also obtain a printed copy of any of the above documents or reports by sending a request to Investor Relations, Jefferies Group LLC, 520 Madison Avenue, New York, NY 10022, by calling 212-284-2550 or by sending an email to [info@jefferies.com](mailto:info@jefferies.com).

Business Segments

We report our activities in two business segments: Capital Markets and Asset Management.

Capital Markets includes our investment banking, sales and trading and other related services. Investment banking provides capital markets and financial advisory services to our clients across most industry sectors in the Americas, Europe and Asia. Our sales and trading businesses include market-making, sales and financing across the spectrum of equities, fixed income and foreign exchange products. Related services include, among other things, prime brokerage, research and corporate lending.

Asset Management provides investment management services to investors in the U.S. and overseas.

Financial information regarding our reportable business segments for the years ended November 30, 2017, 2016 and 2015 is set forth in Note 18, Segment Reporting in our consolidated financial statements included in this Annual Report on Form 10-K in Part II, Item 8.

Our Businesses

Capital Markets

Our Capital Markets segment focuses on Equities, Fixed Income and Investment Banking. We primarily serve institutional investors, corporations and government entities.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Equities

Equities Research, Sales and Trading

We provide our clients full-service equities research, sales and trading capabilities across global securities markets. We earn commissions or spread revenue by executing, settling and clearing transactions for clients across these markets in equity and equity-related products, including common stock, American depository receipts, global depository receipts, exchange-traded funds, exchange-traded and over-the-counter (“OTC”) equity derivatives, convertible and other equity-linked products and closed-end funds. Our equity research, sales and trading efforts are organized across three geographical regions: the Americas; Europe and the Middle East and Africa (“EMEA”); and Asia Pacific. Our clients are primarily institutional market participants such as mutual funds, hedge funds, investment advisors, pension and profit sharing plans and insurance companies. Through our global research team and sales force, we maintain relationships with our clients, distribute investment research and strategy, trading ideas, market information and analyses across a range of industries and receive and execute client orders. Our equity research covers over 2,000 companies around the world and a further more than 800 companies are covered by nine leading local firms in Asia Pacific with whom we maintain alliances.

Equity Finance

Our Equity Finance business provides financing, securities lending and other prime brokerage services. We offer prime brokerage services in the U.S. that provide hedge funds, money managers and registered investment advisors with execution, financing, clearing, reporting and administrative services. We finance our clients’ securities positions through margin loans that are collateralized by securities, cash or other acceptable liquid collateral. We earn an interest spread equal to the difference between the amount we pay for funds and the amount we receive from our clients. We also operate a matched book in equity and corporate bond securities, whereby we borrow and lend securities versus cash or liquid collateral and earn a net interest spread. We offer selected prime brokerage clients the option of custodial services at an unaffiliated U.S. broker-dealer that is a subsidiary of a bank holding company. Under this arrangement, we directly provide our clients with all customary prime brokerage services.

Wealth Management

We provide tailored wealth management services designed to meet the needs of high net worth individuals, their families and their businesses, private equity and venture funds and small institutions. Our advisors provide access to all of our institutional execution capabilities and deliver other financial services. Our open architecture platform affords clients access to products and services from both our firm and from a variety of other major financial services institutions.

Fixed Income

Fixed Income Sales and Trading

We provide our clients with sales and trading of investment grade corporate bonds, U.S. and European government and agency securities, municipal bonds, mortgage- and asset-backed securities, leveraged loans, consumer loans, high yield and distressed securities, emerging markets debt, interest rate derivative products, as well as foreign exchange trade execution and securitization capabilities. Jefferies is designated as a Primary Dealer by the Federal Reserve Bank of New York and Jefferies International Limited is designated in similar capacities for several countries in Europe. Additionally, through the use of repurchase agreements, we act as an intermediary between borrowers and lenders of short-term funds and obtain funding for various of our inventory positions. We trade and make markets globally in cleared and uncleared swaps and forwards referencing, among other things, interest rates, investment grade and non-investment grade corporate credits, credit indexes and asset-backed security indexes.

Our strategists and economists provide ongoing commentary and analysis of the global fixed income markets. In addition, our fixed income desk strategists provide ideas and analysis to clients across a variety of fixed income products.

Investment Banking

We provide our clients around the world with a full range of equity capital markets, debt capital markets and financial advisory services. Our services are enhanced by our deep industry expertise, our global distribution capabilities and our senior level commitment to our clients.

Approximately 800 investment banking professionals operate in the Americas, Europe and Asia, and are organized into industry, product and geographic coverage groups. Our industry coverage groups include: Consumer & Retail, Energy, Financial Institutions, Healthcare, Industrials, Real Estate, Gaming & Lodging, Technology, Media & Telecommunications, Financial Sponsors and Public Finance. Our product coverage groups include equity capital markets, debt capital markets, and advisory, which includes both mergers and acquisitions and restructuring and recapitalization expertise. Our geographic coverage groups include teams based in major cities in the United States, Toronto, London, Frankfurt, Paris, Milan, Amsterdam, Stockholm, Mumbai, Hong Kong, Singapore, Tokyo, Zurich and Dubai.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Equity Capital Markets

We provide a broad range of equity financing capabilities to companies and financial sponsors. These capabilities include private equity placements, initial public offerings, follow-on offerings, block trades and equity-linked convertible securities transactions.

Debt Capital Markets

We provide a wide range of debt and acquisition financing capabilities for companies, financial sponsors and government entities. We focus on structuring, underwriting and distributing public and private debt, including investment grade debt, high yield bonds, leveraged loans, municipal debt, mortgage and other asset-backed securities, and liability management solutions.

Advisory Services

We provide mergers and acquisition and restructuring and recapitalization services to companies, financial sponsors and government entities. In the mergers and acquisition area, we advise sellers and buyers on corporate sales and divestitures, acquisitions, mergers, tender offers, spinoffs, joint ventures, strategic alliances and takeover and proxy fight defense. In the restructuring and recapitalization area, we provide companies, bondholders and lenders a full range of restructuring advisory capabilities as well as expertise in the structuring, valuation and placement of securities issued in recapitalizations.

Asset Management

Through Jefferies Investment Advisers, LLC (“JIA”) and partnerships with Leucadia Asset Management LLC (“LAM”), we manage and provide services to a diverse group of alternative asset management platforms across a spectrum of investment strategies and asset classes. We are supporting and developing focused strategies managed by distinct management teams. Products currently offered by JIA to pension funds, insurance companies, sovereign wealth funds, and other institutional investors through these platforms include systematic quantitative and global equity event-driven strategies.

Leucadia has made investments in certain managed accounts and funds managed by these programs and, accordingly, a portion of the net results are allocated directly to Leucadia.

Competition

All aspects of our business are intensely competitive. We compete primarily with large global bank holding companies that engage in capital markets activities, but also with other broker-dealers, asset managers and investment banking firms. The large global bank holding companies have substantially greater capital and resources than we do. We believe that the principal factors affecting our competitive standing include the quality, experience and skills of our professionals, the depth of our relationships, the breadth of our service offerings, our ability to deliver consistently our integrated capabilities, and our culture, tenacity and commitment to serve our clients.

Regulation

Regulation in the United States. The financial services industry in which we operate is subject to extensive regulation. In the U.S., the Securities and Exchange Commission (“SEC”) is the federal agency responsible for the administration of federal securities laws, and the Commodity Futures Trading Commission (“CFTC”) is the federal agency responsible for the administration of laws relating to commodity interests (including futures and swaps). In addition, the Financial Industry Regulatory Authority (“FINRA”) and the National Futures Association (“NFA”) are self-regulatory organizations that are actively involved in the regulation of financial services businesses. The SEC, CFTC, FINRA and the NFA conduct periodic examinations of broker-dealers, investment advisers, futures commission merchants (“FCMs”) and swap dealers. The designated examining authority for Jefferies’ activities as a broker-dealer is FINRA, and the designated self-regulatory organization for Jefferies’ FCM activities is the NFA. Financial services businesses are also subject to regulation by state securities commissions and attorneys general in those states in which they do business.

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### JEFFERIES GROUP LLC AND SUBSIDIARIES

Broker-dealers are subject to SEC and FINRA regulations that cover all aspects of the securities business, including sales and trading methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, anti-money laundering efforts, recordkeeping and the conduct of directors, officers and employees. Registered advisors are subject to, among other requirements, SEC regulations concerning marketing, transactions with affiliates, disclosure to clients, and recordkeeping; and advisors that are also registered as commodity trading advisors or commodity pool operators are also subject to regulation by the CFTC and the NFA. FCMs, introducing brokers and swap dealers that engage in commodities, futures or swap transactions are subject to regulation by the CFTC and the NFA. Additional legislation, changes in rules promulgated by the SEC, CFTC, FINRA or NFA, or changes in the interpretation or enforcement of existing laws or rules may directly affect the operations and profitability of broker-dealers, investment advisers, FCMs and swap dealers. The SEC, CFTC, FINRA, NFA, state securities commissions and state attorneys general may conduct administrative proceedings or initiate civil litigation that can result in adverse consequences for Jefferies and its officers and employees (including, without limitation, injunctions, censures, fines, suspensions, membership expulsions, or revocations of licenses and registrations. In addition, broker-dealers, investment advisers, FCMs and swap dealers must also comply with the rules and regulation of clearing houses, exchanges and trading platforms of which they are a member.

**Regulatory Capital Requirements.** Several of our entities are subject to financial capital requirements that are set by regulation. Jefferies is a dually registered broker-dealer and FCM and is required to maintain net capital in excess of the greater of the SEC or CFTC minimum financial requirements. As a broker-dealer, Jefferies is subject to the SEC's Uniform Net Capital Rule (the "Net Capital Rule"). Jefferies has elected to compute its minimum net capital requirement in accordance with the "Alternative Net Capital Requirement" as permitted by the Net Capital Rule, which provides that a broker-dealer shall not permit its net capital, as defined, to be less than the greater of 2% of its aggregate debit balances (primarily customer-related receivables) or \$250,000 (\$1.5 million for prime brokers). Compliance with the Net Capital Rule could limit Jefferies' operations, such as underwriting and trading activities, that could require the use of significant amounts of capital, and may also restrict its ability to make loans, advances, dividends and other payments.

As a non-clearing FCM, Jefferies is required to maintain minimum adjusted net capital of \$1.0 million.

Our subsidiaries that are provisionally registered swap dealers will become subject to capital requirements under the Dodd-Frank Act once the relevant rules become final. For additional information see Item 1A. Risk Factors - "Recent legislation and new and pending regulation may significantly affect our business."

Jefferies Group LLC is not subject to any regulatory capital rules.

See Net Capital within Item 7. Management's Discussion and Analysis and Note 17, Net Capital Requirements in this Annual Report on Form 10-K for additional discussion of net capital calculations.

**Regulation outside the United States.** We are an active participant in the international capital markets and provide investment banking services internationally, primarily in Europe and Asia. As is true in the U.S., our international subsidiaries are subject to extensive regulations proposed, promulgated and enforced by, among other regulatory bodies, the European Commission and European Supervisory Authorities (including the European Banking Authority and European Securities and Market Authority), U.K. Financial Conduct Authority, Hong Kong Securities and Futures Commission, the Japan Financial Services Agency and the Monetary Authority of Singapore. Every country in which we do business imposes upon us laws, rules and regulations similar to those in the U.S., including with respect to some form of capital adequacy rules, customer protection rules, data protection regulations, anti-money laundering and anti-bribery rules, compliance with other applicable trading and investment banking regulations and similar regulatory reform. For additional information see Item 1A. Risk Factors - "Extensive international regulation of our business limits our activities, and, if we violate these regulations, we may be subject to significant penalties."

## Item 1A. Risk Factors

### Factors Affecting Our Business

The following factors describe some of the assumptions, risks, uncertainties and other factors that could adversely affect our business or that could otherwise result in changes that differ materially from our expectations. In addition to

the specific factors mentioned in this report, we may also be affected by other factors that affect businesses generally such as global or regional changes in economic, business or political conditions, acts of war, terrorism and natural disasters.

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Recent legislation and new and pending regulation may significantly affect our business.

In recent years, there has been significant legislation and increased regulation affecting the financial services industry. These legislative and regulatory initiatives affect not only us, but also our competitors and certain of our clients. These changes could have an effect on our revenue and profitability, limit our ability to pursue certain business opportunities, impact the value of assets that we hold, require us to change certain business practices, impose additional costs on us and otherwise adversely affect our business. Accordingly, we cannot provide assurance that legislation and regulation will not eventually have an adverse effect on our business, results of operations, cash flows and financial condition.

Many of these new laws and rules are the result of commitments made since 2008 by leaders of the nations constituting the Group of Twenty, or G-20, to reduce the systemic risk arising from financial derivatives. Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and the rules and regulations adopted and to be adopted by the SEC and CFTC introduce a comprehensive regulatory regime for swaps and security-based swaps and parties that deal in such swaps and security-based swaps. Two of our subsidiaries are provisionally registered as swap dealers with the CFTC and are members of the NFA. We may also register one or more additional subsidiaries as security-based swap dealers with the SEC in the future. Title VII and related impending regulations subject certain swaps and security-based swaps to clearing and exchange trading requirements and subject swap dealers and security-based swap dealers to significant new burdens. We have already incurred significant compliance and operational costs as a result of the Dodd-Frank Act, and when all the final rules contemplated by Title VII have been implemented, our swap dealer entities will also be subject to mandatory capital and margin requirements that will likely have an effect on our business. While there continues to be uncertainty about the full impact of these changes, we will continue to be subject to a more complex regulatory framework, and will incur costs to comply with new requirements as well as to monitor for compliance in the future.

The European Market Infrastructure Regulation (“EMIR”) relating to derivatives entered into force during August 2012 and, in common with the Dodd-Frank Act in the U.S., introduced certain requirements in respect of derivative contracts including: (i) the mandatory clearing of OTC derivative contracts declared subject to the clearing obligation; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts, including the mandatory margining of uncleared OTC derivative contracts; and (iii) reporting and record keeping requirements in respect of all derivative contracts. EMIR’s requirements primarily apply to “financial counterparties” such as European Union (“EU”) authorized investment firms, credit institutions, insurance companies, UCITs and alternative investment funds managed by EU authorized alternative investment fund managers, and “non-financial counterparties” (being an EU entity which is not a financial counterparty). EMIR also applies to non-EU regulated entities which transact derivatives with in-scope EU counterparties, if such non-EU regulated entities would be classified as financial counterparties or non-financial counterparties if they were established in the EU. As a result, members of our group who are EU-regulated entities or subsidiaries and, when transacting with in-scope EU counterparties, members of our group who are non-EU regulated entities or subsidiaries may be subject to additional obligations and/or costs that may not otherwise have applied.

During January 2018, the Markets in Financial Instruments Regulation and a revision of the Market in Financial Instruments Directive came into force (collectively referred to as “MiFID II”). MiFID II imposes certain restrictions as to the trading of shares and derivatives including new market structure-related, reporting, investor protection-related and organizational requirements, requirements on pre- and post-trade transparency, requirements to use certain venues when trading financial instruments (which includes certain derivative instruments), requirements affecting the way investment managers can obtain research, powers of regulators to impose position limits and provisions on regulatory sanctions. Subject to certain conditions and exceptions we may be unable to trade shares or derivatives with in-scope counterparties other than as provided by MiFID II. The EU is also currently considering or executing upon significant revisions to laws covering: resolution of banks, investment firms and market infrastructure; administration of financial benchmarks; credit rating activities; anti-money-laundering controls; data security and privacy; remuneration principles and proportionality; new amendments to capital and liquidity standards; disclosures under the Basel regime aiming to increase market transparency and consistency and corporate governance in financial firms.

In May 2018, the EU's new General Data Protection Regulation will replace the existing EU Data Protection Directive, and it will have a significant impact on how businesses can collect and process the personal data of EU individuals, including the requirement for business to self-report personal data breaches to the relevant supervisory authority and, under certain circumstances, to the affected data subjects, and provide additional rights to individuals whose data is processed, including the "right to erasure" (also commonly known as the right to be forgotten) by having their records erased and the right to data portability. Penalties for non-compliance are also significantly higher, with the maximum fine being the higher of €20 million or 4% of global turnover for the preceding year. In addition, numerous proposals regarding privacy and data protection are pending before U.S. and non-U.S. legislative and regulatory bodies. Negative effects could result from an expansive extraterritorial application of the Dodd-Frank Act and/or insufficient international coordination with respect to adoption of rules for derivatives and other financial reforms in other jurisdictions.

In addition, the scope, timing and final implementation of regulatory reform is uncertain and could negatively impact our business.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Extensive regulation of our business limits our activities, and, if we violate these regulations, we may be subject to significant penalties.

The financial services industry is subject to extensive laws, rules and regulations in every country in which we operate. Firms that engage in securities and derivatives trading, wealth and asset management and investment banking must comply with the laws, rules and regulations imposed by national and state governments and regulatory and self-regulatory bodies with jurisdiction over such activities. Such laws, rules and regulations cover all aspects of the financial services business, including, but not limited to, sales and trading methods, trade practices, use and safekeeping of customers' funds and securities, capital structure, anti-money laundering and anti-bribery and corruption efforts, recordkeeping and the conduct of directors, officers and employees.

Each of our regulators supervises our business activities to monitor compliance with such laws, rules and regulations in the relevant jurisdiction. In addition, if there are instances in which our regulators question our compliance with laws, rules, and regulations, they may investigate the facts and circumstances to determine whether we have complied. At any moment in time, we may be subject to one or more such investigation or similar reviews. At this time, all such investigations and similar reviews are insignificant in scope and immaterial to us. However, there can be no assurance that, in the future, the operations of our businesses will not violate such laws, rules, or regulations and such investigations and similar reviews will not result in adverse regulatory requirements, regulatory enforcement actions and/or fines.

Any violation of these laws, rules and regulations could subject us to one or more of the following events: civil and criminal liability; sanctions, which could include the revocation of our subsidiaries' registrations as Registered Investment Advisors or broker-dealers; the revocation of the licenses of our financial advisors; censures; fines; or a temporary suspension or permanent bar from conducting business. The occurrence of any of these events could have a material adverse effect on our business, financial condition and prospects.

Certain of our subsidiaries are subject to regulatory financial capital holding requirements, such as the Net Capital Rule, that could impact various capital allocation decisions or limit the operations of our broker-dealers. In particular, compliance with the Net Capital Rule may restrict our broker-dealers' ability to engage in capital-intensive activities such as underwriting and trading, and may also limit their ability to make loans, advances, dividends and other payments.

Additional legislation, changes in rules, changes in the interpretation or enforcement of existing laws and rules, conflicts and inconsistencies among rules and regulations, or the entering into businesses that subject us to new rules and regulations may directly affect our business, results of operations and financial condition. We continue to monitor the impact of new U.S. and international regulation on our businesses.

Changing financial, economic and political conditions could result in decreased revenues, losses or other adverse consequences.

As a global securities and investment banking firm, global or regional changes in the financial markets or economic and political conditions could adversely affect our business in many ways, including the following:

- A market downturn could lead to a decline in the volume of transactions executed for customers and, therefore, to a decline in the revenues we receive from commissions and spreads.

- Unfavorable conditions or changes in general political, economic or market conditions could reduce the number and size of transactions in which we provide underwriting, financial advisory and other services. Our investment banking revenues, in the form of financial advisory and sales and trading or placement fees, are directly related to the number and size of the transactions in which we participate and could therefore be adversely affected by unfavorable financial, economic or political conditions.

- Adverse changes in the market could also lead to a reduction in revenues from asset management fees and investment income from managed funds and losses on our own capital invested in managed funds. Even in the absence of a market downturn, below-market investment performance by our funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.

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Limitations on the availability of credit can affect our ability to borrow on a secured or unsecured basis, which may adversely affect our liquidity and results of operations. Global market and economic conditions have been particularly disrupted and volatile in the last several years and may be in the future. Our cost and availability of funding could be affected by illiquid credit markets and wider credit spreads.

• New or increased taxes on compensation payments such as bonuses or on balance sheet items may adversely affect our profits.

Should one of our customers or competitors fail, our business prospects and revenue could be negatively impacted due to negative market sentiment causing customers to cease doing business with us and our lenders to cease loaning us money, which could adversely affect our business, funding and liquidity.

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The United Kingdom's exit from the European Union could adversely affect our business.

The referendum held in the U.K. on June 23, 2016 resulted in a determination that the U.K. should exit the EU. In March 2017, the U.K. government initiated the exit process under Article 50 of the Treaty of the EU, commencing a period of up to two years for the United Kingdom and the other EU member states to negotiate the terms of the withdrawal. The uncertainty surrounding the timing, terms and consequences of the U.K.'s exit could adversely impact customer and investor confidence, result in additional market volatility and adversely affect our businesses, including our revenues from trading and investment banking activities, particularly in Europe, and our results of operations and financial condition.

We operate substantial parts of our EU businesses from entities based in the U.K. Upon the U.K. leaving the EU, the regulatory and legal environment that would then exist, and to which our U.K. operations would then be subject, will depend on, in certain respects, the nature of the arrangements the U.K. agreed with the EU and other trading partners. It is highly likely that changes to our legal entity structure and operations in Europe will be required as a result of these arrangements, which might result in a less efficient operating model across our European legal entities. We are in the process of finalizing plans to ensure our continued ability to operate in the U.K. and the EU beyond the expected exit date.

Recent U.S. tax legislation may have a material adverse effect on the financial condition, results of operations and cash flows of us or our parent.

Recently enacted U.S. tax legislation has made significant changes to the U.S. Internal Revenue Code, including the taxation of U.S. corporations, by, among other things, limiting interest deductions, reducing the U.S. corporate income tax rate, disallowing certain deductions that had previously been allowed, altering the expensing of capital expenditures, adopting elements of a territorial tax system, assessing a repatriation tax or "toll-charge" on undistributed earnings and profits of U.S.-owned foreign corporations, and introducing certain anti-base erosion provisions. The legislation is highly complex and unclear in certain respects and will require interpretations and implementing regulations by the Internal Revenue Service and state tax authorities. Additionally, the legislation could be subject to potential amendments and technical corrections, any of which could lessen or increase certain adverse impacts of the legislation. Thus, the impact of certain aspects of the legislation on us or our parent is currently unclear and could have an adverse impact on the financial condition, results of operations and cash flows of us or our parent.

Damage to our reputation could damage our business.

Maintaining our reputation is critical to our attracting and maintaining customers, investors and employees. If we fail to deal with, or appear to fail to deal with, various issues that may give rise to reputational risk, we could significantly harm our business prospects. These issues include, but are not limited to, any of the risks discussed in this Item 1A, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, cybersecurity and privacy, record keeping, sales and trading practices, failure to sell securities we have underwritten at the anticipated price levels, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. A failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Further, negative publicity regarding us, whether or not true, may also result in harm to our prospects. Our operations in the past have been impacted as some clients either ceased doing business or temporarily slowed down the level of business they do, thereby decreasing our revenue. There is no assurance that we will be able to successfully reverse the negative impact of allegations and rumors in the future and our potential failure to do so could have a material adverse effect on our business, financial condition and liquidity.

A credit-rating agency downgrade could significantly impact our business.

Maintaining an investment grade credit rating is important to our business and financial condition. If our credit ratings were downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position and results of operations could be adversely affected and perceptions of our financial strength could be damaged, which could adversely affect our client relationships. Additionally, we intend to access the capital markets and issue debt securities from time to time, and a decrease in our credit ratings or outlook could adversely affect our liquidity and

competitive position, increase our borrowing costs, decrease demand for our debt securities and increase the expense and difficulty of financing our operations. In addition, in connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. Such a downgrade could also negatively impact the prices of our debt securities. There can be no assurance that our credit ratings will not be downgraded.

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Our principal trading and investments expose us to risk of loss.

A considerable portion of our revenues is derived from trading in which we act as principal. We may incur trading losses relating to the purchase, sale or short sale of fixed income, high yield, international, convertible, and equity securities, loans and futures and commodities for our own account. In any period, we may experience losses on our inventory positions as a result of the level and volatility of equity, fixed income and commodity prices (including oil prices), lack of trading volume and illiquidity. From time to time, we may engage in a large block trade in a single security or maintain large position concentrations in a single security, securities of a single issuer, securities of issuers engaged in a specific industry, or securities from issuers located in a particular country or region. In general, because our inventory is marked to market on a daily basis, any adverse price movement in these securities could result in a reduction of our revenues and profits. In addition, we may engage in hedging transactions that if not successful, could result in losses.

We are exposed to market risk.

We are, directly and indirectly, affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. For example, changes in interest rates could adversely affect our net interest spread, the difference between the yield we earn on our assets and the interest rate we pay for sources of funding, which, in turn, impacts our net interest revenue and earnings. Changes in interest rates could affect the interest earned on assets differently than interest paid on liabilities. In our brokerage operations, a rising interest rate environment generally results in our earning a larger net interest spread. Conversely, in those operations, a falling interest rate environment generally results in our earning a smaller net interest spread. If we are unable to effectively manage our interest rate risk, changes in interest rates could have a material adverse effect on our profitability.

Market risk is inherent in the financial instruments associated with our operations and activities, including trading account assets and liabilities, loans, securities, short-term borrowings, corporate debt, and derivatives. Market conditions that change from time to time, thereby exposing us to market risk, include fluctuations in interest rates, equity prices, relative exchange rates, and price deterioration or changes in value due to changes in market perception or actual credit quality of an issuer.

In addition, disruptions in the liquidity or transparency of the financial markets may result in our inability to sell, syndicate, or realize the value of security positions, thereby leading to increased concentrations. The inability to reduce our positions in specific securities may not only increase the market and credit risks associated with such positions, but also increase the level of risk-weighted assets on our balance sheet, thereby increasing capital requirements, which could have an adverse effect on our business, results of operations, financial condition, and liquidity.

See Management's Discussion and Analysis of Financial Condition and Results of Operations-Risk Management within Part II, Item 7. of this Annual Report on Form 10-K for additional discussion.

We may incur losses if our risk management is not effective.

We seek to monitor and control our risk exposure. Our risk management processes and procedures are designed to limit our exposure to acceptable levels as we conduct our business. We apply a comprehensive framework of limits on a variety of key metrics to constrain the risk profile of our business activities. The size of the limit reflects our risk tolerance for a certain activity. Our framework includes inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, Value-at-Risk, sensitivities, exposure concentrations, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital and performance analysis. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management within Part II, Item 7. of this Annual Report on Form 10-K for additional discussion. While we employ various risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application, including risk tolerance determinations, cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As a result, we may incur losses notwithstanding our risk management processes and procedures.

As a holding company, we are dependent for liquidity from payments from our subsidiaries, many of which are subject to restrictions.

As a holding company, we depend on dividends, distributions and other payments from our subsidiaries to fund payments on our obligations, including debt obligations. Many of our subsidiaries, including our broker-dealer subsidiaries, are subject to regulation that restrict dividend payments or reduce the availability of the flow of funds from those subsidiaries to us. In addition, our broker-dealer subsidiaries are subject to restrictions on their ability to lend or transact with affiliates and to minimum regulatory capital requirements.

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Increased competition may adversely affect our revenues and profitability.

All aspects of our business are intensely competitive. We compete directly with a number of bank holding companies and commercial banks, other broker-dealers, investment banking firms and other financial institutions. In addition to competition from firms currently in the securities business, there has been increasing competition from others offering financial services, including automated trading and other services based on technological innovations. We believe that the principal factors affecting competition involve market focus, reputation, the abilities of professional personnel, transaction execution abilities, relative prices of the products and services being offered, bundling of products and services and the quality of products and service. Increased competition or an adverse change in our competitive position could lead to a reduction of business and therefore a reduction of revenues and profits.

The ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Our ability to develop and retain our clients depends on the reputation, judgment, business generation capabilities and skills of our professionals. To compete effectively, we must attract, retain and motivate qualified professionals, including successful financial advisors, investment bankers, trading professionals, portfolio managers and other revenue producing or specialized personnel. Competitive pressures we experience with respect to employees could have an adverse effect on our business, results of operations, financial condition and liquidity.

Turnover in the financial services industry is high. The cost of retaining skilled professionals in the financial services industry has escalated considerably. Financial industry employers are increasingly offering guaranteed contracts, upfront payments, and increased compensation. These can be important factors in a current employee's decision to leave us as well as in a prospective employee's decision to join us. As competition for skilled professionals in the industry remains intense, we may have to devote significant resources to attracting and retaining qualified personnel. If we were to lose the services of certain of our professionals, we may not be able to retain valuable relationships and some of our clients could choose to use the services of a competitor instead of our services. If we are unable to retain our professionals or recruit additional professionals, our reputation, business, results of operations and financial condition will be adversely affected. Further, new business initiatives and efforts to expand existing businesses frequently require that we incur compensation and benefits expense before generating additional revenues.

Moreover, companies in our industry whose employees accept positions with competitors often claim that those competitors have engaged in unfair hiring practices. We may be subject to such claims in the future as we seek to hire qualified personnel who have worked for our competitors. Some of these claims may result in material litigation. We could incur substantial costs in defending against these claims, regardless of their merits. Such claims could also discourage potential employees who work for our competitors from joining us.

Operational risks may disrupt our business, result in regulatory action against us or limit our growth.

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies, and the transactions we process have become increasingly complex. If any of our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

Certain of our financial and other data processing systems rely on access to and the functionality of operating systems maintained by third parties. If the accounting, trading or other data processing systems on which we are dependent are unable to meet increasingly demanding standards for processing and security or, if they fail or have other significant shortcomings, we could be adversely affected. Such consequences may include our inability to effect transactions and manage our exposure to risk.

In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This

may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

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Our information and technology systems are critical components of our business and operations, and a failure of those systems or other aspects of our operations infrastructure may disrupt our business, cause financial loss, increase our legal liability and constrain our growth.

Our business and operations rely extensively on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and devote significant resources to maintaining and upgrading our systems and networks with measures such as intrusion and detection prevention systems, monitoring firewalls to safeguard critical business applications and supervising third party providers that have access to our systems, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. Additionally, if a client's computer system, network or other technology is compromised by unauthorized access, we may face losses or other adverse consequences by unknowingly entering into unauthorized transactions. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in and transmitted through our computer systems and networks. Furthermore, such events may cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations, including the transmission and execution of unauthorized transactions. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not covered or not fully covered through any insurance maintained by us. The increased use of smartphones, tablets and other mobile devices as well as cloud computing may also heighten these and other operational risks. Similar to other firms, we and our third party providers continue to be the subject of attempted unauthorized access, computer viruses and malware, and cyber attacks designed to disrupt or degrade service or cause other damage and denial of service. Additional challenges are posed by external parties, including foreign state actors. There can be no assurance that such unauthorized access or cyber incidents will not occur in the future or could occur more frequently and on a larger scale.

We are also subject to laws and regulations relating to the privacy of the information of clients, employees or others. Any failure to comply with these regulations could expose us to liability and/or reputational damage. In addition, our businesses are increasingly subject to laws and regulations relating to surveillance, encryption and data on-shoring in the jurisdictions in which we operate. Compliance with these laws and regulations may require us to change our policies, procedures and technology for information security, which could, among other things, make us more vulnerable to cyber attacks and misappropriation, corruption or loss of information or technology.

Our business is subject to significant credit risk.

In the normal course of our businesses, we are involved in the execution, settlement and financing of various customer and principal securities and derivative transactions. These activities are transacted on a cash, margin or delivery-versus-payment basis and are subject to the risk of counterparty or customer nonperformance. Even when transactions are collateralized by the underlying security or other securities, we still face the risks associated with changes in the market value of the collateral through settlement date or during the time when margin is extended and collateral has not been secured or the counterparty defaults before collateral or margin can be adjusted. We may also incur credit risk in our derivative transactions to the extent such transactions result in uncollateralized credit exposure to our counterparties.

We seek to control the risk associated with these transactions by establishing and monitoring credit limits and by monitoring collateral and transaction levels daily. We may require counterparties to deposit additional collateral or return collateral pledged. In certain circumstances, we may, under industry regulations, purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty. However, there can be no assurances that our risk controls will be successful.

We face numerous risks and uncertainties as we expand our business.

We expect the growth of our business to come primarily from internal expansion and through acquisitions and strategic partnering. As we expand our business, there can be no assurance that our financial controls, the level and knowledge of our personnel, our operational abilities, our legal and compliance controls and our other corporate support systems will be adequate to manage our business and our growth. The ineffectiveness of any of these controls

or systems could adversely affect our business and prospects. In addition, as we acquire new businesses and introduce new products, we face numerous risks and uncertainties integrating their controls and systems into ours, including financial controls, accounting and data processing systems, management controls and other operations. A failure to integrate these systems and controls, and even an inefficient integration of these systems and controls, could adversely affect our business and prospects.

Certain business initiatives, including expansions of existing businesses, may bring us into contact directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and may expose us to new asset classes and new markets. These business activities expose us to new and enhanced risks, greater regulatory scrutiny of these activities, increased credit-related, sovereign and operational risks and reputational concerns regarding the manner in which we conduct our business activities and the manner in which these assets are being operated or held.

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Legal liability may harm our business.

Many aspects of our business involve substantial risks of liability, and in the normal course of business, we have been named as a defendant or codefendant in lawsuits involving primarily claims for damages. The risks associated with potential legal liabilities often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. The expansion of our business, including increases in the number and size of investment banking transactions and our expansion into new areas impose greater risks of liability. In addition, unauthorized or illegal acts of our employees could result in substantial liability to us. Substantial legal liability could have a material adverse financial effect or cause us significant reputational harm, which in turn could seriously harm our business and our prospects.

The preparation of our consolidated financial statements requires the use of estimates that may vary from actual results.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions may require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain. Our financial instruments, including certain trading assets and liabilities, available-for-sale securities, investments, including certain loans and private equity investments, among other items, require management to make a determination of their fair value in order to prepare our consolidated financial statements. Where quoted market prices are not available, we may make fair value determinations based on internally developed models or other means, which ultimately rely to some degree on our judgment. Some of these instruments and other assets and liabilities may have no direct observable inputs, making their valuation particularly subjective, being based on significant estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain securities may make it more difficult to value certain items, which may lead to the possibility that such valuations will be subject to further change or adjustment and could lead to declines in our earnings in subsequent periods.

Item 1B.Unresolved Staff Comments

None.

Item 2. Properties

We maintain offices in over 30 cities throughout the world. Our principal offices include our global headquarters in New York City, our European headquarters in London and our Asia headquarters in Hong Kong. In addition, we maintain backup data center facilities with redundant technologies for each of our three main data center hubs in Jersey City, London and Hong Kong. We lease all of our office space, or contract via service arrangement, which management believes is adequate for our business.

Item 3. Legal Proceedings

Many aspects of our business involve substantial risks of legal and regulatory liability. In the normal course of business, we have been named as defendants or co-defendants in lawsuits involving primarily claims for damages. We are also involved in a number of regulatory matters, including exams, investigations and similar reviews, arising out of the conduct of our business. Based on currently available information, we do not believe that any pending matter will have a material adverse effect on our consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

Omitted pursuant to general instruction I(2)(a) to Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains or incorporates by reference "forward looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words "believe," "intend," "may," "will," or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations and other results, and may include statements of future performance, plans and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in this report and other documents we file. You should read and interpret any forward looking statement together with these documents, including the following:

- the description of our business contained in this report under the caption "Business";
- the risk factors contained in this report under the caption "Risk Factors";
- the discussion of our analysis of financial condition and results of operations contained in this report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein;
- the discussion of our risk management policies, procedures and methodologies contained in this report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" herein;
- the notes to the consolidated financial statements contained in this report; and
- cautionary statements we make in our public documents, reports and announcements.

Any forward looking statement speaks only as of the date on which that statement is made. We will not update any forward looking statement to reflect events or circumstances that occur after the date on which the statement is made, except as required by applicable law.

The Company's results of operations for the 12 months ended November 30, 2017 ("2017"), November 30, 2016 ("2016") and November 30, 2015 ("2015") are discussed below.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Consolidated Results of Operations

The following table provides an overview of our consolidated results of operations (dollars in thousands):

|                                                              |             |             |             | % Change from<br>Prior Year |           |
|--------------------------------------------------------------|-------------|-------------|-------------|-----------------------------|-----------|
|                                                              | 2017        | 2016        | 2015        | 2017                        | 2016      |
| Net revenues                                                 | \$3,198,109 | \$2,414,614 | \$2,475,241 | 32.4 %                      | (2.4 )%   |
| Non-interest expenses                                        | 2,693,185   | 2,384,642   | 2,361,014   | 12.9 %                      | 1.0 %     |
| Earnings before income taxes                                 | 504,924     | 29,972      | 114,227     | 1,584.7 %                   | (73.8 )%  |
| Income tax expense                                           | 147,340     | 14,566      | 18,898      | 911.5 %                     | (22.9 )%  |
| Net earnings                                                 | 357,584     | 15,406      | 95,329      | 2,221.1 %                   | (83.8 )%  |
| Net earnings (loss) attributable to noncontrolling interests | 86          | (28 )       | 1,795       | N/M                         | N/M       |
| Net earnings attributable to Jefferies Group LLC             | 357,498     | 15,434      | 93,534      | 2,216.3 %                   | (83.5 )%  |
| Effective tax rate                                           | 29.2        | % 48.6      | % 16.5      | % (39.9 )%                  | % 194.5 % |
| N/M — Not Meaningful                                         |             |             |             |                             |           |

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. The Tax Act is one of the most comprehensive changes in the U.S. corporate income tax since 1986 and certain provisions are highly complex in their application. The Tax Act revises the U.S. Corporate income tax by, among other things, lowering the corporate income tax rate from 35% to 21%, adopting a territorial income tax system, and imposing a toll charge on the unremitted earnings of foreign subsidiaries. We are currently evaluating the impact that the Tax Act will have on both our Consolidated Statements of Financial Condition and Consolidated Statements of Earnings. At this time, based on information currently available, we anticipate taking a charge of approximately \$170 million in the first quarter of 2018. Approximately two-thirds of this estimated charge relates to the non-cash write down of our deferred tax asset. This reflects the impact of a lower federal tax rate of 21% on the future deductibility of our deferred tax items. The remaining balance relates to a toll charge on the deemed repatriation of unremitted foreign earnings. The ultimate impact of the Tax Act may differ from this estimate, possibly materially, due to changes in interpretations and assumptions, and guidance that may be issued and actions we may take in response to the Tax Act. We note that the Tax Act is highly complex and we continue to assess the impact that various provisions will have on our business.

## Executive Summary

## 2017 Compared with 2016

## Consolidated Results

Net revenues for 2017 were an annual record of \$3,198.1 million, compared with \$2,414.6 million for 2016, an increase of \$783.5 million, or 32.4%.

The results for 2017 were due to record investment banking revenues and record equities net revenues, partially offset by lower fixed income net revenues.

Throughout 2017, we continued to maintain strong leverage ratios and liquidity and a strong capital base.

## Business Results

Record investment banking revenues for 2017 reflect record debt capital markets revenues, record advisory revenues and significantly higher equity capital markets revenues, as a result of higher transaction volumes and values throughout 2017, driven in part by our effort to continue to expand our investment banking team through promotions and new hires.

The increase in equities net revenues was primarily attributable to a net gain of \$117.3 million recognized during 2017 from our investment in two equity positions, including KCG Holdings, Inc. (“KCG”), compared with a net loss of \$17.9 million in 2016 from these two positions. KCG was sold in full on July 20, 2017. Our equities net revenues also include a net gain in 2017 of \$90.8 million from our joint venture investment in Jefferies Finance, LLC (“Jefferies Finance”), compared with a net loss of \$9.3 million in 2016.

The decrease in fixed income net revenues is primarily due to lower volumes and volatility, which negatively impacted our client flow oriented fixed income businesses in the last nine months of 2017.

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### JEFFERIES GROUP LLC AND SUBSIDIARIES

Net revenues for 2017 includes investment losses from managed funds of \$4.0 million, compared with investment income from managed funds of \$4.7 million in 2016.

#### Expenses

Non-interest expenses for 2017 increased \$308.5 million, or 12.9%, to \$2,693.2 million, compared with \$2,384.6 million for 2016, reflecting primarily an increase in Compensation and benefits expense, and a smaller increase in Non-compensation expenses.

Compensation and benefits expense for 2017 was \$1,829.1 million, an increase of \$260.1 million, or 16.6%, from 2016, as a result of significantly higher net revenues. Compensation and benefits expense as a percentage of Net revenues was 57.2% for 2017, compared with 65.0% in 2016. The unusually high compensation ratio in 2016 was due to the significantly lower net revenue results in 2016 and the relationship of non-discretionary compensation to the net revenue decline. The lower ratio in 2017 demonstrates the operating leverage inherent in our business model.

Non-compensation expenses for 2017 were \$864.1 million, an increase of \$48.4 million, or 5.9%, from 2016. The increase was consistent with the increased activity associated with higher net revenues, as well as increased spending on technology. At the same time, non-compensation expenses as a percentage of Net revenues declined from 33.8% to 27.0%, again demonstrating strategically the operating leverage inherent in our business.

#### Headcount

At November 30, 2017, we had 3,450 employees globally, an increase of 121 employees from our headcount of 3,329 at November 30, 2016. Our headcount increased, primarily as a result of a 60 person increase in our investment banking headcount consistent with our strategic plan to drive growth in this effort, as well as increases in other core businesses and corporate services due to business growth.

#### 2016 Compared with 2015

##### Consolidated Results

Net revenues for 2016 were \$2,414.6 million, compared with \$2,475.2 million for 2015, a decrease of \$60.6 million, or 2.4%.

The results for 2016 were impacted by an extremely volatile bear market environment during the first three months of the year, with meaningful improvement over the rest of the year. Net revenues for the first quarter of 2016 declined \$292.7 million, or 49.5%, compared to the first quarter of 2015.

Throughout 2016, we maintained strong leverage ratios and liquidity and a strong capital base.

##### Business Results

- The decrease in total net revenues for 2016, as compared to 2015, primarily reflects a 17% decline in investment banking net revenues, and lower results in non-core equities net revenues, partially offset by meaningfully increased net revenues in fixed income.

Lower investment banking results are attributable to lower new issue equity and leveraged finance capital markets revenues, partially offset by higher advisory revenues. Our investment banking results benefited from a record quarter of advisory fees in the fourth quarter of 2016, as well as improvement in our capital markets activity, which began in the late summer of 2016, leading to an increase in new issue transaction volume.

The increase in fixed income revenues was across most products, as a result of new hires, a reduction in our downside risk profile since mid-2015 and improved market conditions in 2016. 2015 was adversely impacted by lower levels of liquidity and deterioration in the global energy and distressed markets.

The decline in equities net revenues was primarily attributable to a net loss of \$17.9 million recognized during 2016 from our investment in two equity positions, including KCG, compared with a net gain \$49.1 million in 2015 from these two positions. The decline in results was also due to net mark-to-market gains from certain equity inventory positions during 2015, which were not repeated during 2016. Equities revenues also include a net loss of \$9.3 million from our share of our Jefferies Finance joint venture in 2016, compared with net revenues of \$41.4 million in 2015.

- Net revenues for 2016 included investment income from managed funds of \$4.7 million compared with investment losses from managed funds of \$23.8 million in 2015, primarily due to lower valuations in the energy and shipping sectors in 2015.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

Expenses

Non-interest expenses for 2016 increased \$23.6 million, or 1.0%, to \$2,384.6 million, compared with \$2,361.0 million for 2015, reflecting an increase in Compensation and benefits expense, partially offset by a decrease in

Non-compensation expenses.

Compensation and benefits expense for 2016 was \$1,568.9 million, an increase of \$101.8 million, or 6.9%, from 2015. Compensation and benefits expenses as a percentage of Net revenues was 65.0% for 2016, compared with 59.3% in 2015. The increase in the compensation ratio for 2016 as compared to 2015 is primarily due to the composition of revenue by business line in the first quarter of 2016.

Non-compensation expenses for 2016 were \$815.7 million, a decrease of \$78.2 million, or 8.7%, from 2015. The decrease in 2016 was due to our exiting the Bache business, which in 2015 generated \$127.2 million of non-compensation expenses. There were no meaningful non-compensation expenses related to the Bache business in 2016. This reduction was partially offset by higher technology and professional fees related to investments in our trading platforms.

Jefferies Bache

On April 9, 2015, we entered into an agreement to transfer certain of the client activities of our Jefferies Bache business to Société Générale S.A. During the second quarter of 2016, we completed the exit of this business.

Net revenues globally from this business activity, which are included in our fixed income results, and expenses directly related to the Bache business, which are included in non-interest expenses, were \$80.2 million and \$214.8 million, respectively, for 2015. There were no meaningful revenues or expenses from this business for 2016.

For further information, refer to Note 20, Exit Costs, in our consolidated financial statements included in this Annual Report on Form 10-K.

Headcount

At November 30, 2016, we had 3,329 employees globally, a decrease of 228 employees from our headcount of 3,557 at November 30, 2015. Our headcount decreased, primarily as a result of exiting the Bache business, as well as continued discipline in headcount, productivity management and corporate services outsourcing.

Revenues by Source

For presentation purposes, the remainder of "Results of Operations" is presented on a detailed product and expense basis, rather than on a business segment basis. Net revenues presented for our equities and fixed income businesses include allocations of interest income and interest expense as we assess the profitability of these businesses inclusive of the net interest revenue or expense associated with the respective activities, which is a function of the mix of each business's associated assets and liabilities and the related funding costs.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary from period to period due to fluctuations in economic and market conditions, and our own performance. The following provides a summary of “Revenues by Source” (dollars in thousands):

|                                                                        | 2017        |                   | 2016        |                   | 2015        |                   | % Change from Prior Year |          |
|------------------------------------------------------------------------|-------------|-------------------|-------------|-------------------|-------------|-------------------|--------------------------|----------|
|                                                                        | Amount      | % of Net Revenues | Amount      | % of Net Revenues | Amount      | % of Net Revenues | 2017                     | 2016     |
| Equities                                                               | \$799,451   | 25.0 %            | \$549,553   | 22.8 %            | \$757,447   | 30.7 %            | 45.5 %                   | (27.4 )% |
| Fixed income                                                           | 617,910     | 19.3              | 640,026     | 26.5              | 270,772     | 10.9              | (3.5 )%                  | 136.4 %  |
| Total sales and trading                                                | 1,417,361   | 44.3              | 1,189,579   | 49.3              | 1,028,219   | 41.6              | 19.1 %                   | 15.7 %   |
| Equity                                                                 | 344,973     | 10.8              | 235,207     | 9.7               | 408,474     | 16.5              | 46.7 %                   | (42.4 )% |
| Debt                                                                   | 649,220     | 20.3              | 304,576     | 12.6              | 398,179     | 16.1              | 113.2 %                  | (23.5 )% |
| Capital markets                                                        | 994,193     | 31.1              | 539,783     | 22.3              | 806,653     | 32.6              | 84.2 %                   | (33.1 )% |
| Advisory                                                               | 770,092     | 24.1              | 654,190     | 27.1              | 632,354     | 25.5              | 17.7 %                   | 3.5 %    |
| Total investment banking                                               | 1,764,285   | 55.2              | 1,193,973   | 49.4              | 1,439,007   | 58.1              | 47.8 %                   | (17.0 )% |
| Asset management fees and investment income (loss) from managed funds: |             |                   |             |                   |             |                   |                          |          |
| Asset management fees                                                  | 20,490      | 0.6               | 26,412      | 1.1               | 31,819      | 1.3               | (22.4 )%                 | (17.0 )% |
| Investment income (loss) from managed funds                            | (4,027 )    | (0.1 )            | 4,650       | 0.2               | (23,804 )   | (1.0 )            | 186.6 %                  | 119.5 %  |
| Total                                                                  | 16,463      | 0.5               | 31,062      | 1.3               | 8,015       | 0.3               | (47.0 )%                 | 287.5 %  |
| Net revenues                                                           | \$3,198,109 | 100.0 %           | \$2,414,614 | 100.0 %           | \$2,475,241 | 100.0 %           | 32.4 %                   | (2.4 )%  |

The following table sets forth our total sales and trading net revenues (dollars in thousands):

|                                      | % Change from Prior Year |             |
|--------------------------------------|--------------------------|-------------|
|                                      | 2017                     | 2016        |
| Commissions and other fees           | \$593,257                | \$611,574   |
| Principal transactions               | 800,660                  | 519,652     |
| Other                                | 98,316                   | 19,724      |
| Net interest                         | (74,872 )                | 38,629      |
| Total sales and trading net revenues | \$1,417,361              | \$1,189,579 |
|                                      | 19.1 %                   | 15.7 %      |

N/M — Not Meaningful

## Equities Net Revenue

Equities net revenues include equity commissions, equity security principal trading and investments (including our investment in KCG and, from time to time, other blocks of equity securities) and net interest revenue generated by our equities sales and trading, prime services and wealth management businesses relating to the following products:

- cash equities,
- electronic trading,
- equity derivatives,
- convertible securities,
- prime brokerage,
- securities finance and
- alternative investment strategies.

KCG was sold on July 20, 2017. We recognized a \$93.4 million gain from our holdings of KCG in 2017 and an aggregate of \$347.7 million in gain over the five year life of this investment.



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Equities net revenue also includes our share of the net earnings from our joint venture investments in Jefferies Finance and Jefferies LoanCore, LLC (“Jefferies LoanCore”), which are accounted for under the equity method. On October 31, 2017, we sold all of our membership interests in Jefferies LoanCore for approximately \$173.1 million, the estimated book value at October 31, 2017. In addition, we may be entitled to additional cash consideration over the next five years in the event Jefferies LoanCore’s yearly return on equity exceeds certain thresholds.

2017 Compared with 2016

Total equities net revenues were an annual record of \$799.5 million for 2017, an increase of \$249.9 million, compared with \$549.6 million for 2016.

Results during 2017 include a net gain of \$117.3 million from our investment in two equity positions, including KCG, compared with a net loss in 2016 of \$17.9 million from these two positions.

Equities net revenues increased with higher revenues in our electronic trading, prime services, and Asia Pacific cash equities businesses primarily due to increased customer activity and increased trading volumes. The increase was partially offset by lower revenues in our equity options and Europe cash equities businesses, primarily due to reduced market making activities and lower equity volatility. In addition, 2016 included certain strategic investment gains from exposures to energy, volatility, financial and currency markets.

Equities commission revenues declined in our equity derivative and U.S. cash equities businesses due to reduced trading volumes and lower levels of volatility, partially offset by higher revenues in our electronic trading and Asia Pacific cash equities businesses due to increased trading volumes.

Equities net revenues during 2017 also include a net gain in 2017 of \$90.8 million from our share of Jefferies Finance, primarily due to an increase in loan syndication activity, compared with net loss of \$9.3 million in 2016, primarily due to the mark down of certain loans held for sale. Net revenues from our share of Jefferies LoanCore increased slightly during 2017 as compared to 2016 due to an increase in loan closings and syndications. On October 31, 2017, we sold all of our membership interests in Jefferies LoanCore for approximately \$173.1 million, the estimated book value at October 31, 2017.

2016 Compared with 2015

Total equities net revenues were \$549.6 million for 2016, a decrease of \$207.9 million compared with \$757.4 million for 2015.

Results during 2016 include a net loss of \$17.9 million from our investment in two equity positions, including KCG, compared with a net gain of \$49.1 million in 2015 from these two positions. In addition, equities net revenues for 2015 included significant gains on additional securities positions, which were not repeated during 2016.

Equities commission revenues gained slightly with improved market share across various product and client segments. Commissions in our U.S. cash equities and equity derivatives businesses held firm, while global electronic trading commissions gained from increased volumes and client market share. In our global electronic trading business, we have market leading customized algorithms in over 40 countries. European equities commissions increased due to improved market share, while commissions in our Asia Pacific cash equities business declined because of a challenging market environment. Our global cash businesses were among the highest market share gainers compared with our peers and, in the U.S. and U.K., our platform remains in the top 10.

Equities trading revenues were solid across most of our equities sales and trading businesses in 2016. Trading revenues from client market making improved in our U.S. and European cash equities businesses. Equity derivatives trading revenues declined due to a difficult volatility trading climate and convertibles trading revenues declined driven by weakness in the energy sector during 2016. In addition, certain strategic investments gained from exposures to energy, volatility, financial and currency markets.

Equities net revenues during 2016 included a net loss of \$9.3 million from our share of Jefferies Finance, primarily due to the mark down of certain loans held for sale during the first part of 2016, compared with net revenues of \$41.4 million in 2015. Net revenues from our share of Jefferies LoanCore also decreased during 2016 as compared to 2015 due to a decrease in loan closings and syndications.

Fixed Income Net Revenues

Fixed income net revenues includes commissions, principal transactions and net interest revenue generated by our fixed income sales and trading businesses from the following products:

• investment grade corporate bonds,

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mortgage- and asset-backed securities,  
government and agency securities,  
high yield and distressed securities,  
bank loans,  
municipal bonds,  
emerging markets debt,  
foreign exchange and  
interest rate derivatives.

2017 Compared with 2016

Fixed income net revenues totaled \$617.9 million for 2017, a decrease of \$22.1 million compared with net revenues of \$640.0 million in 2016.

We recorded modestly lower revenues in 2017 as compared with 2016, primarily due to a more challenging trading environment across most products, including most credit and rates businesses. In 2017, volatility was dampened as quantitative easing continued across most markets we transact in. This was partially offset by better risk management, addition of staff in certain businesses, and refreshed strategies in some businesses. The following highlights the main components of the results:

Net revenues in our leveraged credit business in 2017 were higher due to increased trading activities in high yield and distressed products as a result of additions to staff and repositioned risk. This was compared to relatively significant mark-to-market losses recognized in the early part of 2016.

Higher revenues in our European credit and international securitized markets group businesses were due to repositioned strategies taking advantage of trading opportunities in certain industry sectors. This is compared to volatile oil prices and uncertainty as to bank liquidity in 2016, which negatively impacted revenues in this business in the prior year.

Our municipal securities business performed extremely well for the greater part of the year, driven by increased client activity as new team members were added and market share expanded. Performance for the municipal securities business was partially dampened at the end of the 2017 fiscal year as the municipal bond market dislocated over concerns around the potential impacts of pending U.S. tax reform on both municipal bond issuers and investors. Revenues in our corporates and emerging markets business declined in a maturing credit cycle as volatility and transaction spreads decreased from prior year levels, while demand for new issuances and higher yielding investments and higher levels of volatility were prevalent in 2016.

Lower revenues in our global rates and U.S. securitized markets group business were due to lower levels of volatility resulting in lower transaction based revenues. In the U.S. securitized markets businesses this was partially offset by increased activity in origination businesses including collateralized loan obligations (“CLOs”).

2016 Compared with 2015

Fixed income net revenues were \$640.0 million for 2016, an increase of \$369.3 million, compared with net revenues of \$270.8 million in 2015.

2015 included \$80.2 million of net revenues globally from the Bache business activity. There were no meaningful revenues from the Bache business during 2016, as we completed the exit of the Bache business during the second quarter of 2016. Excluding revenues from the Bache business activity, revenues increased \$449.5 million, or 235.8%. We recorded higher revenues in 2016 as compared with 2015 due to improved trading conditions across most core businesses, partially offset by lower revenues in our international rates business due to lower trading volumes. The following highlights the main components of the increase in the results:

Revenues in our leveraged credit business were strong on increased trading volumes within high yield and distressed products, as a result of an improved credit environment, as well as strategic growth in the business, compared with mark-to-market write-downs in 2015.

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Results in our emerging markets business during 2016 were higher due to an upgraded sales and trading team and increased levels of volatility and improved market conditions.

Revenues from our corporates businesses increased as compared to 2015 due to increased client activity and higher demand for new issuances and higher yielding investments.

Our securitized markets businesses were positively impacted by increased demand for spread products, compared with the negative impact of market volatility as credit spreads tightened for these asset classes and expectations of future rate increases in 2015.

The municipal securities business performed well during 2016, as improved trading activity was driven by market technicals, compared with net outflows in 2015.

Volatility during 2016 due to fluctuating expectations as to future Federal Reserve interest rate increases contributed to increased revenues in our U.S. rates business.

**Investment Banking Revenue**

Investment banking revenues include the following:

• Capital markets revenues include underwriting and placement revenues related to corporate debt, municipal bonds, mortgage- and asset-backed securities and equity and equity-linked securities.

• Advisory revenues consist primarily of advisory and transaction fees generated in connection with merger, acquisition and restructuring transactions.

The following table sets forth our investment banking revenue (dollars in thousands):

|                 |             |             |             | % Change from<br>Prior Year |         |
|-----------------|-------------|-------------|-------------|-----------------------------|---------|
|                 | 2017        | 2016        | 2015        | 2017                        | 2016    |
| Equity          | \$344,973   | \$235,207   | \$408,474   | 46.7 %                      | (42.4)% |
| Debt            | 649,220     | 304,576     | 398,179     | 113.2 %                     | (23.5)% |
| Capital markets | 994,193     | 539,783     | 806,653     | 84.2 %                      | (33.1)% |
| Advisory        | 770,092     | 654,190     | 632,354     | 17.7 %                      | 3.5 %   |
| Total           | \$1,764,285 | \$1,193,973 | \$1,439,007 | 47.8 %                      | (17.0)% |

The following table sets forth our Investment banking activities (dollars in billions):

|                                                         | Deals Completed |      |       | Aggregate Value |         |         |
|---------------------------------------------------------|-----------------|------|-------|-----------------|---------|---------|
|                                                         | 2017            | 2016 | 2015  | 2017            | 2016    | 2015    |
| Public and private debt financings                      | 1,121           | 892  | 1,003 | \$292.1         | \$188.6 | \$199.8 |
| Public and private equity and convertible offerings (1) | 173             | 129  | 203   | 59.7            | 24.4    | 56.6    |
| Advisory transactions (2)                               | 181             | 179  | 171   | 180.6           | 135.2   | 141.1   |

(1) We acted as sole or joint bookrunner on 164, 125 and 183 offerings during 2017, 2016 and 2015, respectively.

(2) The number of advisory deals completed includes 10, 18 and 13 restructuring and recapitalization transactions during 2017, 2016 and 2015, respectively.

**2017 Compared with 2016**

Total investment banking revenues were a record of \$1,764.3 million for 2017, 47.8% higher than 2016. This increase was due to strong performance across our debt capital markets, equity capital markets and advisory businesses, supported by a strong overall capital raising and merger and acquisition environment. In 2016, new issue equity and leveraged finance capital markets were virtually closed throughout January and February and remained slow throughout 2016.

• Capital markets revenues in 2017 increased 84.2% from 2016. Advisory revenues for 2017 increased 17.7% compared to 2016.

• From equity and debt capital raising activities, we generated \$345.0 million and \$649.2 million in revenues, respectively, in 2017, compared with \$235.2 million and \$304.6 million in revenues, respectively, in 2016.

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## 2016 Compared with 2015

Total investment banking revenues were \$1,194.0 million for 2016, 17% lower than 2015. Lower investment banking results were attributable to lower new issue equity and leveraged finance capital markets revenues. This was primarily as a result of the capital markets slowdown, which began in the second half of 2015 and continued for much of 2016. We generated \$235.2 million and \$304.6 million in equity and debt capital market revenues, respectively, for 2016, a decrease of 42.4% and 23.5%, respectively, from 2015.

Our reduced capital markets activity for 2016 was partially offset by record advisory revenues. Specifically, our advisory revenues for 2016 increased 3.5% compared to 2015, primarily through an increase in the number of M&A and restructuring transactions, including closing a record number of M&A transactions in excess of \$1 billion.

Our investment banking results benefited both from a record fourth quarter of advisory fees in 2016, with our M&A and restructuring and recapitalization businesses showing continued momentum, and from improvement in capital markets activity, which began in the late summer of 2016, leading to an increase in new issue transaction volume.

## Asset Management Fees and Investment Income (Loss) from Managed Funds

Asset management revenue includes the following:

- management and performance fees from funds and accounts managed by us,
- management and performance fees from related party managed funds and accounts and investment income (loss) from our investments in these funds, accounts and related party managed funds.

The key components of asset management revenues are the level of assets under management and the performance return, whether on an absolute basis or relative to a benchmark or hurdle. These components can be affected by financial markets, profits and losses in the applicable investment portfolios and client capital activity. Further, asset management fees vary with the nature of investment management services. The terms under which clients may terminate our investment management authority, and the requisite notice period for such termination, varies depending on the nature of the investment vehicle and the liquidity of the portfolio assets.

The following summarizes the results of our Asset Management businesses by asset class (in thousands):

|                                                 | 2017     | 2016     | 2015     | % Change from<br>Prior Year |          |
|-------------------------------------------------|----------|----------|----------|-----------------------------|----------|
|                                                 |          |          |          | 2017                        | 2016     |
| Asset management fees:                          |          |          |          |                             |          |
| Fixed income (1)                                | \$1,267  | \$2,482  | \$4,090  | (49.0)%                     | (39.3 )% |
| Equities                                        | 2,718    | 1,757    | 4,875    | 54.7 %                      | (64.0 )% |
| Multi-asset                                     | 16,505   | 22,173   | 20,173   | (25.6)%                     | 9.9 %    |
| Convertibles (2)                                | —        | —        | 2,681    | N/M                         | (100.0)% |
| Total asset management fees                     | 20,490   | 26,412   | 31,819   | (22.4)%                     | (17.0 )% |
| Investment income (loss) from managed funds (3) | (4,027 ) | 4,650    | (23,804) | N/M                         | N/M      |
| Total                                           | \$16,463 | \$31,062 | \$8,015  | (47.0)%                     | 287.5 %  |

N/M — Not Meaningful

Fixed income asset management fees represented ongoing consideration we received from the sale in 2010 of (1) contracts to manage certain CLOs. As sale consideration, we were entitled to a portion of the asset management fees earned under the contracts for their remaining lives. These CLOs were liquidated as of May 31, 2017.

During the fourth quarter of 2014, as part of a strategic review of our business, we decided to liquidate our (2) International Asset Management business, which provided long only investment solutions in global convertible bonds to institutional investors. Asset management fees from this business comprise our convertibles asset strategy in the table above.

(3) Investment income (loss) from managed funds primarily is comprised of net unrealized markups (markdowns) in private equity funds managed by related parties.



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## Assets under Management

Period end assets under management by predominant asset class were as follows (in millions):

|                              | November 30, |         |
|------------------------------|--------------|---------|
|                              | 2017         | 2016    |
| Assets under management (1): |              |         |
| Equities                     | \$218        | \$170   |
| Multi-asset                  | 1,271        | 884     |
| Total                        | \$1,489      | \$1,054 |

Assets under management include assets actively managed by us, including hedge funds and certain managed (1) accounts. Assets under management do not include the assets of funds that are consolidated due to the level or nature of our investment in such funds.

## Non-interest Expenses

Non-interest expenses were as follows (dollars in thousands):

|                                   |             |             |             | % Change from<br>Prior Year |          |  |
|-----------------------------------|-------------|-------------|-------------|-----------------------------|----------|--|
|                                   | 2017        | 2016        | 2015        | 2017                        | 2016     |  |
| Compensation and benefits         | \$1,829,096 | \$1,568,948 | \$1,467,131 | 16.6 %                      | 6.9 %    |  |
| Non-compensation expenses:        |             |             |             |                             |          |  |
| Floor brokerage and clearing fees | 179,478     | 167,205     | 199,780     | 7.3 %                       | (16.3) % |  |
| Technology and communications     | 279,242     | 262,396     | 313,044     | 6.4 %                       | (16.2) % |  |
| Occupancy and equipment rental    | 102,904     | 101,133     | 101,138     | 1.8 %                       | — %      |  |
| Business development              | 99,884      | 93,105      | 105,963     | 7.3 %                       | (12.1) % |  |
| Professional services             | 114,711     | 112,562     | 103,972     | 1.9 %                       | 8.3 %    |  |
| Other                             | 87,870      | 79,293      | 69,986      | 10.8 %                      | 13.3 %   |  |
| Total non-compensation expenses   | 864,089     | 815,694     | 893,883     | 5.9 %                       | (8.7) %  |  |
| Total non-interest expenses       | \$2,693,185 | \$2,384,642 | \$2,361,014 | 12.9 %                      | 1.0 %    |  |

## Compensation and Benefits

Compensation and benefits expense consists of salaries, benefits, cash bonuses, commissions, annual cash compensation awards and the amortization of certain non-annual share-based and cash compensation awards to employees.

Cash and historical share-based awards and a portion of cash awards granted to employees as part of year end compensation generally contain provisions such that employees who terminate their employment or are terminated without cause may continue to vest in their awards, so long as those awards are not forfeited as a result of other forfeiture provisions (primarily non-compete clauses) of those awards. Accordingly, the compensation expense for a portion of awards granted at year end as part of annual compensation is recorded in the year of the award.

Included in Compensation and benefits expense are share-based amortization expense for senior executive awards granted in September 2012, February 2016 and January 2017, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting, all of which are being amortized over their respective future service periods. In addition, the senior executive awards contain market and performance conditions.

Refer to Note 14, Compensation Plans included in this Annual Report on Form 10-K, for further details on compensation and benefits.

## 2017 Compared with 2016

Compensation and benefits expense was \$1,829.1 million for 2017 compared with \$1,568.9 million for 2016.

Compensation and benefits expense as a percentage of Net revenues was 57.2% for 2017 and 65.0% for 2016. The unusually high compensation ratio in 2016 was due to the significantly lower revenue results in 2016 and the relationship of non-discretionary compensation to the net revenue decline.



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- Compensation expense related to the amortization of share- and cash-based awards amounted to \$278.2 million for 2017 compared with \$287.2 million for 2016.

Employee headcount was 3,450 globally at November 30, 2017, an increase of 121 employees from our headcount of 3,329 at November 30, 2016. Our headcount increased, primarily as a result of a 60 person increase in our investment banking headcount consistent with our strategic plan to drive growth in this effort, as well as increases in other core businesses and corporate services due to business growth.

2016 Compared with 2015

• Compensation and benefits expense was \$1,568.9 million for 2016 compared with \$1,467.1 million for 2015.

Compensation and benefits expense as a percentage of Net revenues was 65.0% for 2016 and 59.3% for 2015. The increase in the compensation ratio for 2016 as compared to 2015 is due to the composition of revenue by business line in the first quarter of 2016.

- Compensation expense related to the amortization of share- and cash-based awards amounted to \$287.2 million for 2016 compared with \$307.1 million for 2015.

Compensation and benefits expense directly related to the activities of our Bache business was \$87.7 million for 2015 and not meaningful for 2016. Included in Compensation and benefits expense for the Bache business for 2015 are severance, retention and related benefits costs of \$38.2 million incurred as part of decisions surrounding the exit of this business.

Employee headcount was 3,329 globally at November 30, 2016, a decrease of 228 employees from our headcount of 3,557 at November 30, 2015. Our headcount has decreased, primarily as a result of exiting the Bache business, as well as continued discipline in headcount, productivity management and corporate services outsourcing.

Non-Compensation Expenses

2017 Compared with 2016

• Non-compensation expenses were \$864.1 million for 2017, an increase of \$48.4 million, or 5.9%, compared with \$815.7 million for 2016.

• Non-compensation expenses as a percentage of Net revenues was 27.0% and 33.8% for 2017 and 2016, respectively.

The increase was consistent with the increased activity associated with higher net revenues, as well as increased spending on technology. At the same time, non-compensation expenses as a percentage of Net revenues declined from 33.8% to 27.0% again demonstrating strategically the operating leverage inherent in our business.

The increase in non-compensation expenses was primarily due to an increase in Floor brokerage and clearing expenses due to the mix of costs across certain equities and fixed income businesses, Technology and communications expenses due to costs associated with the development of the various trading systems and projects associated with corporate support and core business infrastructures, and an increase in certain Other expenses.

2016 Compared with 2015

• Non-compensation expenses were \$815.7 million for 2016, a decrease of \$78.2 million, or 8.7%, compared with \$893.9 million for 2015.

• Non-compensation expenses as a percentage of Net revenues was 33.8% and 36.1% for 2016 and 2015, respectively.

• Non-compensation expenses for 2016 were \$815.7 million, a decrease of \$78.2 million, or 8.7%, from 2015. The decrease in 2016 was due to our exiting the Bache business, which in 2015 generated \$127.2 million of non-compensation expenses, including accelerated amortization expense of \$19.7 million related to capitalized software, \$11.2 million in contract termination costs and professional services costs of approximately \$2.5 million in connection with our actions related to exiting the Bache business. There were no meaningful non-compensation expenses related to the Bache business in 2016. This reduction in 2016 was partially offset by higher Technology and communications expenses, excluding the Bache business, and higher Professional services expenses, excluding the Bache business. Technology and communications expenses, excluding the Bache business, increased due to higher costs associated with the development of the various trading systems and projects associated with corporate support infrastructure. In both years, we continued to incur legal and consulting fees as part of implementing various regulatory requirements, which are recognized in Professional services expenses. During 2015, we also released \$4.4 million in reserves related to the resolution of bankruptcy claims against Lehman Brothers Holdings, Inc., which is

presented in Bad debt expenses.

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Income Taxes

2017 Compared with 2016

For 2017, the provision for income taxes was \$147.3 million, an effective tax rate of 29.2%, compared with a provision for income taxes of \$14.6 million, an effective tax rate of 48.6%, for 2016.

The change in the effective tax rate for 2017 as compared with 2016 is primarily a result of expenses included in our Consolidated Statements of Earnings in excess of tax deductions related to share-based compensation, which substantially increased our effective tax rate for 2016 given our modest 2016 earnings. The reduced effective tax rate in 2017 is primarily due to the repatriation of earnings from certain foreign subsidiaries during the year, along with their associated foreign tax credits, which reduced the 2017 effective income tax rate, but had no effect on the 2016 rate.

2016 Compared with 2015

For 2016, the provision for income taxes was \$14.6 million, an effective tax rate of 48.6%, compared with a provision for income taxes of \$18.9 million, an effective tax rate of 16.5%, for 2015.

The change in the effective tax rate during 2016 as compared with 2015 was primarily attributable to expenses included in our Consolidated Statements of Earnings in excess of tax deductions related to share-based compensation.

Accounting Developments

For a discussion of recently issued accounting developments and their impact on our consolidated financial statements, see Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K.

Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and related notes. Actual results can and may differ from estimates. These differences could be material to our consolidated financial statements.

We believe our application of U.S. GAAP and the associated estimates are reasonable. Our accounting estimates are reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

We believe our critical accounting policies (policies that are both material to the financial condition and results of operations and require our most subjective or complex judgments) are our valuation of certain financial instruments and assessment of goodwill.

For further discussion of the following significant accounting policies and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, in our consolidated financial statements included in this Annual Report on Form 10-K.

Valuation of Financial Instruments

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Unrealized gains or losses are generally recognized in Principal transaction revenues in our Consolidated Statements of Earnings.

For information on the composition of our financial instruments owned and financial instruments sold, not yet purchased recorded at fair value, see Note 4, Fair Value Disclosures, in our consolidated financial statements included in this Annual Report on Form 10-K.

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**Fair Value Hierarchy** – In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs, where Level 1 uses observable prices in active markets and Level 3 uses valuation techniques that incorporate significant unobservable inputs. Greater use of management judgment is required in determining fair value when inputs are less observable or unobservable in the marketplace, such as when the volume or level of trading activity for a financial instrument has decreased and when certain factors suggest that observed transactions may not be reflective of orderly market transactions. Judgment must be applied in determining the appropriateness of available prices, particularly in assessing whether available data reflects current prices and/or reflects the results of recent market transactions. Prices or quotes are weighed when estimating fair value with greater reliability placed on information from transactions that are considered to be representative of orderly market transactions.

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest extent of management judgment. (See Note 2, Summary of Significant Accounting Policies, and Note 4, Fair Value Disclosures, in our consolidated financial statements included in this Annual Report on Form 10-K for further information on the definitions of fair value, Level 1, Level 2 and Level 3 and related valuation techniques.)

**Level 3 Assets and Liabilities** – For information on the composition and activity of our Level 3 assets and Level 3 liabilities, see Note 4, Fair Value Disclosures, in our consolidated financial statements included in this Annual Report on Form 10-K.

**Controls Over the Valuation Process for Financial Instruments** – Our Independent Price Verification Group, independent of the trading function, plays an important role in determining that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. Where a pricing model is used to determine fair value, these control processes include reviews of the pricing model's theoretical soundness and appropriateness by risk management personnel with relevant expertise who are independent from the trading desks. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

**Goodwill**

At November 30, 2017, goodwill recorded in our Consolidated Statement of Financial Condition is \$1,647.1 million (4.1% of total assets). The nature and accounting for goodwill is discussed in Note 2, Summary of Significant Accounting Policies, and Note 10, Goodwill and Intangible Assets, in our consolidated financial statements included in this Annual Report on Form 10-K. Goodwill must be allocated to reporting units and tested for impairment at least annually, or when circumstances or events make it more likely than not that an impairment occurred. Goodwill is tested by comparing the estimated fair value of each reporting unit with its carrying value. Our annual goodwill impairment testing date is August 1, which did not indicate any goodwill impairment in any of our reporting units at August 1, 2017.

We use allocated tangible equity plus allocated goodwill and intangible assets for the carrying amount of each reporting unit. The amount of tangible equity allocated to a reporting unit is based on our cash capital model deployed in managing our businesses, which seeks to approximate the capital a business would require if it were operating independently. For further information on our Cash Capital Policy, refer to the Liquidity, Financial Condition and Capital Resources section herein. Intangible assets are allocated to a reporting unit based on either specifically

identifying a particular intangible asset as pertaining to a reporting unit or, if shared among reporting units, based on an assessment of the reporting unit's benefit from the intangible asset in order to generate results.

Estimating the fair value of a reporting unit requires management judgment and often involves the use of estimates and assumptions that could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Estimated fair values for our reporting units utilize market valuation methods that incorporate price-to-earnings and price-to-book multiples of comparable public companies. Under the market approach, the key assumptions are the selected multiples and our internally developed forecasts of future profitability, growth and return on equity for each reporting unit. The weight assigned to the multiples requires judgment in qualitatively and quantitatively evaluating the size, profitability and the nature of the business activities of the reporting units as compared to the comparable publicly-traded companies. In addition, as the fair values determined under the market approach represent a noncontrolling interest, we apply a control premium to arrive at the estimate fair value of each reporting unit on a controlling basis.

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The carrying values of goodwill by reporting unit at November 30, 2017 are as follows: \$565.4 million in Investment Banking, \$160.6 million in Equities and Wealth Management, \$918.1 million in Fixed Income and \$3.0 million in Strategic Investments.

The results of our assessment on August 1, 2017 indicated that all our reporting units had a fair value in excess of their carrying amounts based on current projections. The valuation methodology for our reporting units are sensitive to management's forecasts of future profitability, which comes with a level of uncertainty regarding trading volumes and capital market transaction levels. Reductions in trading volumes and/or declines from our expected level of performance in certain product areas assumed in our forecasts could cause a decline in the estimated fair value of our Equities reporting unit and a resulting impairment of a portion of our goodwill.

Refer to Note 10, Goodwill and Intangible Assets in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on goodwill.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Liquidity, Financial Condition and Capital Resources

Our Chief Financial Officer and Global Treasurer are responsible for developing and implementing our liquidity, funding and capital management strategies. These policies are determined by the nature and needs of our day to day business operations, business opportunities, regulatory obligations, and liquidity requirements.

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

## Our Balance Sheet

A business unit level balance sheet and cash capital analysis is prepared and reviewed with senior management on a weekly basis. As a part of this balance sheet review process, capital is allocated to all assets and gross balance sheet limits are adjusted, as necessary. This process ensures that the allocation of capital and costs of capital are incorporated into business decisions. The goals of this process are to protect the firm's platform, enable our businesses to remain competitive, maintain the ability to manage capital proactively and hold businesses accountable for both balance sheet and capital usage.

We actively monitor and evaluate our financial condition and the composition of our assets and liabilities. We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets. Substantially all of our Financial instruments owned and Financial instruments sold, not yet purchased are valued on a daily basis and we monitor and employ balance sheet limits for our various businesses.

In connection with our government and agency fixed income business and our role as a primary dealer in these markets, a sizable portion of our securities inventory is comprised of U.S. government and agency securities and other G-7 government securities.

The following table provides detail on key balance sheet asset and liability line items (dollars in millions):

|                                                                                                                               | November 30, |            |             |
|-------------------------------------------------------------------------------------------------------------------------------|--------------|------------|-------------|
|                                                                                                                               | 2017         | 2016       | %<br>Change |
| Total assets                                                                                                                  | \$39,705.7   | \$36,941.3 | 7.5 %       |
| Cash and cash equivalents                                                                                                     | 5,164.5      | 3,529.1    | 46.3 %      |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations | 578.0        | 857.3      | (32.6)%     |
| Financial instruments owned                                                                                                   | 13,998.1     | 13,809.5   | 1.4 %       |
| Financial instruments sold, not yet purchased                                                                                 | 8,171.9      | 8,359.2    | (2.2 )%     |
| Total Level 3 assets                                                                                                          | 327.7        | 413.3      | (20.7)%     |
| Securities borrowed                                                                                                           | \$7,721.8    | \$7,743.6  | (0.3 )%     |
| Securities purchased under agreements to resell                                                                               | 3,689.6      | 3,862.5    | (4.5 )%     |
| Total securities borrowed and securities purchased under agreements to resell                                                 | \$11,411.4   | \$11,606.1 | (1.7 )%     |
| Securities loaned                                                                                                             | \$2,843.9    | \$2,819.1  | 0.9 %       |
| Securities sold under agreements to repurchase                                                                                | 8,660.5      | 6,791.7    | 27.5 %      |
| Total securities loaned and securities sold under agreements to repurchase                                                    | \$11,504.4   | \$9,610.8  | 19.7 %      |

Total assets at November 30, 2017 and 2016 were \$39.7 billion and \$36.9 billion, respectively, an increase of 7.5%.

During 2017, average total assets were approximately 14.9% higher than total assets at November 30, 2017.

Our total Financial instruments owned inventory at November 30, 2017 was \$14.0 billion, an increase of 1.4% from inventory of \$13.8 billion at November 30, 2016, primarily due to increases in mortgage- and asset-backed securities and corporate debt securities, partially offset by decreases in government, federal agency and other sovereign obligations and derivative contracts inventory. Financial instruments sold, not yet purchased inventory was \$8.2

billion and \$8.4 billion at November 30, 2017 and 2016, respectively, with the decrease primarily driven by decreases in sovereign obligations and derivative contracts inventory, partially offset by increases in government, federal agency and other sovereign obligations. Our overall net inventory position was \$5.8 billion and \$5.5 billion at November 30, 2017 and 2016, respectively. Our Level 3 financial instruments owned as a percentage of total financial instruments owned declined to 2.3% at November 30, 2017 from 3.0% at November 30, 2016.

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Securities financing assets and liabilities include financing for our financial instruments trading activity, matched book transactions and mortgage finance transactions. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell decreased by 1.7% from November 30, 2016 to November 30, 2017, due to an increase in the netting benefit for our collateralized financing transactions, partially offset by an increase in in our matched book activity and an increase in our firm financing of our short inventory. The outstanding balance of our securities loaned and securities sold under agreements to repurchase increased by 19.7% from November 30, 2016 to November 30, 2017 due to an increase in firm financing of our short inventory and an increase an increase in our matched book activity, partially offset by an increase in the netting benefit for our collateralized financing transactions. Our average month end balances of total reverse repos and stock borrows during 2017 were 36.0% higher than the November 30, 2017 balances. Our average month end balances of total repos and stock loans during 2017 were 24.2% higher than the November 30, 2017 balances.

The following table presents our period end balance, average balance and maximum balance at any month end within the periods presented for Securities purchased under agreements to resell and Securities sold under agreements to repurchase (dollars in millions):

|                                                  | Year Ended |         |
|--------------------------------------------------|------------|---------|
|                                                  | 2017       | 2016    |
| Securities Purchased Under Agreements to Resell: |            |         |
| Period end                                       | \$3,690    | \$3,862 |
| Month end average                                | 6,195      | 5,265   |
| Maximum month end                                | 7,814      | 7,001   |
| Securities Sold Under Agreements to Repurchase:  |            |         |
| Period end                                       | \$8,661    | \$6,792 |
| Month end average                                | 11,273     | 11,410  |
| Maximum month end                                | 13,679     | 16,620  |

Fluctuations in the balance of our repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. Additionally, the fluctuations in the balances of our securities purchased under agreements to resell over the periods presented are influenced in any given period by our clients' balances and our clients' desires to execute collateralized financing arrangements via the repurchase market or via other financing products. Average balances and period end balances will fluctuate based on market and liquidity conditions and we consider the fluctuations intraperiod to be typical for the repurchase market.

## Leverage Ratios

The following table presents total assets, total equity, total Jefferies Group LLC member's equity and tangible Jefferies Group LLC member's equity with the resulting leverage ratios (dollars in thousands):

|                                              | November 30, |              |
|----------------------------------------------|--------------|--------------|
|                                              | 2017         | 2016         |
| Total assets                                 | \$39,705,691 | \$36,941,276 |
| Total equity                                 | \$5,759,559  | \$5,370,597  |
| Total Jefferies Group LLC member's equity    | \$5,758,822  | \$5,369,946  |
| Deduct: Goodwill and intangible assets       | (1,842,882 ) | (1,847,124 ) |
| Tangible Jefferies Group LLC member's equity | \$3,915,940  | \$3,522,822  |
| Leverage ratio (1)                           | 6.9          | 6.9          |
| Tangible gross leverage ratio (2)            | 9.7          | 10.0         |

(1) Leverage ratio equals total assets divided by total equity.

Tangible gross leverage ratio (a non-GAAP financial measure) equals total assets less goodwill and identifiable  
(2) intangible assets divided by tangible Jefferies Group LLC member's equity. The tangible gross leverage ratio is  
used by rating agencies in assessing our leverage ratio.

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### JEFFERIES GROUP LLC AND SUBSIDIARIES

#### Liquidity Management

The key objectives of the liquidity management framework are to support the successful execution of our business strategies while ensuring sufficient liquidity through the business cycle and during periods of financial distress. Our liquidity management policies are designed to mitigate the potential risk that we may be unable to access adequate financing to service our financial obligations without material franchise or business impact.

The principal elements of our liquidity management framework are our Contingency Funding Plan, our Cash Capital Policy and our assessment of Maximum Liquidity Outflow.

**Contingency Funding Plan.** Our Contingency Funding Plan is based on a model of a potential liquidity contraction over a one year time period. This incorporates potential cash outflows during a liquidity stress event, including, but not limited to, the following:

- Repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance;
- Maturity rolloff of outstanding letters of credit with no further issuance and replacement with cash collateral;
- Higher margin requirements than currently exist on assets on securities financing activity, including repurchase agreements;
- Liquidity outflows related to possible credit downgrade;
- Lower availability of secured funding;
- Client cash withdrawals;
- The anticipated funding of outstanding investment and loan commitments; and
- Certain accrued expenses and other liabilities and fixed costs.

**Cash Capital Policy.** We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity and the noncurrent portion of long-term borrowings. Uses of cash capital include the following:

- Illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments;
- A portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (i.e., margin requirements); and
- Drawdowns of unfunded commitments.

To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total long-term capital of \$11.2 billion at November 30, 2017 exceeded our cash capital requirements.

**Maximum Liquidity Outflow.** Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment. During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change. As a result of our policy to ensure we have sufficient funds to cover what we estimate may be needed in a liquidity crisis, we hold more cash and unencumbered securities and have greater long-term debt balances than our businesses would otherwise require. As part of this estimation process, we calculate a Maximum Liquidity Outflow that could be experienced in a liquidity crisis.

Maximum Liquidity Outflow is based on a scenario that includes both a market-wide stress and firm-specific stress, characterized by some or all of the following elements:

- Global recession, default by a medium-sized sovereign, low consumer and corporate confidence, and general financial instability.
- Severely challenged market environment with material declines in equity markets and widening of credit spreads.
- Damaging follow-on impacts to financial institutions leading to the failure of a large bank.
- A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Maximum Liquidity Outflow:

- Liquidity needs over a 30-day scenario.

▲ two-notch downgrade of our long-term senior unsecured credit ratings.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

• No support from government funding facilities.

A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis.

• No diversification benefit across liquidity risks. We assume that liquidity risks are additive.

The calculation of our Maximum Liquidity Outflow under the above stresses and modeling parameters considers the following potential contractual and contingent cash and collateral outflows:

• All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products assuming we will be unable to issue new unsecured debt or rollover any maturing debt.

• Repurchases of our outstanding long-term debt in the ordinary course of business as a market maker.

A portion of upcoming contractual maturities of secured funding trades due to either the inability to refinance or the inability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral and counterparty concentration.

Collateral postings to counterparties due to adverse changes in the value of our over-the-counter (“OTC”) derivatives and other outflows due to trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments required by a two-notch downgrade in our credit ratings.

• Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded derivatives and any increase in initial margin and guarantee fund requirements by derivative clearing houses.

• Liquidity outflows associated with our prime services business, including withdrawals of customer credit balances, and a reduction in customer short positions.

• Liquidity outflows to clearing banks to ensure timely settlements of cash and securities transactions.

• Draws on our unfunded commitments considering, among other things, the type of commitment and counterparty.

• Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios, we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At November 30, 2017, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm’s business mix.

As a result of the Tax Cuts and Jobs Act enacted in December 2017, we anticipate incurring a one-time payment to Leucadia in fiscal 2018 of approximately \$55.0 million due to the tax on the deemed repatriation of undistributed foreign earnings.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Sources of Liquidity

The following are financial instruments that are cash and cash equivalents or are deemed by management to be generally readily convertible into cash, marginable or accessible for liquidity purposes within a relatively short period of time (dollars in thousands):

|                                                                                                                      | November<br>30, 2017 | Average<br>Balance<br>Quarter<br>ended<br>November<br>30, 2017<br>(1) | November<br>30, 2016 |   |
|----------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------------------------------------------|----------------------|---|
| Cash and cash equivalents:                                                                                           |                      |                                                                       |                      |   |
| Cash in banks                                                                                                        | \$2,244,207          | \$2,358,187                                                           | \$905,003            |   |
| Certificates of deposit                                                                                              | —                    | 23,901                                                                | 25,000               |   |
| Money market investments                                                                                             | 2,920,285            | 1,693,151                                                             | 2,599,066            |   |
| Total cash and cash equivalents                                                                                      | 5,164,492            | 4,075,239                                                             | 3,529,069            |   |
| Other sources of liquidity:                                                                                          |                      |                                                                       |                      |   |
| Debt securities owned and securities purchased under agreements to resell (2)                                        | 1,031,252            | 917,719                                                               | 1,455,398            |   |
| Other (3)                                                                                                            | 513,293              | 551,223                                                               | 318,646              |   |
| Total other sources                                                                                                  | 1,544,545            | 1,468,942                                                             | 1,774,044            |   |
| Total cash and cash equivalents and other liquidity sources                                                          | \$6,709,037          | \$5,544,181                                                           | \$5,303,113          |   |
| Total cash and cash equivalents and other liquidity sources as % of Total assets                                     | 16.9                 | %                                                                     | 14.4                 | % |
| Total cash and cash equivalents and other liquidity sources as % of Total assets less goodwill and intangible assets | 17.7                 | %                                                                     | 15.1                 | % |

(1) Average balances are calculated based on weekly balances.

Consists of high quality sovereign government securities and reverse repurchase agreements collateralized by U.S. government securities and other high quality sovereign government securities; deposits with a central bank within (2) the European Economic Area, Canada, Australia, Japan, Switzerland or the USA; and securities issued by a designated multilateral development bank and reverse repurchase agreements with underlying collateral comprised of these securities.

Other includes unencumbered inventory representing an estimate of the amount of additional secured financing that (3) could be reasonably expected to be obtained from our financial instruments owned that are currently not pledged after considering reasonable financing haircuts.

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. At November 30, 2017, we had the ability to readily obtain repurchase financing for 72.8% of our inventory at haircuts of 10% or less, which reflects the liquidity of our inventory. In addition, as a matter of our policy, all of these assets have internal capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. Additionally, certain of our Financial instruments owned primarily consisting of bank loans, consumer loans and investments are predominantly funded by long term capital. Under our cash capital policy, we model capital allocation levels that are more stringent than the haircuts used in the market for secured funding; and we maintain surplus capital at these more stringent levels. We continually assess the liquidity of our inventory based on the level at which we could obtain financing in the market place for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes our financial instruments by asset class that we consider to be of a liquid nature and the amount of such assets that have not been pledged as collateral at November 30, 2017 and 2016 (in thousands):



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

|                                                  | November 30,<br>2017               |                                                           | 2016                               |                                                           |
|--------------------------------------------------|------------------------------------|-----------------------------------------------------------|------------------------------------|-----------------------------------------------------------|
|                                                  | Liquid<br>Financial<br>Instruments | Unencumbered<br>Liquid<br>Financial<br>Instruments<br>(2) | Liquid<br>Financial<br>Instruments | Unencumbered<br>Liquid<br>Financial<br>Instruments<br>(2) |
| Corporate equity securities                      | \$1,718,617                        | \$ 272,380                                                | \$1,815,819                        | \$ 280,733                                                |
| Corporate debt securities                        | 2,475,291                          | 57,290                                                    | 1,818,150                          | —                                                         |
| U.S. government, agency and municipal securities | 1,954,697                          | 185,481                                                   | 3,157,737                          | 600,456                                                   |
| Other sovereign obligations                      | 2,050,942                          | 996,421                                                   | 2,258,035                          | 854,942                                                   |
| Agency mortgage-backed securities (1)            | 1,742,977                          | —                                                         | 1,090,391                          | —                                                         |
| Loans and other receivables                      | 243,664                            | —                                                         | 274,842                            | —                                                         |
| Total                                            | \$10,186,188                       | \$ 1,511,572                                              | \$10,414,974                       | \$ 1,736,131                                              |

Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These (1) securities include pass-through securities, securities backed by adjustable rate mortgages (“ARMs”), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.

(2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been. Average liquid financial instruments were \$11.9 billion and \$11.8 billion for 2017 and 2016, respectively. Average unencumbered liquid financial instruments were \$1.6 billion for both 2017 and 2016.

In addition to being able to be readily financed at modest haircut levels, we estimate that each of the individual securities within each asset class above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. There are no restrictions on the unencumbered liquid securities, nor have they been pledged as collateral.

#### Sources of Funding and Capital Resources

Our assets are funded by equity capital, senior debt, convertible debt, securities loaned, securities sold under agreements to repurchase, customer free credit balances, bank loans and other payables.

#### Secured Financing

We rely principally on readily available secured funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short and intermediate-term secured funding, primarily through securities financing transactions. We finance a portion of our long inventory and cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively “repos”), respectively. Approximately 74.4% of our cash and non-cash repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly, repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. For those asset classes not eligible for central clearinghouse financing, we seek to execute our bi-lateral financings on an extended term basis and the tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing. The weighted average maturity of cash and non-cash repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months at November 30, 2017.

Our ability to finance our inventory via central clearinghouses and bi-lateral arrangements is augmented by our ability to draw bank loans on an uncommitted basis under our various banking arrangements. At November 30, 2017, short-term borrowings, which must be repaid within one year or less and include bank loans and overdrafts, borrowings under revolving credit facilities, and structured notes totaled \$436.2 million. Interest under the bank lines

is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily short-term borrowings outstanding were \$482.4 million and \$399.6 million for 2017 and 2016, respectively.

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Our short-term borrowings include the following facilities:

Intraday Credit Facility. The Bank of New York Mellon agrees to make revolving intraday credit advances (“Intraday Credit Facility”) for an aggregate committed amount of \$150.0 million. The Intraday Credit Facility contains a financial covenant, which includes a minimum regulatory net capital requirement for our U.S. broker-dealer, Jefferies LLC (“Jefferies”). Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. At November 30, 2017, we were in compliance with all debt covenants under the Intraday Credit Facility.

For additional details on our short-term borrowings, refer to Note 11, Short-Term Borrowings, in our consolidated financial statements included in this Annual Report on Form 10-K.

In addition to the above financing arrangements, we issue notes backed by eligible collateral under a master repurchase agreement, which provides an additional financing source for our inventory (our “repurchase agreement financing program”). The notes issued under the program are presented in Other secured financings in our Consolidated Statements of Financial Condition. At November 30, 2017, the outstanding notes were \$722.1 million and are as follows:

| Series         | Issued             | Principal       | Maturity          |
|----------------|--------------------|-----------------|-------------------|
| 2015-2 (1) (2) | May 12, 2015       | \$164.0 million | May 15, 2018      |
| 2017-1 (1)     | February 7, 2017   | \$97.4 million  | February 7, 2018  |
| 2017-2 (1) (3) | July 27, 2017      | \$101.3 million | July 24, 2018     |
| 2017-3 (1)     | August 15, 2017    | \$74.4 million  | July 24, 2018     |
| 2017-4 (1) (3) | September 7, 2017  | \$75.0 million  | August 24, 2018   |
| 2017-5 (1) (3) | September 15, 2017 | \$50.0 million  | August 24, 2018   |
| 2017-6 (1) (4) | October 13, 2017   | \$60.0 million  | November 26, 2018 |
| 2017-7 (1) (4) | October 20, 2017   | \$100.0 million | November 26, 2018 |

(1) These notes bear interest at a spread over one month LIBOR.

(2) This note is redeemable at the option of the noteholders.

(3) These notes are redeemable at our option and at the option of the noteholders.

(4) These notes are redeemable at our option.

For additional details on our repurchase agreement financing program, refer to Note 8, Variable Interest Entities, in our consolidated financial statements included in this Annual Report on Form 10-K.

#### Total Long-Term Capital

At November 30, 2017 and 2016, we had total long-term capital of \$11.2 billion and \$10.5 billion resulting in a long-term debt to equity capital ratio of 0.94:1 and 0.96:1, respectively. Our total long-term capital base at November 30, 2017 and 2016 was as follows (in thousands):

|                         | November 30, |              |
|-------------------------|--------------|--------------|
|                         | 2017         | 2016         |
| Long-Term Debt (1)      | \$5,402,590  | \$5,130,822  |
| Total Equity            | 5,759,559    | 5,370,597    |
| Total Long-Term Capital | \$11,162,149 | \$10,501,419 |

Long-term capital at November 30, 2017 excludes \$7.1 million of our structured notes, as these notes mature on May 4, 2018, \$324.8 million of our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the “debentures”), as these debentures were redeemable beginning on November 1, 2017, and \$682.3 million of our 5.125% senior notes, as these notes mature on April 13, 2018. Long-term capital at November 30, 2016 excludes \$6.3 million of our structured notes, as these notes were redeemable on May 4, 2017, and \$346.2 million of our 3.875% convertible debentures, as these debentures were redeemable beginning on November 1, 2017. At November 1, 2017, \$20.2 million of our 3.875% convertible debentures were called. At November 22, 2017, all of the remaining convertible debentures were called for optional redemption and were redeemed on January 5, 2018. Refer to Note 12, Long-Term Debt, in our consolidated financial statements included in this Annual Report on Form 10-K for further details on these notes.

On January 11, 2018, our Board of Directors approved a distribution to our sole limited liability company member, Leucadia National Corporation (“Leucadia”), in the amount of \$200.0 million, payable on January 31, 2018, which will reduce our total equity. In addition, our Board of Directors approved a quarterly distribution policy authorizing us to pay a quarterly distribution

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to our limited liability company members following the end of each of our fiscal quarters. Beginning at the end of our fiscal quarter ending February 28, 2018 and on a quarterly basis thereafter, we will pay our limited liability company members a quarterly dividend equal to 50% of our net earnings.

**Long-Term Debt**

During 2017, long-term debt increased \$933.5 million, net of retirements. During the year ended November 30, 2017, we issued senior notes with a total principal amount of approximately \$609.1 million, net of retirements, and structured notes with a total principal amount of approximately \$329.9 million, net of retirements. In addition, during 2017, we called \$20.2 million of our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the “debentures”). Certain of our structured notes contain various interest rate payment terms and are accounted for at fair value, with changes in fair value resulting from a change in the instrument-specific credit risk presented in other comprehensive income and changes in fair value resulting from non-credit components recognized in Principal transaction revenues. The fair value of all of our structured notes accounted for at fair value at November 30, 2017 was \$607.0 million.

On January 23, 2018, we issued 4.150% senior notes with a principal amount of \$1.0 billion, due 2030. At November 22, 2017, all of the remaining convertible debentures (\$324.8 million at November 30, 2017) were called for optional redemption, with a redemption date of January 5, 2018, at a redemption price equal to 100% of the principal amount of the convertible debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. All of these remaining convertible debentures were redeemed on January 5, 2018. In addition, our \$682.3 million 5.125% senior notes will mature in April 2018 and we will pay a \$200.0 million distribution to Leucadia on January 31, 2018, which will reduce our total capital. For further information, see Note 12, Long-Term Debt, and Note 19, Related Party Transactions, in our consolidated financial statements included in this Annual Report on Form 10-K.

At November 30, 2017, our long-term debt has a weighted average maturity of approximately seven years.

Our long-term debt ratings at November 30, 2017 are as follows:

|                               | Rating | Outlook |
|-------------------------------|--------|---------|
| Moody's Investors Service (1) | Baa3   | Stable  |
| Standard and Poor's           | BBB-   | Stable  |
| Fitch Ratings                 | BBB-   | Stable  |

(1) On January 10, 2018, Moody's Investors Service reaffirmed our long-term debt rating of Baa3 and our rating outlook of stable.

At November 30, 2017, the long-term ratings on our principal operating broker-dealers, Jefferies and Jefferies International Limited (a U.K. broker-dealer) are as follows:

|                           |        | Jefferies |               |         |
|---------------------------|--------|-----------|---------------|---------|
|                           |        | Jefferies | International | Limited |
|                           | Rating | Outlook   | Rating        | Outlook |
| Moody's Investors Service | Baa2   | Stable    | Baa2          | Stable  |
| Standard and Poor's       | BBB    | Stable    | BBB           | Stable  |

(1) On January 10, 2018, Moody's Investors Service reaffirmed the long-term ratings on our principal operating broker-dealers of Baa2 and their rating outlooks of stable.

Access to external financing to finance our day to day operations, as well as the cost of that financing, is dependent upon various factors, including our debt ratings. Our current debt ratings are dependent upon many factors, including industry dynamics, operating and economic environment, operating results, operating margins, earnings trend and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit ratings. While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact on our business and trading results in future periods is inherently uncertain and depends on a number of factors, including the magnitude of the downgrade, the

behavior of individual clients and future mitigating action taken by us.

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In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. At November 30, 2017, the amount of additional collateral that could be called by counterparties, exchanges and clearing organizations under the terms of such agreements in the event of a downgrade of our long-term credit rating below investment grade was \$48.5 million. For certain foreign clearing organizations credit rating is only one of several factors employed in determining collateral that could be called. The above represents management's best estimate for additional collateral to be called in the event of credit rating downgrade. The impact of additional collateral requirements is considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

Equity Capital

As compared to November 30, 2016, the increase to total Jefferies Group LLC member's equity at November 30, 2017 is primarily attributed to net earnings in 2017.

Net Capital

As a broker-dealer registered with the SEC and member firms of the Financial Industry Regulatory Authority ("FINRA"), Jefferies is subject to the Securities and Exchange Commission Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital, and has elected to calculate minimum capital requirements using the alternative method permitted by Rule 15c3-1 in calculating net capital. Jefferies, as a dually-registered U.S. broker-dealer and FCM, is also subject to Rule 1.17 of the Commodity Futures Trading Commission ("CFTC"), which sets forth minimum financial requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17. In November 2017, Jefferies Execution Services, Inc. merged with and into Jefferies, with Jefferies as the surviving entity.

At November 30, 2017, Jefferies' net capital and excess net capital were as follows (in thousands):

| Net Capital | Excess Net Capital |
|-------------|--------------------|
|-------------|--------------------|

|           |             |             |
|-----------|-------------|-------------|
| Jefferies | \$1,418,930 | \$1,330,169 |
|-----------|-------------|-------------|

FINRA is the designated examining authority for our U.S. broker-dealer and the National Futures Association is the designated self-regulatory organization for Jefferies as an FCM.

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited which is subject to the regulatory supervision and requirements of the Financial Conduct Authority in the United Kingdom. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. While entities that register under these provisions will be subject to regulatory capital requirements, these regulatory capital requirements have not yet been finalized. We expect that these provisions will result in modifications to the regulatory capital requirements of some of our entities, and will result in some of our other entities becoming subject to regulatory capital requirements for the first time, including Jefferies Financial Services, Inc., which registered as a swap dealer with the CFTC during January 2013 and Jefferies Financial Products LLC, which registered during August 2014.

The regulatory capital requirements referred to above may restrict our ability to withdraw capital from our regulated subsidiaries.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

We have contractual commitments arising in the ordinary course of business for securities loaned or purchased under agreements to resell, repurchase agreements, future purchases and sales of foreign currencies, securities transactions on a when-issued basis and underwriting. Each of these financial instruments and activities contains varying degrees of off-balance sheet risk whereby the fair values of the securities underlying the financial instruments may be in excess of, or less than, the contract amount. The settlement of these transactions is not expected to have a material

effect upon our consolidated financial statements.

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In the normal course of business we engage in other off balance sheet arrangements, including derivative contracts. Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statements of Financial Condition. Rather, the fair values of derivative contracts are reported in our Consolidated Statements of Financial Condition as Financial instruments owned or Financial instruments sold, not yet purchased as applicable. Derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net by counterparty basis when a legal right of offset exists under an enforceable master netting agreement. For additional information about our accounting policies and our derivative activities see Note 2, Summary of Significant Accounting Policies, Note 4, Fair Value Disclosures, and Note 5, Derivative Financial Instruments, in our consolidated financial statements included in this Annual Report on Form 10-K.

We are routinely involved with variable interest entities ("VIEs") in the normal course of business. At November 30, 2017, we did not have any commitments to purchase assets from these VIEs. For additional information regarding our involvement with VIEs, see Note 7, Securitization Activities, and Note 8, Variable Interest Entities, in our consolidated financial statements included in this Annual Report on Form 10-K.

Due to the uncertainty regarding the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded from the below contractual obligations table. See Note 15, Income Taxes, in our consolidated financial statements included in this Annual Report on Form 10-K for further information.

For information on our commitments and guarantees, see Note 16, Commitments, Contingencies and Guarantees, in our consolidated financial statements included in this Annual Report on Form 10-K.

**Contractual Obligations**

The table below provides information about our contractual obligations at November 30, 2017. The table presents principal cash flows with expected maturity dates (in millions):

|                                                                                                         | Expected Maturity Date |           |                     |                     |                      |            |
|---------------------------------------------------------------------------------------------------------|------------------------|-----------|---------------------|---------------------|----------------------|------------|
|                                                                                                         | 2018                   | 2019      | 2020<br>and<br>2021 | 2022<br>and<br>2023 | 2024<br>and<br>Later | Total      |
| Contractual obligations:                                                                                |                        |           |                     |                     |                      |            |
| Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums) (1) | \$1,014.3              | \$734.9   | \$1,401.5           | \$645.1             | \$2,621.0            | \$6,416.8  |
| Interest payment obligations on long term debt (2)                                                      | 319.8                  | 280.0     | 443.4               | 323.1               | 1,307.9              | 2,674.2    |
| Operating leases (net of subleases) - premises and equipment (3)                                        | 59.5                   | 57.7      | 98.9                | 106.1               | 576.3                | 898.5      |
| Master sale and leaseback agreement (3)                                                                 | 1.5                    | 0.2       | —                   | —                   | —                    | 1.7        |
| Purchase obligations (4)                                                                                | 93.7                   | 80.9      | 114.2               | 63.2                | 73.9                 | 425.9      |
| Total contractual obligations                                                                           | \$1,488.8              | \$1,153.7 | \$2,058.0           | \$1,137.5           | \$4,579.1            | \$10,417.1 |

(1) For additional information on long-term debt, see Note 12, Long-Term Debt, in our consolidated financial statements included in this Annual Report on Form 10-K.

(2) Amounts based on applicable interest rates at November 30, 2017.

For additional information on operating leases related to certain premises and equipment and a master sale and (3) leaseback agreement, see Note 16, Commitments, Contingencies and Guarantees, in our consolidated financial statements included in this Annual Report on Form 10-K.

Purchase obligations for goods and services primarily include payments for outsourcing and computer and (4) telecommunications maintenance agreements. Purchase obligations at November 30, 2017 reflect the minimum contractual obligations under legally enforceable contracts.

Subsequent to November 30, 2017 and on or before January 31, 2018, we expect to make cash payments of \$850.7 million related to compensation awards for fiscal 2017. See Note 14, Compensation Plans, in our consolidated financial statements included in this Annual Report on Form 10-K for further information.



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#### Risk Management

##### Overview

Risk is an inherent part of our business and activities. The extent to which we properly and effectively identify, assess, monitor and manage each of the various types of risk involved in our activities is critical to our financial soundness, viability and profitability. Accordingly, we have a comprehensive risk management approach, with a formal governance structure and processes to identify, assess, monitor and manage risk. Principal risks involved in our business activities include market, credit, liquidity and capital, operational, legal and compliance, new business, and reputational risk.

Risk management is a multifaceted process that requires communication, judgment and knowledge of financial products and markets. Accordingly, our risk management process encompasses the active involvement of executive and senior management, and also many departments independent of the revenue-producing business units, including the Risk Management, Operations, Compliance, Legal and Finance Departments. Our risk management policies, procedures and methodologies are fluid in nature and are subject to ongoing review and modification.

For discussion of liquidity and capital risk management, refer to the “Liquidity, Financial Condition and Capital Resources” section herein.

##### Governance and Risk Management Structure

Our Board of Directors. Our Board of Directors and its Audit Committee play an important role in reviewing our risk management process and risk tolerance. Our Board of Directors and Audit Committee are provided with data relating to risk at each of its regularly scheduled meetings. Our Chief Risk Officer and Global Treasurer meet with the Board of Directors on not less than a quarterly basis to present our risk profile and liquidity profile and to respond to questions.

Risk Committees. We make extensive use of internal committees to govern risk taking and ensure that business activities are properly identified, assessed, monitored and managed. Our Risk Management Committee meets weekly to discuss our risk, capital, and liquidity profile in detail. In addition, business or market trends and their potential impact on the risk profile are discussed. Membership is comprised of our Chief Executive Officer and Chairman, Chairman of the Executive Committee, Chief Financial Officer, Chief Risk Officer and Global Treasurer. The Committee approves limits for us as a whole, and across risk categories and business lines. It also reviews all limit breaches. Limits are reviewed on at least an annual basis. Other risk related committees include Market Risk Management, Credit Risk Management, New Business, Underwriting Acceptance, Margin Oversight, Executive Management and Operating Committees. These Committees govern risk taking and ensure that business activities are properly managed for their area of oversight.

Risk Related Policies. We make use of various policies in the risk management process:

• **Market Risk Policy-** This policy sets out roles, responsibilities, processes and escalation procedures regarding market risk management.

• **Independent Price Verification Policy-** This policy sets out roles, responsibilities, processes and escalation procedures regarding independent price verification for securities and other financial instruments.

• **Operational Risk Management Policies-** These policies sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.

• **Credit Risk Management Policy-** This policy provides standards and controls for credit risk-taking throughout our global business activities. This policy also governs credit limit methodology and counterparty review.

• **Model Risk Management Policy-** This policy sets out roles, processes and escalation procedures regarding all aspects of model risk management.

• **Vendor Risk Management Policy-** This policy sets out roles, processes and escalation procedures regarding vendor risk management.

##### Risk Management Key Metrics

We apply a comprehensive framework of limits on a variety of key metrics to constrain the risk profile of our business activities. The size of the limit reflects our risk tolerance for a certain activity under normal business conditions. Key metrics included in our framework include inventory position and exposure limits on a gross and net basis, scenario

analysis and stress tests, Value-at-Risk, sensitivities (greeks), exposure concentrations, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital, and performance analysis metrics.

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## Market Risk

The potential for changes in the value of financial instruments is referred to as market risk. Our market risk generally represents the risk of loss that may result from a change in the value of a financial instrument as a result of fluctuations in interest rates, credit spreads, equity prices, commodity prices and foreign exchange rates, along with the level of volatility. Interest rate risks result primarily from exposure to changes in the yield curve, the volatility of interest rates, and credit spreads. Equity price risks result from exposure to changes in prices and volatilities of individual equities, equity baskets and equity indices. Commodity price risks result from exposure to the changes in prices and volatilities of individual commodities, commodity baskets and commodity indices. Market risk arises from market making, proprietary trading, underwriting, specialist and investing activities. We seek to manage our exposure to market risk by diversifying exposures, controlling position sizes, and establishing economic hedges in related securities or derivatives. Due to imperfections in correlations, gains and losses can occur even for positions that are hedged. Position limits in trading and inventory accounts are established and monitored on an ongoing basis. Each day, consolidated position and exposure reports are prepared and distributed to various levels of management, which enable management to monitor inventory levels and results of the trading groups.

## Value-at-Risk

We estimate Value-at-Risk ("VaR") using a model that simulates revenue and loss distributions on our trading portfolios by applying historical market changes to the current portfolio. Using the results of this simulation, VaR measures the potential loss in value of our financial instruments due to adverse market movements over a specified time horizon at a given confidence level. We calculate a one-day VaR using a one year look-back period measured at a 95% confidence level.

As with all measures of VaR, our estimate has inherent limitations due to the assumption that historical changes in market conditions are representative of the future. Furthermore, the VaR model measures the risk of a current static position over a one-day horizon and might not capture the market risk of positions that cannot be liquidated or offset with hedges in a one-day period. Published VaR results reflect past trading positions while future risk depends on future positions.

While we believe the assumptions and inputs in our risk model are reasonable, we could incur losses greater than the reported VaR because the historical market prices and rates changes may not be an accurate measure of future market events and conditions. Consequently, this VaR estimate is only one of a number of tools we use in our daily risk management activities.

When comparing our VaR numbers to those of other firms, it is important to remember that different methodologies and assumptions could produce significantly different results.

Our average daily VaR slightly declined to \$7.79 million for 2017 from \$7.91 million for 2016. This slight decline was due to lower equity, currency rate and commodity price risk, partially offset by an increase in interest rate risk and a lower diversification benefit.

The following table illustrates each separate component of VaR for each component of market risk by interest rate, equity, currency and commodity products, as well as for our overall trading positions using the past 365 days of historical data (in millions):

| Risk Categories:           | Daily VaR (1)                  |                                                           |          |         |                                |                    |         |        |
|----------------------------|--------------------------------|-----------------------------------------------------------|----------|---------|--------------------------------|--------------------|---------|--------|
|                            | VaR at<br>November<br>30, 2017 | Value-at-Risk In Trading Portfolios<br>Daily VaR for 2017 |          |         | VaR at<br>November<br>30, 2016 | Daily VaR for 2016 |         |        |
|                            |                                | Average                                                   | High     | Low     |                                | Average            | High    | Low    |
| Interest Rates             | \$ 3.38                        | \$ 5.11                                                   | \$ 9.59  | \$ 2.63 | \$ 5.82                        | \$4.96             | \$6.99  | \$3.43 |
| Equity Prices              | 2.90                           | 5.17                                                      | 17.20    | 2.52    | 6.71                           | 5.42               | 9.55    | 2.60   |
| Currency Rates             | 0.18                           | 0.22                                                      | 0.65     | 0.06    | 0.19                           | 0.41               | 3.01    | 0.07   |
| Commodity Prices           | 0.35                           | 0.73                                                      | 2.20     | 0.27    | 0.51                           | 0.84               | 2.44    | 0.31   |
| Diversification Effect (2) | (1.86 )                        | (3.44 )                                                   | N/A      | N/A     | (4.79 )                        | (3.72 )            | N/A     | N/A    |
| Firmwide                   | \$ 4.95                        | \$ 7.79                                                   | \$ 17.55 | \$ 4.52 | \$ 8.44                        | \$7.91             | \$11.40 | \$4.30 |

(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 four risk 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., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk) 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 four risk categories and arises because the market risk categories are not perfectly correlated.

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The chart below reflects our daily VaR over the last four quarters:

The significant increase in the daily VaR in March 2017 was due to an equity block position, which was subsequently sold within a few days.

The primary method used to test the efficacy of the VaR model is to compare our actual daily net revenue for those positions included in our VaR calculation with the daily VaR estimate. This evaluation is performed at various levels of the trading portfolio, from the holding company level down to specific business lines. For the VaR model, trading related revenue is defined as principal transaction revenue, trading related commissions, revenue from securitization activities and net interest income. For a 95% confidence one day VaR model (i.e., no intra-day trading), assuming current changes in market value are consistent with the historical changes used in the calculation, net trading losses would not be expected to exceed the VaR estimates more than twelve times on an annual basis (i.e., once in every 20 days). During 2017, results of the evaluation at the aggregate level demonstrated no days when the net trading loss exceeded the 95% one day VaR.

Certain positions within financial instruments are not included in the VaR model because VaR is not the most appropriate measure of risk. Accordingly, Risk Management has additional procedures in place to assure that the level of potential loss that would arise from market movements are within acceptable levels. Such procedures include performing stress tests, monitoring concentration risk and tracking price target/stop loss levels. The table below presents the potential reduction in net income associated with a 10% stress of the fair value of the positions that are not included in the VaR model at November 30, 2017 (in thousands):

|                                      | 10%<br>Sensitivity |
|--------------------------------------|--------------------|
| Private investments                  | \$ 15,464          |
| Corporate debt securities in default | 13,755             |
| Trade claims                         | 3,141              |

VaR also excludes the impact of changes in our own credit spreads on our structured notes for which the fair value option was elected. The estimated credit spread risk sensitivity for each one basis point widening in our own credit spreads on financial liabilities for which the fair value option was elected was an increase in value of approximately \$705,000 at November 30, 2017, which is included in other comprehensive income.

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Daily Net Trading Revenue

There were 14 days with trading losses out of a total of 252 trading days in 2017. The histogram below presents the distribution of our actual daily net trading revenue for substantially all of our trading activities for 2017 (in millions).

Scenario Analysis and Stress Tests

While VaR measures potential losses due to adverse changes in historical market prices and rates, we use stress testing to analyze the potential impact of specific events or moderate or extreme market moves on our current portfolio both firm wide and within business segments. Stress scenarios comprise both historical market price and rate changes and hypothetical market environments, and generally involve simultaneous changes of many risk factors. Indicative market changes in our scenarios include, but are not limited to, a large widening of credit spreads, a substantial decline in equities markets, significant moves in selected emerging markets, large moves in interest rates, changes in the shape of the yield curve and large moves in European markets. In addition, we also perform ad hoc stress tests and add new scenarios as market conditions dictate. Because our stress scenarios are meant to reflect market moves that occur over a period of time, our estimates of potential loss assume some level of position reduction for liquid positions. Unlike our VaR, which measures potential losses within a given confidence interval, stress scenarios do not have an associated implied probability; rather, stress testing is used to estimate the potential loss from market moves that tend to be larger than those embedded in the VaR calculation.

Stress testing is performed and reported regularly as part of the risk management process. Stress testing is used to assess our aggregate risk position as well as for limit setting and risk/reward analysis.

Counterparty Credit Risk and Issuer Country Exposure

Counterparty Credit Risk

Credit risk is the risk of loss due to adverse changes in a counterparty's credit worthiness or its ability or willingness to meet its financial obligations in accordance with the terms and conditions of a financial contract. We are exposed to credit risk as trading counterparty to other broker-dealers and customers, as a direct lender and through extending loan commitments, as a holder of securities and as a member of exchanges and clearing organizations.

It is critical to our financial soundness and profitability that we properly and effectively identify, assess, monitor, and manage the various credit and counterparty risks inherent in our businesses. Credit is extended to counterparties in a controlled manner in order to generate acceptable returns, whether such credit is granted directly or is incidental to a transaction. All extensions of credit are monitored and managed on an enterprise level in order to limit exposure to loss related to credit risk.

Our Credit Risk Framework is responsible for identifying credit risks throughout the operating businesses, establishing counterparty limits and managing and monitoring those credit limits. Our framework includes:

- Defining credit limit guidelines and credit limit approval processes;
- Providing a consistent and integrated credit risk framework across the enterprise;
- Approving counterparties and counterparty limits with parameters set by the Risk Management Committee;

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- Negotiating, approving and monitoring credit terms in legal and master documentation;
- Delivering credit limits to all relevant sales and trading desks;
- Maintaining credit reviews for all active and new counterparties;
- Operating a control function for exposure analytics and exception management and reporting;
- Determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;
- Actively managing daily exposure, exceptions, and breaches;
- Monitoring daily margin call activity and counterparty performance (in concert with the Margin Department); and
- Setting the minimum global requirements for systems, reports, and technology.

Credit Exposures

Credit exposure exists across a wide-range of products, which includes the following:

- Loans and lending, arising in connection with our capital markets activities and forward settling traded loans;
- Securities and margin finance, which represents securities financing transactions (reverse repurchase agreements, repurchase agreements and securities lending agreements);
- OTC derivatives, which are reported net by counterparty when a legal right of setoff exists under an enforceable master netting agreement, and includes forward settling trades;

•Cash and cash equivalents, which includes both interest-bearing and non-interest bearing deposits at banks.

Current counterparty credit exposures at November 30, 2017 and 2016 are summarized in the tables below and provided by credit quality, region and industry (in millions). Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Collateral taken into consideration includes both collateral received as cash as well as collateral received in the form of securities or other arrangements. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk arising from inventory positions (for example, corporate debt securities and secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposure at November 30, 2017, excluding cash and cash equivalents, the percentage of exposure from investment grade counterparties increased to 92% from 82% at November 30, 2016, and with a majority concentrated in North America.

When comparing our credit exposure at November 30, 2017 with credit exposure at November 30, 2016, excluding cash and cash equivalents, current exposure increased 9% to approximately \$1,353 million from \$1,247 million.

Counterparty credit exposure increased over the year by 24% from OTC derivatives, primarily driven by investment grade North American banks and broker-dealers, and by 22% from securities and margin finance, primarily driven by investment grade European banks and broker-dealers. Counterparty credit exposure from our loans and lending portfolio decreased by 46%, primarily attributed to North American loans.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Counterparty Credit Exposure by Credit Rating

|             | Loans and Lending |                   | Securities and Margin Finance |                   | OTC Derivatives   |                   | Total             |                   | Cash and Cash Equivalents |                   | Total with Cash and Cash Equivalents |                   |
|-------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|--------------------------------------|-------------------|
|             | At                | At                | At                            | At                | At                | At                | At                |                   | At                        | At                | At                                   | At                |
|             | November 30, 2017 | November 30, 2016 | November 30, 2017             | November 30, 2016 | November 30, 2017 | November 30, 2016 | November 30, 2017 | November 30, 2016 | November 30, 2017         | November 30, 2016 | November 30, 2017                    | November 30, 2016 |
| AAA Range   | \$—               | \$—               | \$6.4                         | \$—               | \$—               | \$—               | \$6.4             | \$—               | \$2,924.2                 | \$2,601.4         | \$2,930.6                            | \$2,601.4         |
| AA Range    | 47.7              | 44.0              | 61.3                          | 87.3              | 3.8               | 2.1               | 112.8             | 133.4             | 158.6                     | 37.0              | 271.4                                | 170.4             |
| A Range     | 1.2               | 4.2               | 603.0                         | 539.2             | 260.6             | 214.7             | 864.8             | 758.1             | 1,751.9                   | 814.1             | 2,616.7                              | 1,572.2           |
| BBB Range   | 0.5               | 4.9               | 232.5                         | 117.3             | 28.5              | 9.4               | 261.5             | 131.6             | 152.3                     | 51.2              | 413.8                                | 182.8             |
| BB or Lower | 12.5              | 100.1             | 8.1                           | 6.2               | 16.7              | 23.8              | 37.3              | 130.1             | 100.6                     | 25.1              | 137.9                                | 155.2             |
| Unrated     | 70.1              | 93.5              | —                             | —                 | —                 | —                 | 70.1              | 93.5              | 76.9                      | 0.3               | 147.0                                | 93.8              |
| Total       | \$132.0           | \$246.7           | \$911.3                       | \$750.0           | \$309.6           | \$250.0           | \$1,352.9         | \$1,246.7         | \$5,164.5                 | \$3,529.1         | \$6,517.4                            | \$4,775.8         |

## Counterparty Credit Exposure by Region

|                          | Loans and Lending |                   | Securities and Margin Finance |                   | OTC Derivatives   |                   | Total             |                   | Cash and Cash Equivalents |                   | Total with Cash and Cash Equivalents |                   |
|--------------------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|--------------------------------------|-------------------|
|                          | At                | At                | At                            | At                | At                | At                | At                |                   | At                        | At                | At                                   | At                |
|                          | November 30, 2017 | November 30, 2016 | November 30, 2017             | November 30, 2016 | November 30, 2017 | November 30, 2016 | November 30, 2017 | November 30, 2016 | November 30, 2017         | November 30, 2016 | November 30, 2017                    | November 30, 2016 |
| Asia/Latin America/Other | \$3.0             | \$4.9             | \$45.8                        | \$16.3            | \$0.3             | \$32.7            | \$49.1            | \$53.9            | \$280.7                   | \$165.8           | \$329.8                              | \$219.7           |
| Europe                   | 1.0               | —                 | 403.5                         | 234.4             | 54.0              | 20.9              | 458.5             | 255.3             | 540.0                     | 248.0             | 998.5                                | 503.3             |
| North America            | 128.0             | 241.8             | 462.0                         | 499.3             | 255.3             | 196.4             | 845.3             | 937.5             | 4,343.8                   | 3,115.3           | 5,189.1                              | 4,052.8           |
| Total                    | \$132.0           | \$246.7           | \$911.3                       | \$750.0           | \$309.6           | \$250.0           | \$1,352.9         | \$1,246.7         | \$5,164.5                 | \$3,529.1         | \$6,517.4                            | \$4,775.8         |

## Counterparty Credit Exposure by Industry

|                       | Loans and Lending |                   | Securities and Margin Finance |                   | OTC Derivatives   |                   | Total             |                   | Cash and Cash Equivalents |                   | Total with Cash and Cash Equivalents |                   |
|-----------------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|--------------------------------------|-------------------|
|                       | At                | At                | At                            | At                | At                | At                | At                |                   | At                        | At                | At                                   | At                |
|                       | November 30, 2017 | November 30, 2016 | November 30, 2017             | November 30, 2016 | November 30, 2017 | November 30, 2016 | November 30, 2017 | November 30, 2016 | November 30, 2017         | November 30, 2016 | November 30, 2017                    | November 30, 2016 |
| Asset Managers        | \$—               | \$—               | \$15.9                        | \$39.7            | \$7.1             | \$10.9            | \$23.0            | \$50.6            | \$2,920.3                 | \$2,599.1         | \$2,943.3                            | \$2,649.7         |
| Banks, Broker-dealers | 1.7               | 0.2               | 620.8                         | 435.9             | 282.6             | 170.4             | 905.1             | 606.5             | 2,244.2                   | 930.0             | 3,149.3                              | 1,536.5           |
| Commodities           | —                 | —                 | —                             | —                 | —                 | 3.3               | —                 | 3.3               | —                         | —                 | —                                    | 3.3               |
| Corporates            | 87.5              | 204.4             | —                             | —                 | 14.7              | 18.4              | 102.2             | 222.8             | —                         | —                 | 102.2                                | 222.8             |
| Other                 | 42.8              | 42.1              | 274.6                         | 274.4             | 5.2               | 47.0              | 322.6             | 363.5             | —                         | —                 | 322.6                                | 363.5             |
| Total                 | \$132.0           | \$246.7           | \$911.3                       | \$750.0           | \$309.6           | \$250.0           | \$1,352.9         | \$1,246.7         | \$5,164.5                 | \$3,529.1         | \$6,517.4                            | \$4,775.8         |

For additional information regarding credit exposure to OTC derivative contracts, refer to Note 5, Derivative Financial Instruments, in our consolidated financial statements included in this Annual Report on Form 10-K.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Country Risk Exposure

Country risk is the risk that events or developments that occur in the general environment of a country or countries due to economic, political, social, regulatory, legal or other factors, will affect the ability of obligors of the country to honor their obligations. We define the country of risk as the country of jurisdiction or domicile of the obligor. The following tables reflect our top exposure at November 30, 2017 and 2016 to the sovereign governments, corporations and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (in millions):

| November 30, 2017 |                                    |                                     |                                  |                   |                               |                 |                           |                                     |                                     |
|-------------------|------------------------------------|-------------------------------------|----------------------------------|-------------------|-------------------------------|-----------------|---------------------------|-------------------------------------|-------------------------------------|
|                   | Issuer Risk                        |                                     |                                  | Counterparty Risk |                               |                 |                           | Issuer and Counterparty Risk        |                                     |
|                   | Fair Value of Long Debt Securities | Fair Value of Short Debt Securities | Net Derivative Notional Exposure | Loans and Lending | Securities and Margin Finance | OTC Derivatives | Cash and Cash Equivalents | Excluding Cash and Cash Equivalents | Including Cash and Cash Equivalents |
| Germany           | \$493.3                            | \$(396.2)                           | \$ 98.2                          | \$—               | \$ 78.9                       | \$ 2.1          | \$ 181.9                  | \$276.3                             | \$ 458.2                            |
| United Kingdom    | 634.6                              | (394.4)                             | (72.1)                           | 0.7               | 97.8                          | 26.9            | 45.0                      | 293.5                               | 338.5                               |
| Spain             | 217.9                              | (181.3)                             | 7.5                              | —                 | —                             | —               | 151.6                     | 44.1                                | 195.7                               |
| Japan             | 100.1                              | (81.3)                              | 4.1                              | —                 | 25.8                          | —               | 136.3                     | 48.7                                | 185.0                               |
| Canada            | 205.3                              | (164.7)                             | (128.5)                          | —                 | 17.3                          | 222.8           | 7.4                       | 152.2                               | 159.6                               |
| Netherlands       | 315.9                              | (210.9)                             | 0.9                              | —                 | 44.1                          | 2.2             | —                         | 152.2                               | 152.2                               |
| Switzerland       | 31.0                               | (16.9)                              | (1.1)                            | —                 | 54.3                          | 3.3             | 4.5                       | 70.6                                | 75.1                                |
| Hong Kong         | 23.0                               | (25.1)                              | —                                | —                 | 1.0                           | —               | 58.7                      | (1.1)                               | 57.6                                |
| Australia         | 50.5                               | (14.0)                              | 0.3                              | —                 | 15.0                          | 0.3             | 4.7                       | 52.1                                | 56.8                                |
| Singapore         | 36.0                               | (4.2)                               | —                                | —                 | —                             | —               | 24.7                      | 31.8                                | 56.5                                |
| Total             | \$2,107.6                          | \$(1,489.0)                         | \$ (90.7)                        | \$0.7             | \$ 334.2                      | \$ 257.6        | \$ 614.8                  | \$1,120.4                           | \$ 1,735.2                          |
| November 30, 2016 |                                    |                                     |                                  |                   |                               |                 |                           |                                     |                                     |
|                   | Issuer Risk                        |                                     |                                  | Counterparty Risk |                               |                 |                           | Issuer and Counterparty Risk        |                                     |
|                   | Fair Value of Long Debt Securities | Fair Value of Short Debt Securities | Net Derivative Notional Exposure | Loans and Lending | Securities and Margin Finance | OTC Derivatives | Cash and Cash Equivalents | Excluding Cash and Cash Equivalents | Including Cash and Cash Equivalents |
| Germany           | \$318.9                            | \$(166.4)                           | \$ 815.3                         | \$—               | \$ 86.9                       | \$ 0.3          | \$ 111.9                  | \$1,055.0                           | \$ 1,166.9                          |
| Italy             | 1,069.8                            | (844.2)                             | 69.8                             | —                 | —                             | 0.2             | —                         | 295.6                               | 295.6                               |
| France            | 356.2                              | (538.4)                             | 419.5                            | —                 | 24.8                          | 3.4             | —                         | 265.5                               | 265.5                               |
| United Kingdom    | 290.1                              | (136.4)                             | (12.7)                           | —                 | 61.0                          | 13.4            | 37.7                      | 215.4                               | 253.1                               |
| Spain             | 210.4                              | (151.7)                             | —                                | —                 | —                             | 0.3             | 50.2                      | 59.0                                | 109.2                               |
| Hong Kong         | 34.0                               | (30.2)                              | 1.3                              | —                 | 0.5                           | —               | 79.1                      | 5.6                                 | 84.7                                |
| Switzerland       | 80.7                               | (33.6)                              | 12.1                             | —                 | 11.4                          | 2.2             | 4.1                       | 72.8                                | 76.9                                |
| Ireland           | 124.4                              | (61.2)                              | 4.4                              | —                 | 0.6                           | —               | —                         | 68.2                                | 68.2                                |
| Singapore         | 36.2                               | (9.6)                               | 3.9                              | —                 | —                             | —               | 16.1                      | 30.5                                | 46.6                                |
| Qatar             | 15.2                               | (0.7)                               | —                                | —                 | —                             | 27.1            | —                         | 41.6                                | 41.6                                |
| Total             | \$2,535.9                          | \$(1,972.4)                         | \$ 1,313.6                       | \$—               | \$ 185.2                      | \$ 46.9         | \$ 299.1                  | \$2,109.2                           | \$ 2,408.3                          |

In addition, our net issuer and counterparty risk exposure to Puerto Rico was \$29.7 million at November 30, 2017, which is in connection with our municipal securities market-making activities. The government of Puerto Rico is seeking to restructure much of its \$73.8 billion in debt on a voluntary basis. At November 30, 2017, we had no other

material exposure to countries where either sovereign or non-sovereign sectors potentially pose potential default risk as the result of liquidity concerns.

#### Operational Risk

Operational risk refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, business disruptions and inadequacies or breaches in our internal control processes. Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In addition, the transactions we process have become increasingly complex. If our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions.

Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

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

Each revenue producing and support department is responsible for the management and reporting of operational risks and the implementation of the Operational Risk policy and processes within the department. Operational Risk policy, framework, infrastructure, methodology, processes, guidance and oversight of the operational risk processes are centralized and consistent firm wide and also subject to regional operational risk governance.

**Legal and Compliance Risk**

Legal and compliance risk includes the risk of noncompliance with applicable legal and regulatory requirements. We are subject to extensive regulation in the different jurisdictions in which we conduct our business. We have various procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, credit granting, collection activities, anti-money laundering and record keeping. These risks also reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we continuously review new and pending regulations and legislation and participate in various industry interest groups. We also maintain an anonymous hotline for employees or others to report suspected inappropriate actions by us or by our employees or agents.

**New Business Risk**

New business risk refers to the risks of entering into a new line of business or offering a new product. By entering a new line of business or offering a new product, we may face risks that we are unaccustomed to dealing with and may increase the magnitude of the risks we currently face. The New Business Committee reviews proposals for new businesses and new products to determine if we are prepared to handle the additional or increased risks associated with entering into such activities.

**Reputational Risk**

We recognize that maintaining our reputation among clients, investors, regulators and the general public is an important aspect of minimizing legal and operational risks. Maintaining our reputation depends on a large number of factors, including the selection of our clients and the conduct of our business activities. We seek to maintain our reputation by screening potential clients and by conducting our business activities in accordance with high ethical

standards. Our reputation and business activity can be affected by statements and actions of third parties, even false or misleading statements by them. We actively monitor public comment concerning us and are vigilant in seeking to assure accurate information and perception prevails.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Quantitative and qualitative disclosures about market risk are set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations —Risk Management” in Part II, Item 7 of this Form 10-K.

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Item 8. Financial Statements and Supplementary Data

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated our internal control over financial reporting as of November 30, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). As a result of this assessment and based on the criteria in this framework, management has concluded that, as of November 30, 2017, our internal control over financial reporting was effective.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited and issued a report on our internal control over financial reporting, which appears on page 48.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Member of Jefferies Group LLC:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Jefferies Group LLC and subsidiaries (the "Company") as of November 30, 2017, the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the year ended November 30, 2017, and the related notes and the schedules listed in the Index at Items (15)(a)(1) and (15)(a)(2) (collectively referred to as the "financial statements"). We have also audited, the Company's internal control over financial reporting as of November 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of November 30, 2017, and the results of its operations and its cash flows for the year ended November 30, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2017 based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

**Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying 10-K. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

New York, NY

January 26, 2018

We have served as the Company's auditor since 2017.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Member of Jefferies Group LLC:

In our opinion, the consolidated statement of financial condition as of November 30, 2016, and the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the two years in the period ended November 30, 2016 present fairly, in all material respects, the financial position of Jefferies Group LLC and its subsidiaries as of November 30, 2016, and the results of their operations and their cash flows for each of the two years in the period ended November 30, 2016, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules as of November 30, 2016 and for each of the two years in the period ended November 30, 2016 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
January 27, 2017

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JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(In thousands)

|                                                                                                                                                                                                                                                             | November 30,<br>2017 | 2016         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------|
| <b>ASSETS</b>                                                                                                                                                                                                                                               |                      |              |
| Cash and cash equivalents (\$7,514 and \$16,805 at November 30, 2017 and 2016, respectively, related to consolidated VIEs)                                                                                                                                  | \$5,164,492          | \$3,529,069  |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations                                                                                                                               | 578,014              | 857,337      |
| Financial instruments owned, at fair value, (including securities pledged of \$10,842,051 and \$9,706,881 at November 30, 2017 and 2016, respectively; and \$38,044 and \$87,153 at November 30, 2017 and 2016, respectively, related to consolidated VIEs) | 13,998,125           | 13,809,512   |
| Investments in managed funds                                                                                                                                                                                                                                | 195,227              | 186,508      |
| Loans to and investments in related parties                                                                                                                                                                                                                 | 682,790              | 653,872      |
| Securities borrowed                                                                                                                                                                                                                                         | 7,721,803            | 7,743,562    |
| Securities purchased under agreements to resell                                                                                                                                                                                                             | 3,689,559            | 3,862,488    |
| Securities received as collateral                                                                                                                                                                                                                           | 103                  | —            |
| Receivables:                                                                                                                                                                                                                                                |                      |              |
| Brokers, dealers and clearing organizations                                                                                                                                                                                                                 | 2,514,838            | 2,009,163    |
| Customers                                                                                                                                                                                                                                                   | 1,563,758            | 843,114      |
| Fees, interest and other (\$197 and \$1,547 at November 30, 2017 and 2016, respectively, related to consolidated VIEs)                                                                                                                                      | 381,231              | 310,894      |
| Premises and equipment                                                                                                                                                                                                                                      | 297,750              | 265,553      |
| Goodwill                                                                                                                                                                                                                                                    | 1,647,089            | 1,640,653    |
| Other assets (\$2 and \$0 at November 30, 2017 and 2016, respectively, related to consolidated VIEs)                                                                                                                                                        | 1,270,912            | 1,229,551    |
| Total assets                                                                                                                                                                                                                                                | \$39,705,691         | \$36,941,276 |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                                                               |                      |              |
| Short-term borrowings (includes \$23,324 and \$0 at fair value at November 30, 2017 and 2016, respectively)                                                                                                                                                 | \$436,215            | \$525,842    |
| Financial instruments sold, not yet purchased, at fair value                                                                                                                                                                                                | 8,171,929            | 8,359,202    |
| Collateralized financings:                                                                                                                                                                                                                                  |                      |              |
| Securities loaned                                                                                                                                                                                                                                           | 2,843,911            | 2,819,132    |
| Securities sold under agreements to repurchase                                                                                                                                                                                                              | 8,660,511            | 6,791,676    |
| Other secured financings (includes \$0 and \$41,768 at fair value at November 30, 2017 and 2016, respectively; and \$722,108 and \$755,544 at November 30, 2017 and 2016, respectively, related to consolidated VIEs)                                       | 722,108              | 755,576      |
| Obligation to return securities received as collateral                                                                                                                                                                                                      | 103                  | —            |
| Payables:                                                                                                                                                                                                                                                   |                      |              |
| Brokers, dealers and clearing organizations                                                                                                                                                                                                                 | 2,226,768            | 3,290,404    |
| Customers                                                                                                                                                                                                                                                   | 2,664,023            | 2,297,292    |
| Accrued expenses and other liabilities (\$1,391 and \$735 at November 30, 2017 and 2016, respectively, related to consolidated VIEs)                                                                                                                        | 1,803,720            | 1,248,200    |
| Long-term debt (includes \$606,956 and \$248,856 at fair value at November 30, 2017 and 2016, respectively)                                                                                                                                                 | 6,416,844            | 5,483,355    |
| Total liabilities                                                                                                                                                                                                                                           | 33,946,132           | 31,570,679   |
| <b>EQUITY</b>                                                                                                                                                                                                                                               |                      |              |
| Member's paid-in capital                                                                                                                                                                                                                                    | 5,895,601            | 5,538,103    |

|                                                              |              |              |
|--------------------------------------------------------------|--------------|--------------|
| Accumulated other comprehensive loss:                        |              |              |
| Currency translation adjustments                             | (98,909      | ) (152,305 ) |
| Changes in instrument specific credit risk                   | (27,888      | ) (6,494 )   |
| Cash flow hedges                                             | (936         | ) —          |
| Additional minimum pension liability                         | (9,046       | ) (9,358 )   |
| Total accumulated other comprehensive loss                   | (136,779     | ) (168,157 ) |
| Total Jefferies Group LLC member's equity                    | 5,758,822    | 5,369,946    |
| Noncontrolling interests                                     | 737          | 651          |
| Total equity                                                 | 5,759,559    | 5,370,597    |
| Total liabilities and equity                                 | \$39,705,691 | \$36,941,276 |
| See accompanying notes to consolidated financial statements. |              |              |

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JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(In thousands)

|                                                                | Year Ended November 30, |           |           |
|----------------------------------------------------------------|-------------------------|-----------|-----------|
|                                                                | 2017                    | 2016      | 2015      |
| Revenues:                                                      |                         |           |           |
| Commissions and other fees                                     | \$593,257               | \$611,574 | \$659,002 |
| Principal transactions                                         | 800,660                 | 519,652   | 172,608   |
| Investment banking                                             | 1,764,285               | 1,193,973 | 1,439,007 |
| Asset management fees and investment income from managed funds | 16,463                  | 31,062    | 8,015     |
| Interest                                                       | 905,601                 | 857,838   | 922,189   |
| Other                                                          | 98,316                  | 19,724    | 74,074    |
| Total revenues                                                 | 4,178,582               | 3,233,823 | 3,274,895 |
| Interest expense                                               | 980,473                 | 819,209   | 799,654   |
| Net revenues                                                   | 3,198,109               | 2,414,614 | 2,475,241 |
| Non-interest expenses:                                         |                         |           |           |
| Compensation and benefits                                      | 1,829,096               | 1,568,948 | 1,467,131 |
| Non-compensation expenses:                                     |                         |           |           |
| Floor brokerage and clearing fees                              | 179,478                 | 167,205   | 199,780   |
| Technology and communications                                  | 279,242                 | 262,396   | 313,044   |
| Occupancy and equipment rental                                 | 102,904                 | 101,133   | 101,138   |
| Business development                                           | 99,884                  | 93,105    | 105,963   |
| Professional services                                          | 114,711                 | 112,562   | 103,972   |
| Other                                                          | 87,870                  | 79,293    | 69,986    |
| Total non-compensation expenses                                | 864,089                 | 815,694   | 893,883   |
| Total non-interest expenses                                    | 2,693,185               | 2,384,642 | 2,361,014 |
| Earnings before income taxes                                   | 504,924                 | 29,972    | 114,227   |
| Income tax expense                                             | 147,340                 | 14,566    | 18,898    |
| Net earnings                                                   | 357,584                 | 15,406    | 95,329    |
| Net earnings (loss) attributable to noncontrolling interests   | 86                      | (28)      | 1,795     |
| Net earnings attributable to Jefferies Group LLC               | \$357,498               | \$15,434  | \$93,534  |
| See accompanying notes to consolidated financial statements.   |                         |           |           |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

|                                                                 | Year Ended November 30, |             |           |
|-----------------------------------------------------------------|-------------------------|-------------|-----------|
|                                                                 | 2017                    | 2016        | 2015      |
| Net earnings                                                    | \$357,584               | \$15,406    | \$95,329  |
| Other comprehensive income (loss), net of tax:                  |                         |             |           |
| Currency translation and other adjustments                      | 53,396                  | (115,494 )  | (27,157 ) |
| Changes in instrument specific credit risk (1)                  | (21,394 )               | (6,494 )    | —         |
| Cash flow hedges (2)                                            | (936 )                  | —           | —         |
| Minimum pension liability adjustments (3)                       | 312                     | (1,223 )    | (3,116 )  |
| Total other comprehensive income (loss), net of tax (4)         | 31,378                  | (123,211 )  | (30,273 ) |
| Comprehensive income (loss)                                     | 388,962                 | (107,805 )  | 65,056    |
| Net earnings (loss) attributable to noncontrolling interests    | 86                      | (28 )       | 1,795     |
| Comprehensive income (loss) attributable to Jefferies Group LLC | \$388,876               | \$(107,777) | \$63,261  |

(1) Includes income tax benefit of approximately \$13.2 million and \$4.3 million for the years ended November 30, 2017 and 2016, respectively.

(2) Includes income tax benefit of approximately \$0.6 million for the year ended November 30, 2017.

(3) Includes income tax benefit of approximately \$0.1 million, \$0.3 million and \$4.2 million for the years ended November 30, 2017, 2016 and 2015, respectively.

(4) None of the components of other comprehensive income (loss) are attributable to noncontrolling interests.

See accompanying notes to consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(In thousands)

|                                                                    | Year Ended November 30, |             |             |
|--------------------------------------------------------------------|-------------------------|-------------|-------------|
|                                                                    | 2017                    | 2016        | 2015        |
| Member's paid-in capital:                                          |                         |             |             |
| Balance, beginning of period                                       | \$5,538,103             | \$5,526,855 | \$5,439,256 |
| Net earnings attributable to Jefferies Group LLC                   | 357,498                 | 15,434      | 93,534      |
| Tax detriment for issuance of share-based awards                   | —                       | (4,186)     | (5,935)     |
| Balance, end of period                                             | \$5,895,601             | \$5,538,103 | \$5,526,855 |
| Accumulated other comprehensive income (loss), net of tax (1) (2): |                         |             |             |
| Balance, beginning of period                                       | \$(168,157)             | \$(44,946)  | \$(14,673)  |
| Currency adjustments                                               | 53,396                  | (115,494)   | (27,157)    |
| Changes in instrument specific credit risk                         | (21,394)                | (6,494)     | —           |
| Cash flow hedges                                                   | (936)                   | —           | —           |
| Pension adjustments                                                | 312                     | (1,223)     | (3,116)     |
| Balance, end of period                                             | \$(136,779)             | \$(168,157) | \$(44,946)  |
| Total Jefferies Group LLC member's equity                          | \$5,758,822             | \$5,369,946 | \$5,481,909 |
| Noncontrolling interests:                                          |                         |             |             |
| Balance, beginning of period                                       | \$651                   | \$27,468    | \$38,848    |
| Net earnings (loss) attributable to noncontrolling interests       | 86                      | (28)        | 1,795       |
| Contributions                                                      | —                       | 9,390       | —           |
| Distributions                                                      | —                       | (563)       | (4,982)     |
| Deconsolidation of asset management company                        | —                       | (35,616)    | (8,193)     |
| Balance, end of period                                             | \$737                   | \$651       | \$27,468    |
| Total equity                                                       | \$5,759,559             | \$5,370,597 | \$5,509,377 |

(1) The components of other comprehensive income (loss) are attributable to Jefferies Group LLC. None of the components of other comprehensive income (loss) are attributable to noncontrolling interests.

(2) There were no material reclassifications out of Accumulated other comprehensive income (loss) during the years ended November 30, 2017, 2016 and 2015.

See accompanying notes to consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

|                                                                                                                               | Year Ended November 30, |              |              |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------|--------------|
|                                                                                                                               | 2017                    | 2016         | 2015         |
| Cash flows from operating activities:                                                                                         |                         |              |              |
| Net earnings                                                                                                                  | \$357,584               | \$ 15,406    | \$ 95,329    |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:                                 |                         |              |              |
| Depreciation and amortization                                                                                                 | 1,977                   | (2,365 )     | 15,236       |
| Deferred income taxes                                                                                                         | (43,246 )               | (14,013 )    | 88,796       |
| Income on loans to and investments in related parties                                                                         | (109,395 )              | (17,184 )    | (75,717 )    |
| Distributions received on investments in related parties                                                                      | 21,038                  | 38,180       | 76,681       |
| Other adjustments                                                                                                             | 44,043                  | (32,711 )    | (97,804 )    |
| Net change in assets and liabilities:                                                                                         |                         |              |              |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations | 280,703                 | (107,771 )   | 2,691,028    |
| Receivables:                                                                                                                  |                         |              |              |
| Brokers, dealers and clearing organizations                                                                                   | (487,385 )              | (477,273 )   | 576,832      |
| Customers                                                                                                                     | (720,710 )              | 348,055      | 57,837       |
| Fees, interest and other                                                                                                      | (68,177 )               | (54,366 )    | 541          |
| Securities borrowed                                                                                                           | 50,660                  | (805,779 )   | (127,060 )   |
| Financial instruments owned                                                                                                   | (110,368 )              | 2,529,114    | 2,003,978    |
| Investments in managed funds                                                                                                  | (8,719 )                | (138,572 )   | 15,498       |
| Securities purchased under agreements to resell                                                                               | 234,740                 | (112,777 )   | 53,817       |
| Other assets                                                                                                                  | 8,435                   | (173,127 )   | (62,361 )    |
| Payables:                                                                                                                     |                         |              |              |
| Brokers, dealers and clearing organizations                                                                                   | (1,081,611 )            | 584,426      | 471,661      |
| Customers                                                                                                                     | 366,721                 | (483,188 )   | (3,455,080 ) |
| Securities loaned                                                                                                             | 381                     | (122,946 )   | 385,929      |
| Financial instruments sold, not yet purchased                                                                                 | (279,282 )              | 1,753,647    | (2,043,319 ) |
| Securities sold under agreements to repurchase                                                                                | 1,838,793               | (3,144,433 ) | (650,795 )   |
| Accrued expenses and other liabilities                                                                                        | 524,304                 | 296,067      | (259,665 )   |
| Net cash provided by (used in) operating activities                                                                           | 820,486                 | (121,610 )   | (238,638 )   |
| Cash flows from investing activities:                                                                                         |                         |              |              |
| Contributions to loans to and investments in related parties                                                                  | (3,161,619 )            | (538,186 )   | (1,438,675 ) |
| Distributions from loans to and investments in related parties                                                                | 3,068,961               | 689,226      | 1,384,944    |
| Proceeds from sale of Jefferies LoanCore                                                                                      | 173,105                 | —            | —            |
| Net payments on premises and equipment                                                                                        | (72,653 )               | (75,772 )    | (68,813 )    |
| Payment on purchase of aircraft                                                                                               | —                       | (27,500 )    | —            |
| Proceeds from sale of aircraft                                                                                                | —                       | 29,450       | —            |
| Deconsolidation of asset management entity                                                                                    | —                       | (77 )        | (16,512 )    |
| Cash received from contingent consideration                                                                                   | 1,342                   | 2,617        | 4,444        |
| Net cash provided by (used in) investing activities                                                                           | 9,136                   | 79,758       | (134,612 )   |
| Continued on next page.                                                                                                       |                         |              |              |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

(In thousands)

|                                                                 | Year Ended November 30, |               |               |
|-----------------------------------------------------------------|-------------------------|---------------|---------------|
|                                                                 | 2017                    | 2016          | 2015          |
| Cash flows from financing activities:                           |                         |               |               |
| Proceeds from short-term borrowings                             | \$34,499,230            | \$15,313,383  | \$17,263,217  |
| Payments on short-term borrowings                               | (34,594,992 )           | (15,108,501 ) | (16,964,558 ) |
| Proceeds from secured credit facility                           | —                       | —             | 903,000       |
| Payments on secured credit facility                             | —                       | —             | (1,073,000 )  |
| Net (payments on) proceeds from other secured financings        | (33,468 )               | (7,333 )      | 157,085       |
| Proceeds from issuance of long-term debt, net of issuance costs | 1,116,798               | 299,779       | —             |
| Repayment of long-term debt                                     | (186,444 )              | (373,246 )    | (500,000 )    |
| Net change in bank overdrafts                                   | (5,650 )                | (46,536 )     | 29,295        |
| Proceeds from contributions of noncontrolling interests         | —                       | 9,390         | —             |
| Payments on distributions to noncontrolling interests           | —                       | (563 )        | (4,982 )      |
| Net cash provided by (used in) financing activities             | 795,474                 | 86,373        | (189,943 )    |
| Effect of exchange rate changes on cash and cash equivalents    | 10,327                  | (25,615 )     | (6,612 )      |
| Net increase (decrease) in cash and cash equivalents            | 1,635,423               | 18,906        | (569,805 )    |
| Cash and cash equivalents at beginning of period                | 3,529,069               | 3,510,163     | 4,079,968     |
| Cash and cash equivalents at end of period                      | \$5,164,492             | \$3,529,069   | \$3,510,163   |
| Supplemental disclosures of cash flow information:              |                         |               |               |
| Cash paid (received) during the period for:                     |                         |               |               |
| Interest                                                        | \$1,025,576             | \$859,466     | \$859,815     |
| Income taxes, net                                               | 8,910                   | (6,410 )      | (683 )        |
| See accompanying notes to consolidated financial statements.    |                         |               |               |

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JEFFERIES GROUP LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note 1. Organization and Basis of Presentation

Organization

Jefferies Group LLC is the largest independent U.S.-headquartered global full service, integrated securities and investment banking firm. The accompanying Consolidated Financial Statements represent the accounts of Jefferies Group LLC and all our subsidiaries (together “we” or “us”). The subsidiaries of Jefferies Group LLC include Jefferies LLC (“Jefferies”), Jefferies International Limited, Jefferies Hong Kong Limited, Jefferies Financial Services, Inc., Jefferies Funding LLC, Jefferies Leveraged Credit Products, LLC and all other entities in which we have a controlling financial interest or are the primary beneficiary. On April 9, 2015, we entered into an agreement to transfer certain of the client activities of our Futures business to Société Générale S.A. and initiated a plan to substantially exit the remaining aspects of our Futures business. During the second quarter of 2016, we completed the exit of the Futures business. For further information on the exit of the Futures business, refer to Note 20, Exit Costs. In November 2017, Jefferies Execution Services, Inc. merged with and into Jefferies, with Jefferies as the surviving entity.

Jefferies Group LLC is an indirect wholly owned subsidiary of publicly traded Leucadia National Corporation (“Leucadia”). Leucadia does not guarantee any of our outstanding debt securities. Our 3.875% Convertible Senior Debentures due 2029 (principal amount of \$345.0 million) (the “debentures”) were convertible into Leucadia common shares. \$20.2 million of these debentures were called at November 1, 2017. At November 22, 2017, all of the remaining convertible debentures were called for optional redemption, with a redemption date of January 5, 2018, at a redemption price equal to 100% of the principal amount of the convertible debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. All of these remaining convertible debentures were redeemed on January 5, 2018 (see Note 12, Long-Term Debt, for further details). Jefferies Group LLC is a Securities and Exchange Commission (“SEC”) reporting company, filing annual, quarterly and periodic financial reports. Richard Handler, our Chief Executive Officer and Chairman, is the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian P. Friedman, our Chairman of the Executive Committee, is Leucadia’s President and a Director of Leucadia.

We operate in two reportable business segments, Capital Markets and Asset Management. For further information on our reportable business segments, refer to Note 18, Segment Reporting.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for financial information.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. GAAP. The most important of these estimates and assumptions relate to fair value measurements, compensation and benefits, goodwill and intangible assets, the ability to realize certain deferred tax assets and the recognition and measurement of uncertain tax positions. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Consolidation

Our policy is to consolidate all entities that we control by ownership of a majority of the outstanding voting stock. In addition, we consolidate entities that meet the definition of a variable interest entity (“VIE”) for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. For consolidated entities that are less than wholly owned, the third-party’s holding of equity interest is presented as Noncontrolling interests in our Consolidated Statements of Financial Condition and Consolidated Statements of Changes in Equity. The portion of net earnings attributable to the noncontrolling interests is presented as Net earnings to noncontrolling interests in our Consolidated Statements of Earnings.

In situations in which we have significant influence, but not control, of an entity that does not qualify as a VIE, we apply either the equity method of accounting or fair value accounting pursuant to the fair value option election under U.S. GAAP, with our portion of net earnings or gains and losses recorded in Other revenues or Principal transaction revenues, respectively. We also have formed nonconsolidated investment vehicles with third-party investors that are typically organized as partnerships or limited liability companies and are carried at fair value. We act as general partner or managing member for these investment vehicles and have generally provided the third-party investors with termination or “kick-out” rights.

Intercompany accounts and transactions are eliminated in consolidation.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note 2. Summary of Significant Accounting Policies

Revenue Recognition Policies

Commissions and Other Fees. All customer securities transactions are reported in our Consolidated Statements of Financial Condition on a settlement date basis with related income reported on a trade-date basis. We permit institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. These arrangements are accounted for on an accrual basis and, as we are not the primary obligor for these arrangements, netted against commission revenues in our Consolidated Statements of Earnings. In addition, we earn asset-based fees associated with the management and supervision of assets, account services and administration related to customer accounts.

Principal Transactions. Financial instruments owned and Financial instruments sold, not yet purchased (all of which are recorded on a trade-date basis) are carried at fair value with gains and losses reflected in Principal transaction revenues in our Consolidated Statements of Earnings, except for derivatives accounted for as hedges (see “Hedge Accounting” section herein and Note 5, Derivative Financial Instruments). Fees received on loans carried at fair value are also recorded in Principal transaction revenues.

Investment Banking. Underwriting revenues and fees from mergers and acquisitions, restructuring and other investment banking advisory assignments or engagements are recorded when the services related to the underlying transactions are completed under the terms of the assignment or engagement. Expenses associated with such assignments are deferred until reimbursed by the client, the related revenue is recognized or the engagement is otherwise concluded. Expenses are recorded net of client reimbursements and netted against revenues. Unreimbursed expenses with no related revenues are included in Business development and Professional services expenses in our Consolidated Statements of Earnings.

Asset Management Fees and Investment Income from Managed Funds. Asset management fees and investment income from managed funds include revenues we earn from management, administrative and performance fees from funds and accounts managed by us, revenues from management and performance fees we earn from related-party managed funds and investment income from our investments in these funds. We earn fees in connection with management and investment advisory services performed for various funds and managed accounts. These fees are based on assets under management or an agreed upon notional amount and may include performance fees based upon the performance of the funds. Management and administrative fees are generally recognized over the period that the related service is provided. Generally, performance fees are earned when the return on assets under management exceeds certain benchmark returns, “high-water marks” or other performance targets. Performance fees are accrued (or reversed) on a monthly basis based on measuring performance to date versus any relevant benchmark return hurdles stated in the investment management agreement. Performance fees are not subject to adjustment once the measurement period ends (generally annual periods) and the performance fees have been realized.

Interest Revenue and Expense. We recognize contractual interest on Financial instruments owned and Financial instruments sold, not yet purchased, on an accrual basis as a component of interest revenue and expense. Interest flows on derivative trading transactions and dividends are included as part of the fair valuation of these contracts and recognized in Principal transaction revenues in our Consolidated Statements of Earnings rather than as a component of interest revenue or expense. We account for our short- and long-term borrowings on an accrual basis, except for those for which we have elected the fair value option, with related interest recorded as Interest expense.

Discounts/premiums arising on our long-term debt are accreted/amortized to Interest expense using the effective yield method over the remaining lives of the underlying debt obligations. In addition, we recognize interest revenue related to our securities borrowed and securities purchased under agreements to resell activities and interest expense related to our securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

Cash Equivalents

Cash equivalents include highly liquid investments, including money market funds and certificates of deposit, not held for resale with original maturities of three months or less.

Cash and Securities Segregated and on Deposit for Regulatory Purposes or Deposited With Clearing and Depository Organizations

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Jefferies as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. Certain other entities are also obligated by rules mandated by their primary regulators to segregate or set aside cash or equivalent securities to satisfy regulations, promulgated to protect customer assets. In addition, certain exchange and/or clearing organizations require cash and/or securities to be deposited by us to conduct day to day activities.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Financial Instruments and Fair Value

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value, either as required by accounting pronouncements or through the fair value option election. These instruments primarily represent our trading activities and include both cash and derivative products. Gains and losses are recognized in Principal transaction revenues in our Consolidated Statements of Earnings. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

Fair Value Hierarchy

In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs as follows:

Level Quoted prices are available in active markets for identical assets or liabilities at the reported date. Valuation

1: adjustments and block discounts are not applied to Level 1 instruments.

Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable at the reported date. The nature of these financial instruments include cash instruments for which quoted prices are

Level available but traded less frequently, derivative instruments that fair values for which have been derived using

2: model inputs that are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level Instruments that have little to no pricing observability at the reported date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value

3: require significant management judgment or estimation.

Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, the financial instrument is valued at the point within the bid-ask range that meets our best estimate of fair value. We use prices and inputs that are current at the measurement date. For financial instruments that do not have readily determinable fair values using quoted market prices, the determination of fair value is based upon consideration of available information, including types of financial instruments, current financial information, restrictions on dispositions, fair values of underlying financial instruments and quotations for similar instruments.

The valuation of financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management's judgment, features of the financial instrument such as its complexity, the market in which the financial instrument is traded and risk uncertainties about market conditions, require that an adjustment be made to the value derived from the models. Adjustments from the price derived from a valuation model reflect management's judgment that other participants in the market for the financial instrument being measured at fair value would also consider in valuing that same financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of financial instrument and market conditions. As the observability of prices and inputs may change for a financial instrument from period to period, this condition may cause a transfer of an instrument among the fair value hierarchy levels. Transfers among the levels are recognized at the beginning of each period. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Valuation Process for Financial Instruments

Our Independent Price Verification (“IPV”) Group, which is part of our Finance department, in partnership with Risk Management, is responsible for establishing our valuation policies and procedures. The IPV Group and Risk Management, which are independent of our business functions, play an important role and serve as a control function in determining that our financial instruments are appropriately reflected at fair value. This is particularly important where prices or valuations that require inputs are less observable. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. The IPV Group reports to the Global Controller and is subject to the oversight of the IPV Committee, which comprises our Chief Financial Officer, Global Controller, Chief Risk Officer and Principal Accounting Officer, among other personnel. Our independent price verification policies and procedures are reviewed on a periodic basis, and changes to the policies require the approval of the IPV Committee.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Price Testing Process.** The business units are responsible for determining the fair value of our financial instruments using approved valuation models and methodologies. In order to ensure that the business unit valuations represent a fair value exit price, the IPV Group tests and validates the fair value of our financial instruments inventory. In the testing process, the IPV Group obtains prices and valuation inputs from independent sources, consistently adheres to established procedures set forth in our valuation policies for sourcing prices and valuation inputs and utilizing valuation methodologies. Sources used to validate fair value prices and inputs include, but are not limited to, exchange data, recently executed transactions, pricing data obtained from third party vendors, pricing and valuation services, broker quotes and observed comparable transactions.

To the extent discrepancies between the business unit valuations and the pricing or valuations resulting from the price testing process are identified, such discrepancies are investigated by the IPV Group and fair values are adjusted, as appropriate. The IPV Group maintains documentation of its testing, results, rationale and recommendations and prepares a monthly summary of its valuation results. This process also forms the basis for our classification of fair values within the fair value hierarchy (i.e., Level 1, Level 2 or Level 3). The IPV Group utilizes the additional expertise of Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and determines the financial instrument fair values in our consolidated financial statements. At each quarter end, the overall valuation results, as determined by the IPV Committee, are presented to the Audit Committee.

Judgment exercised in determining Level 3 fair value measurements is supplemented by daily analysis of profit and loss performed by the Product Control functions. Gains and losses, which result from changes in fair value, are evaluated and corroborated daily based on an understanding of each trading desk's overall risk positions and developments in a particular market on the given day. Valuation techniques generally rely on recent transactions of suitably comparable financial instruments and use the observable inputs from those comparable transactions as a validation basis for Level 3 inputs. Level 3 fair value measurements are further validated through subsequent sales testing and market comparable sales, if such information is available. Level 3 fair value measurements require documentation of the valuation rationale applied, which is reviewed for consistency in application from period to period.

**Third Party Pricing Information.** Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness by the IPV Group using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. Our processes challenge the appropriateness of pricing information obtained from external data providers (including independent pricing services and brokers) to validate the data for consistency with the definition of a fair value exit price. Our process includes understanding and evaluating the external data providers' valuation methodologies. For corporate, U.S. government and agency, and municipal debt securities, and loans, to the extent we use independent pricing services or broker quotes in our valuation process, the vendor service providers are collecting and aggregating observable market information as to recent trade activity and active bid-ask submissions. The composite pricing information received from the independent pricing service is thus not based on unobservable inputs or proprietary models. For mortgage- and other asset-backed securities, collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs"), our independent pricing services use a matrix evaluation approach, incorporating both observable yield curves and market yields on comparable securities as well as implied inputs from observed trades for comparable securities in order to determine prepayment speeds, cumulative default rates and loss severity. Further, we consider pricing data from multiple service providers as available as well as compare pricing data to prices we have observed for recent transactions, if any, in order to corroborate our valuation inputs.

Model Review Process. If a pricing model is used to determine fair value, the pricing model is reviewed for theoretical soundness and appropriateness by Risk Management, independent from the trading desks, and then approved by Risk Management to be used in the valuation process. Review and approval of a model for use may include benchmarking the model against relevant third party valuations, testing sample trades in the model, backtesting the results of the model against actual trades and stress-testing the sensitivity of the pricing model using varying inputs and assumptions. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model. Models are independently reviewed and validated by Risk Management annually or more frequently if market conditions or use of the valuation model changes.

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Investments in Managed Funds

Investments in managed funds include our investments in funds managed by us and our investments in related-party managed funds. Investments in nonconsolidated managed funds are accounted for at fair value based on the net asset value (“NAV”) of the funds provided by the fund managers with gains or losses included in Asset management fees and investment income (loss) from managed funds in our Consolidated Statements of Earnings.

Loans to and Investments in Related Parties

Loans to and investments in related parties include investments in private equity and other operating entities made in connection with our capital markets activities in which we exercise significant influence over operating and capital decisions and loans issued in connection with such activities. Loans to and investments in related parties are accounted for using the equity method or at cost, as appropriate. Revenues on Loans to and investments in related parties are included in Other revenues in our Consolidated Statements of Earnings. See Note 9, Investments, and Note 19, Related Party Transactions, for additional information regarding certain of these investments.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions and accounted for as collateralized financing transactions. In connection with both trading and brokerage activities, we borrow securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date, and lend securities to other brokers and dealers for similar purposes. We have an active securities borrowed and lending matched book business in which we borrow securities from one party and lend them to another party. When we borrow securities, we generally provide cash to the lender as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities borrowed. We earn interest revenues on this cash collateral. Similarly, when we lend securities to another party, that party provides cash to us as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities loaned. We pay interest expense on the cash collateral received from the party borrowing the securities. The initial collateral advanced or received approximates or is greater than the fair value of the securities borrowed or loaned. We monitor the fair value of the securities borrowed and loaned on a daily basis and request additional collateral or return excess collateral, as appropriate.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and Securities sold under agreements to repurchase (collectively “repos”) are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amount plus accrued interest. We earn and incur interest over the term of the repo, which is reflected in Interest revenue and Interest expense in our Consolidated Statements of Earnings on an accrual basis. Repos are presented in our Consolidated Statements of Financial Condition on a net-basis by counterparty, where permitted by U.S. GAAP. We monitor the fair value of the underlying securities daily versus the related receivable or payable balances. Should the fair value of the underlying securities decline or increase, additional collateral is requested or excess collateral is returned, as appropriate.

Offsetting of Derivative Financial Instruments and Securities Financing Agreements

To manage our exposure to credit risk associated with our derivative activities and securities financing transactions, we may enter into International Swaps and Derivative Association, Inc. (“ISDA”) master netting agreements, master securities lending agreements, master repurchase agreements or similar agreements and collateral arrangements with counterparties. A master agreement creates a single contract under which all transactions between two counterparties are executed allowing for trade aggregation and a single net payment obligation. Master agreements provide protection in bankruptcy in certain circumstances and, where legally enforceable, enable receivables and payables with the same counterparty to be settled or otherwise eliminated by applying amounts due against all or a portion of an amount due from the counterparty or a third party. Under our ISDA master netting agreements, we typically also execute credit support annexes, which provide for collateral, either in the form of cash or securities, to be posted by or paid to a counterparty based on the fair value of the derivative receivable or payable based on the rates and parameters established in the credit support annex.

In the event of the counterparty's default, provisions of the master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. In addition, any collateral posted can be applied to the net obligations, with any excess returned; and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

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The conditions supporting the legal right of offset may vary from one legal jurisdiction to another and the enforceability of master netting agreements and bankruptcy laws in certain countries or in certain industries is not free from doubt. The right of offset is dependent both on contract law under the governing arrangement and consistency with the bankruptcy laws of the jurisdiction where the counterparty is located. Industry legal opinions with respect to the enforceability of certain standard provisions in respective jurisdictions are relied upon as a part of managing credit risk. In cases where we have not determined an agreement to be enforceable, the related amounts are not offset. Master netting agreements are a critical component of our risk management processes as part of reducing counterparty credit risk and managing liquidity risk.

We are also a party to clearing agreements with various central clearing parties. Under these arrangements, the central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open contracts or transactions.

Refer to Note 5, Derivative Financial Instruments and Note 6, Collateralized Transactions, for further information.

**Hedge Accounting**

Hedge accounting is applied using interest rate swaps designated as fair value hedges of changes in the benchmark interest rate of fixed rate senior long-term debt. The interest rate swaps are included as derivative contracts in Financial instruments owned and Financial instruments sold, not yet purchased in our Consolidated Statements of Financial Position. We use regression analysis to perform ongoing prospective and retrospective assessments of the effectiveness of these hedging relationships. A hedging relationship is deemed effective if the change in fair value of the interest rate swap and the change in the fair value of the long-term debt due to changes in the benchmark interest rate offset within a range of 80% - 125%. The impact of valuation adjustments related to our own credit spreads and counterparty credit spreads are included in the assessment of effectiveness.

For qualifying fair value hedges of benchmark interest rates, the change in the fair value of the derivative and the change in fair value of the long-term debt provide offset of one another, and together with any resulting ineffectiveness, are recorded in Interest expense.

Refer to Note 5, Derivative Financial Instruments, for further information.

**Premises and Equipment**

Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets (generally three to ten years). Leasehold improvements are amortized using the straight-line method over the term of the related leases or the estimated useful lives of the assets, whichever is shorter. Premises and equipment includes internally developed software. The carrying values of internally developed software ready for its intended use are depreciated over the remaining useful life.

At November 30, 2017 and 2016, furniture, fixtures and equipment, including amounts under capital leases, amounted to \$431.7 million and \$374.2 million, respectively, and leasehold improvements amounted to \$214.0 million and \$200.5 million, respectively. Accumulated depreciation and amortization was \$348.0 million and \$309.2 million at November 30, 2017 and 2016, respectively.

Depreciation and amortization expense amounted to \$51.7 million, \$47.9 million and \$78.7 million for the years ended November 30, 2017, 2016 and 2015, respectively.

**Goodwill and Intangible Assets**

Goodwill. Goodwill represents the excess acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is subject to annual impairment testing on August 1 or between annual tests if an event or change in circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carrying value. In testing for goodwill impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and

circumstances, we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. If we conclude otherwise, we are required to perform the two-step impairment test. The goodwill impairment test is performed at the reporting unit level by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than carrying value, further analysis is necessary to determine the amount of impairment, if any, by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill.

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The fair value of reporting units are based on widely accepted valuation techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The methodologies we utilize in estimating the fair value of reporting units include market valuation methods that incorporate price-to-earnings and price-to-book multiples of comparable exchange-traded companies and multiples of merger and acquisitions of similar businesses. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods. Intangible Assets. Intangible assets deemed to have finite lives are amortized on a straight line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, we have the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If we conclude otherwise, we are required to perform a quantitative impairment test.

Intangible assets are included in Other assets in our Consolidated Statements of Financial Condition. The Company's annual indefinite-lived intangible asset impairment testing date is August 1. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset that is amortized over the remaining useful life of that asset, if any. Subsequent reversal of impairment losses is not permitted.

Refer to Note 10, Goodwill and Intangible Assets, for further information.

Income Taxes

Our results of operations are included in the consolidated federal and applicable state income tax returns filed by Leucadia. In states that neither accept nor require combined or unitary tax returns, certain subsidiaries file separate state income tax returns. We also are subject to income tax in various foreign jurisdictions in which we operate. We account for our provision for income taxes using a "separate return" method. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Pursuant to a tax sharing agreement entered into between us and Leucadia, payments are made between us and Leucadia to settle current tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We provide deferred taxes on our temporary differences and on any carryforwards that we could claim on our hypothetical tax return. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized on the basis of its projected separate return results.

We record uncertain tax positions using a two-step process: (i) we determine whether it is more likely than not that each tax position will be sustained on the basis of the technical merits of the position; and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Legal Reserves

In the normal course of business, we have been named, from time to time, as a defendant in legal and regulatory proceedings. We are also involved, from time to time, in other exams, investigations and similar reviews (both formal and informal) by governmental and self-regulatory agencies regarding our businesses, certain of which may result in judgments, settlements, fines, penalties or other injunctions.

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We recognize a liability for a contingency in Accrued expenses and other liabilities when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the reasonable estimate of a probable loss is a range, we accrue the most likely amount of such loss, and if such amount is not determinable, then we accrue the minimum in the range as the loss accrual. The determination of the outcome and loss estimates requires significant judgment on the part of management. We believe that any other matters for which we have determined a loss to be probable and reasonably estimable are not material to our consolidated financial statements.

In many instances, it is not possible to determine whether any loss is probable or even possible or to estimate the amount of any loss or the size of any range of loss. We believe that, in the aggregate, the pending legal actions or regulatory proceedings and any other exams, investigations or similar reviews (both formal and informal) should not have a material adverse effect on our consolidated results of operations, cash flows or financial condition. In addition, we believe that any amount of potential loss or range of potential loss in excess of what has been provided in our consolidated financial statements that could be reasonably estimated is not material.

Share-based Compensation

Share-based awards are measured based on the grant-date fair value of the award and recognized over the period from the service inception date through the date the employee is no longer required to provide service to earn the award. Effective upon our adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") on December 1, 2016, we account for forfeitures as they occur. Prior to the adoption of ASU 2016-09, expected forfeitures were included in determining share-based compensation expense. See Note 3, Accounting Developments, for further information on the adoption of ASU 2016-09.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the end of a period. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars, net of hedging gains or losses and taxes, if any, are included in Other comprehensive income. Gains or losses resulting from foreign currency transactions are included in Principal transaction revenues in our Consolidated Statements of Earnings.

Securitization Activities

We engage in securitization activities related to corporate loans, consumer loans, commercial mortgage loans and mortgage-backed and other asset-backed securities. Such transfers of financial assets are accounted for as sales when we have relinquished control over the transferred assets. The gain or loss on sale of such financial assets depends, in part, on the previous carrying amount of the assets involved in the transfer allocated between the assets sold and the retained interests, if any, based upon their respective fair values at the date of sale. We may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in Financial instruments owned in our Consolidated Statements of Financial Condition at fair value. Any changes in the fair value of such retained interests are recognized in Principal transactions revenues in our Consolidated Statements of Earnings.

When a transfer of assets does not meet the criteria of a sale, we account for the transfer as a secured borrowing and continue to recognize the assets of a secured borrowing in Financial instruments owned and recognize the associated financing in Other secured financings in our Consolidated Statements of Financial Condition.

Note 3. Accounting Developments

Accounting Standards to be Adopted in Future Periods

Derivatives and Hedging. In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. The objective of the guidance is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The guidance is effective in the first quarter of fiscal 2019. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Stock Compensation. In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation: Scope of Modification Accounting. The guidance provides clarity and reduces diversity in practice and cost and complexity when accounting for a change to the terms or conditions of a share-based payment award. The guidance is effective in the first quarter of fiscal 2019 and early adoption is permitted. We do not believe the new guidance will have a material impact on our consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Retirement Benefits.** In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The guidance impacts the presentation of net periodic pension costs in the statement of income. The update also allows the service cost to be eligible for capitalization, when applicable. The guidance is effective in the first quarter of fiscal 2019 and early adoption is permitted. We plan to adopt this guidance in the first quarter of fiscal 2018. We do not believe the new guidance will have a material impact on our Consolidated Statements of Earnings.

**Goodwill.** In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, which simplifies goodwill impairment testing. The guidance is effective in the first quarter of fiscal 2021 and early adoption is permitted. We do not believe the new guidance will have a material impact on our consolidated financial statements.

**Statement of Cash Flows.** In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. We plan to adopt this guidance in the first quarter of fiscal 2018. In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. We plan to adopt this guidance in the first quarter of fiscal 2018. We do not believe these new ASUs will have a material impact on our Consolidated Statements of Cash Flows.

**Financial Instruments-Credit Losses.** In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The guidance provides for estimating credit losses on certain types of financial instruments by introducing an approach based on expected losses. The guidance is effective in the first quarter of fiscal 2021 and early adoption is permitted in the first quarter of fiscal 2020. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

**Leases.** In February 2016, the FASB issued ASU No. 2016-02, Leases. The guidance affects the accounting for leases and provides for a lessee model that brings substantially all leases onto the balance sheet. We plan on adopting the guidance as of our first quarter of fiscal 2019 and are currently evaluating the impact of the new guidance on our consolidated financial statements.

**Financial Instruments.** In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The guidance is effective in the first quarter of fiscal 2019. We are currently evaluating the impact of the new guidance related to equity investments and the presentation and disclosure requirements of financial instruments on our consolidated financial statements. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option and we adopted this guidance in the first quarter of fiscal 2016. The adoption of this accounting guidance did not have a material effect on our consolidated financial statements.

**Revenue Recognition.** We adopted the new revenue standard on December 1, 2017 and recognized a reduction of \$6.1 million after-tax to opening Member's paid in capital as the cumulative effect of adoption of this accounting change. The impact of adoption is primarily related to 1) investment banking expenses that were deferred as of November 30, 2017 under the previously existing accounting guidance, which would have been expensed in prior periods under the new revenue standard and 2) investment banking revenues that were previously recognized in prior periods, which would have been deferred as of November 30, 2017 under the new revenue standard. We elected to adopt the new guidance using a modified retrospective approach. Accordingly, the new revenue standard will be applied prospectively in our financial statements from December 1, 2017 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

The new revenue guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP, and as a result, did not have an impact on the elements of our Consolidated Statements of Earnings most closely associated with financial instruments, including Principal

transaction revenues, Interest income and Interest expense. The new revenue standard primarily impacts the following of our revenue recognition and presentation accounting policies:

Investment Banking Revenues. Advisory fees from mergers and acquisitions engagements are recognized at a point in time when the related transaction is completed, as the performance obligation is to successfully broker a specific transaction.

Certain Capital Markets Revenues. Revenues associated with price stabilization activities as part of a securities underwriting were historically recognized as part of Investment banking revenues. Under the new revenue standard, revenue from these activities is recognized within Principal transaction revenues, as these revenues are not considered to be within the scope of the new standard.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Investment Banking Advisory Expenses.** Historically, expenses associated with investment banking advisory assignments were deferred until reimbursed by the client, the related fee revenue is recognized or the engagement is otherwise concluded. Under the new revenue standard, expenses are deferred only to the extent they are explicitly reimbursable by the client and the related revenue is recognized at a point in time. All other investment banking advisory related expenses, including expenses incurred related to restructuring assignments, are expensed as incurred.

**Investment Banking Underwriting and Advisory Expenses.** Expenses have historically been recorded net of client reimbursements and/or netted against revenues. Under the new revenue standard, all investment banking expenses will be recognized within their respective expense category on the consolidated income statement and any expense reimbursements will be recognized as Investment banking revenues (i.e., expenses are no longer recorded net of client reimbursements and are not netted against revenues).

**Asset Management Fees.** In certain asset management fee arrangements, we receive performance-based fees, which vary with performance or, in certain cases, are earned when the return on assets under management exceed certain benchmark returns or other performance targets. Historically, performance fees have been accrued (or reversed) quarterly based on measuring performance to date versus any relevant benchmark return hurdles stated in the investment management agreement. Under the new revenue standard, performance fees are considered variable as they are subject to fluctuation (e.g., based on market performance) and/or are contingent on a future event during the measurement period (e.g., meeting a specified benchmark rate) and are recognized only to the extent it is not probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. Accordingly, performance fee revenue will generally be recognized only at the end of the performance period to the extent that the benchmark return has been met.

The new revenue standard requires enhanced disclosures, which we will include in the footnotes to our consolidated financial statements beginning with the three months ended February 28, 2018.

**Adopted Accounting Standards**

**Employee Share-Based Payments.** In March 2016, the FASB issued ASU 2016-09, which simplifies various aspects related to how share-based payments are accounted for and presented in the consolidated financial statements. The amendments include the recognition of all excess tax benefits and tax deficiencies as income tax expense or benefit in our Consolidated Statements of Earnings and changes to the timing of recognition of excess tax benefits, the accounting for forfeitures, classification of awards as either equity or liabilities and classification in the Consolidated Statements of Cash Flows. We early adopted this standard on December 1, 2016 and the adoption did not have a material effect on our consolidated financial statements. We elected to account for forfeitures as they occur, which results in dividends and dividend equivalents originally charged against retained earnings for forfeited shares to be reclassified to compensation cost in the period in which the forfeiture occurs. In addition, the current period's excess tax benefit related to stock-based compensation is presented as an operating activity rather than a financing activity in our Consolidated Statements of Cash Flows on a retrospective basis.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Note 4. Fair Value Disclosures

The following is a summary of our financial assets and liabilities that are accounted for at fair value on a recurring basis, excluding Investments at fair value based on NAV of \$20.2 million and \$24.3 million at November 30, 2017 and 2016, respectively, by level within the fair value hierarchy (in thousands):

|                                                                                     | November 30, 2017 |              |           | Counterparty<br>and Cash<br>Collateral<br>Netting (1) | Total        |
|-------------------------------------------------------------------------------------|-------------------|--------------|-----------|-------------------------------------------------------|--------------|
|                                                                                     | Level 1           | Level 2      | Level 3   |                                                       |              |
| <b>Assets:</b>                                                                      |                   |              |           |                                                       |              |
| Financial instruments owned:                                                        |                   |              |           |                                                       |              |
| Corporate equity securities                                                         | \$1,801,453       | \$57,091     | \$22,009  | \$—                                                   | \$1,880,553  |
| Corporate debt securities                                                           | —                 | 3,261,300    | 26,036    | —                                                     | 3,287,336    |
| CDOs and CLOs                                                                       | —                 | 139,166      | 30,004    | —                                                     | 169,170      |
| U.S. government and federal agency securities                                       | 1,269,230         | 39,443       | —         | —                                                     | 1,308,673    |
| Municipal securities                                                                | —                 | 710,513      | —         | —                                                     | 710,513      |
| Sovereign obligations                                                               | 1,381,552         | 1,035,907    | —         | —                                                     | 2,417,459    |
| Residential mortgage-backed securities                                              | —                 | 1,453,294    | 26,077    | —                                                     | 1,479,371    |
| Commercial mortgage-backed securities                                               | —                 | 508,115      | 12,419    | —                                                     | 520,534      |
| Other asset-backed securities                                                       | —                 | 217,111      | 61,129    | —                                                     | 278,240      |
| Loans and other receivables                                                         | —                 | 1,620,581    | 47,304    | —                                                     | 1,667,885    |
| Derivatives                                                                         | 160,168           | 3,248,586    | 9,295     | (3,254,216 )                                          | 163,833      |
| Investments at fair value                                                           | —                 | 946          | 93,454    | —                                                     | 94,400       |
| Total financial instruments owned, excluding Investments at fair value based on NAV | \$4,612,403       | \$12,292,053 | \$327,727 | \$(3,254,216)                                         | \$13,977,967 |
| Securities received as collateral                                                   | \$103             | \$—          | \$—       | \$—                                                   | \$103        |
| <b>Liabilities:</b>                                                                 |                   |              |           |                                                       |              |
| Financial instruments sold, not yet purchased:                                      |                   |              |           |                                                       |              |
| Corporate equity securities                                                         | \$1,456,675       | \$32,122     | \$48      | \$—                                                   | \$1,488,845  |
| Corporate debt securities                                                           | —                 | 1,688,825    | 522       | —                                                     | 1,689,347    |
| U.S. government and federal agency securities                                       | 1,430,737         | —            | —         | —                                                     | 1,430,737    |
| Sovereign obligations                                                               | 1,216,643         | 956,992      | —         | —                                                     | 2,173,635    |
| Commercial mortgage-backed securities                                               | —                 | —            | 105       | —                                                     | 105          |
| Loans                                                                               | —                 | 1,148,824    | 3,486     | —                                                     | 1,152,310    |
| Derivatives                                                                         | 247,919           | 3,399,239    | 16,041    | (3,426,249 )                                          | 236,950      |
| Total financial instruments sold, not yet purchased                                 | \$4,351,974       | \$7,226,002  | \$20,202  | \$(3,426,249)                                         | \$8,171,929  |
| Short-term borrowings                                                               | \$—               | \$23,324     | \$—       | \$—                                                   | \$23,324     |
| Long-term debt                                                                      | \$—               | \$606,956    | \$—       | \$—                                                   | \$606,956    |
| Obligation to return securities received as collateral                              | \$103             | \$—          | \$—       | \$—                                                   | \$103        |

(1) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

|                                                     | November 30, 2016 |              |           | Counterparty<br>and Cash<br>Collateral<br>Netting (1) | Total        |
|-----------------------------------------------------|-------------------|--------------|-----------|-------------------------------------------------------|--------------|
|                                                     | Level 1           | Level 2      | Level 3   |                                                       |              |
| Assets:                                             |                   |              |           |                                                       |              |
| Financial instruments owned:                        |                   |              |           |                                                       |              |
| Corporate equity securities                         | \$1,742,463       | \$90,662     | \$21,739  | \$—                                                   | \$1,854,864  |
| Corporate debt securities                           | —                 | 2,675,020    | 25,005    | —                                                     | 2,700,025    |
| CDOs and CLOs                                       | —                 | 54,306       | 54,354    | —                                                     | 108,660      |
| U.S. government and federal agency securities       | 2,389,397         | 56,726       | —         | —                                                     | 2,446,123    |
| Municipal securities                                | —                 | 708,469      | 27,257    | —                                                     | 735,726      |
| Sovereign obligations                               | 1,432,556         | 990,492      | —         | —                                                     | 2,423,048    |
| Residential mortgage-backed securities              | —                 | 960,494      | 38,772    | —                                                     | 999,266      |
| Commercial mortgage-backed securities               | —                 | 296,405      | 20,580    | —                                                     | 316,985      |
| Other asset-backed securities                       | —                 | 63,587       | 40,911    | —                                                     | 104,498      |
| Loans and other receivables                         | —                 | 1,557,233    | 81,872    | —                                                     | 1,639,105    |
| Derivatives                                         | 3,825             | 4,606,278    | 6,429     | (4,255,998)                                           | 360,534      |
| Investments at fair value                           | —                 | —            | 96,369    | —                                                     | 96,369       |
| Total financial instruments owned, excluding        | \$5,568,241       | \$12,059,672 | \$413,288 | \$(4,255,998)                                         | \$13,785,203 |
| Investments at fair value based on NAV              |                   |              |           |                                                       |              |
| Liabilities:                                        |                   |              |           |                                                       |              |
| Financial instruments sold, not yet purchased:      |                   |              |           |                                                       |              |
| Corporate equity securities                         | \$1,577,405       | \$16,806     | \$313     | \$—                                                   | \$1,594,524  |
| Corporate debt securities                           | —                 | 1,718,424    | 523       | —                                                     | 1,718,947    |
| U.S. government and federal agency securities       | 976,497           | —            | —         | —                                                     | 976,497      |
| Sovereign obligations                               | 1,375,590         | 1,253,754    | —         | —                                                     | 2,629,344    |
| Loans                                               | —                 | 801,977      | 378       | —                                                     | 802,355      |
| Derivatives                                         | 568               | 4,856,310    | 9,870     | (4,229,213)                                           | 637,535      |
| Total financial instruments sold, not yet purchased | \$3,930,060       | \$8,647,271  | \$11,084  | \$(4,229,213)                                         | \$8,359,202  |
| Other secured financings                            | \$—               | \$41,350     | \$418     | \$—                                                   | \$41,768     |
| Long-term debt                                      | \$—               | \$248,856    | \$—       | \$—                                                   | \$248,856    |

(1) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring our financial assets and liabilities that are accounted for at fair value on a recurring basis:

**Corporate Equity Securities**

**Exchange-Traded Equity Securities:** Exchange-traded equity securities are measured based on quoted closing exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of the fair value hierarchy, otherwise they are categorized within Level 2 of the fair value hierarchy. To the extent these securities are actively traded, valuation adjustments are not applied.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Non-Exchange-Traded Equity Securities:** Non-exchange-traded equity securities are measured primarily using broker quotations, pricing data from external pricing services and prices observed from recently executed market transactions and are categorized within Level 2 of the fair value hierarchy. Where such information is not available, non-exchange-traded equity securities are categorized within Level 3 of the fair value hierarchy and measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/Earnings before interest, taxes, depreciation and amortization (“EBITDA”), price/book value), discounted cash flow analyses and transaction prices observed from subsequent financing or capital issuance by the company. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate, geographical concentration).

**Equity Warrants:** Non-exchange-traded equity warrants are measured primarily using pricing data from external pricing services, prices observed from recently executed market transactions and broker quotations are categorized within Level 2 of the fair value hierarchy. Where such information is not available, non-exchange-traded equity warrants are generally categorized within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

**Corporate Debt Securities**

**Corporate Bonds:** Corporate bonds are measured primarily using pricing data from external pricing services and broker quotations, where available, prices observed from recently executed market transactions and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve. Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If broker quotes, pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name or index credit default swap curves for comparable issuers and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are categorized within Level 3 of the fair value hierarchy and are a limited portion of our corporate bonds.

**High Yield Corporate and Convertible Bonds:** A significant portion of our high yield corporate and convertible bonds are categorized within Level 2 of the fair value hierarchy and are measured primarily using broker quotations and pricing data from external pricing services, where available, and prices observed from recently executed market transactions of institutional size. Where pricing data is less observable, valuations are categorized within Level 3 and are based on pending transactions involving the issuer or comparable issuers, prices implied from an issuer’s subsequent financing or recapitalization, models incorporating financial ratios and projected cash flows of the issuer and market prices for comparable issuers.

**CDOs and CLOs**

CDOs and CLOs are measured based on prices observed from recently executed market transactions of the same or similar security or based on valuations received from third party brokers or data providers and are categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability and significance of the pricing inputs. Valuation that is based on recently executed market transactions of similar securities incorporates additional review and analysis of pricing inputs and comparability criteria, including, but not limited to, collateral type, tranche type, rating, origination year, prepayment rates, default rates and loss severity.

**U.S. Government and Federal Agency Securities**

**U.S. Treasury Securities:** U.S. Treasury securities are measured based on quoted market prices and categorized within Level 1 of the fair value hierarchy.

**U.S. Agency Debt Securities:** Callable and non-callable U.S. agency debt securities are measured primarily based on quoted market prices obtained from external pricing services and are generally categorized within Level 1 or Level 2 of the fair value hierarchy.

**Municipal Securities**

Municipal securities are measured based on quoted prices obtained from external pricing services and are generally categorized within Level 2 of the fair value hierarchy.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Sovereign Obligations

Sovereign government obligations are measured based on quoted market prices obtained from external pricing services, where available, or recently executed independent transactions of comparable size. To the extent external price quotations are not available or recent transactions have not been observed, valuation techniques incorporating interest rate yield curves and country spreads for bonds of similar issuers, seniority and maturity are used to determine fair value of sovereign bonds or obligations. Sovereign government obligations are classified in Level 1 or Level 2 of the fair value hierarchy, primarily based on the country of issuance.

Residential Mortgage-Backed Securities

Agency Residential Mortgage-Backed Securities (“RMBS”): Agency RMBS include mortgage pass-through securities (fixed and adjustable rate), collateralized mortgage obligations and principal-only securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.

Agency Residential Interest-Only and Inverse Interest-Only Securities (“agency inverse IOs”): The fair value of agency inverse IOs is estimated using expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral. We use prices observed from recently executed transactions to develop market-clearing spread and yield curve assumptions. Valuation inputs with regard to the underlying collateral incorporate weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer, and weighted average loan age. Agency Inverse IOs are categorized within Level 2 of the fair value hierarchy. We also use vendor data in developing our assumptions, as appropriate.

Non-Agency RMBS: The fair value of non-agency RMBS is determined primarily using discounted cash flow methodologies and securities are categorized within Level 2 or Level 3 of the fair value hierarchy based on the observability and significance of the pricing inputs used. Performance attributes of the underlying mortgage loans are evaluated to estimate pricing inputs, such as prepayment rates, default rates and the severity of credit losses.

Attributes of the underlying mortgage loans that affect the pricing inputs include, but are not limited to, weighted average coupon; average and maximum loan size; loan-to-value; credit scores; documentation type; geographic location; weighted average loan age; originator; servicer; historical prepayment, default and loss severity experience of the mortgage loan pool; and delinquency rate. Yield curves used in the discounted cash flow models are based on observed market prices for comparable securities and published interest rate data to estimate market yields. In addition, broker quotes, where available, are also referenced to compare prices primarily on interest-only securities.

Commercial Mortgage-Backed Securities

Agency Commercial Mortgage-Backed Securities (“CMBS”): Government National Mortgage Association (“GNMA”) project loan bonds are measured based on inputs corroborated from and benchmarked to observed prices of recent securitization transactions of similar securities with adjustments incorporating an evaluation of various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. Federal National Mortgage Association (“FNMA”) Delegated Underwriting and Servicing (“DUS”) mortgage-backed securities are generally measured by using prices observed from recently executed market transactions to estimate market-clearing spread levels for purposes of estimating fair value. GNMA project loan bonds and FNMA DUS mortgage-backed securities are categorized within Level 2 of the fair value hierarchy.

Non-Agency CMBS: Non-agency CMBS are measured using pricing data obtained from external pricing services and prices observed from recently executed market transactions and are categorized within Level 2 and Level 3 of the fair value hierarchy.

Other Asset-Backed Securities

Other asset-backed securities (“ABS”) include, but are not limited to, securities backed by auto loans, credit card receivables, student loans and other consumer loans and are categorized within Level 2 and Level 3 of the fair value hierarchy. Valuations are primarily determined using pricing data obtained from external pricing services and broker quotes and prices observed from recently executed market transactions.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Loans and Other Receivables

Corporate Loans: Corporate loans categorized within Level 2 of the fair value hierarchy are measured based on market price quotations where market price quotations from external pricing services are supported by transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy are measured based on price quotations that are considered to be less transparent, market prices for debt securities of the same creditor and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer's capital structure.

Participation Certificates in Agency Residential Loans: Valuations of participation certificates in agency residential loans are based on observed market prices of recently executed purchases and sales of similar loans. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions and availability of data provider pricing.

- Project Loans and Participation Certificates in GNMA Project and Construction Loans: Valuations of participation certificates in GNMA project and construction loans are based on inputs corroborated from and benchmarked to observed prices of recent securitizations with similar underlying loan collateral to derive an implied spread. Securitization prices are adjusted to estimate the fair value of the loans incorporating an evaluation for various factors, including prepayment speeds, default rates and cash flow structures, as well as the likelihood of pricing levels in the current market environment. The measurements are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

Consumer Loans and Funding Facilities: Consumer and small business whole loans and related funding facilities are valued based on observed market transactions and incorporating valuation inputs including, but not limited to, delinquency and default rates, prepayment rates, borrower characteristics, loan risk grades and loan age. These assets are categorized within Level 2 or Level 3 of the fair value hierarchy.

Escrow and Trade Claim Receivables: Escrow and trade claim receivables are categorized within Level 3 of the fair value hierarchy where fair value is estimated based on reference to market prices and implied yields of debt securities of the same or similar issuers. Escrow and trade claim receivables are categorized within Level 2 of the fair value hierarchy where fair value is based on recent trade activity in the same receivable.

Derivatives

Listed Derivative Contracts: Listed derivative contracts that are actively traded are measured based on quoted exchange prices, broker quotes or vanilla option valuation models, such as Black-Scholes, using observable valuation inputs from the principal market. Exchange quotes and/or valuation inputs are generally obtained from external vendors and pricing services. Broker quotes are validated directly through observable and tradeable quotes. Listed derivative contracts that use unadjusted exchange close prices are generally categorized within Level 1 of the fair value hierarchy. All other listed derivative contracts are generally categorized within Level 2 of the fair value hierarchy.

Over-the-Counter ("OTC") Derivative Contracts: OTC derivative contracts are generally valued using models, whose inputs reflect assumptions that we believe market participants would use in valuing the derivative in a current transaction. Inputs to valuation models are appropriately calibrated to market data. For many OTC derivative contracts, the valuation models do not involve material subjectivity as the methodologies do not entail significant judgment and the inputs to valuation models do not involve a high degree of subjectivity as the valuation model inputs are readily observable or can be derived from actively quoted markets. OTC derivative contracts are primarily categorized within Level 2 of the fair value hierarchy given the observability and significance of the inputs to the valuation models. Where significant inputs to the valuation are unobservable, derivative instruments are categorized within Level 3 of the fair value hierarchy.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

OTC options include OTC equity, foreign exchange, interest rate and commodity options measured using various valuation models, such as the Black-Scholes, with key inputs including the underlying security price, foreign exchange spot rate, commodity price, implied volatility, dividend yield, interest rate curve, strike price and maturity date. Discounted cash flow models are utilized to measure certain OTC derivative contracts including the valuations of our interest rate swaps, which incorporate observable inputs related to interest rate curves, valuations of our foreign exchange forwards and swaps, which incorporate observable inputs related to foreign currency spot rates and forward curves and valuations of our commodity swaps and forwards, which incorporate observable inputs related to commodity spot prices and forward curves. Discounted cash flow models are also utilized to measure certain variable funding note swaps, which are backed by CLOs and incorporates constant prepayment rate, constant default rate and loss severity assumptions. Credit default swaps include both index and single-name credit default swaps. External prices are available as inputs in measuring index credit default swaps and single-name credit default swaps. For commodity and equity total return swaps, market prices are generally observable for the underlying asset and used as the basis for measuring the fair value of the derivative contracts. Total return swaps executed on other underlyings are measured based on valuations received from external pricing services.

**Investments at Fair Value and Investments in Managed Funds**

Investments at fair value based on NAV and Investments in Managed Funds include investments in hedge funds, fund of funds and private equity funds, which are measured at the NAV of the funds, provided by the fund managers and are excluded from the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured at fair value using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 2 or Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our defined benefit plan in Germany. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy.

The following tables present information about our investments in entities that have the characteristics of an investment company (in thousands):

|                                             | November 30, 2017 |                      |                                              |
|---------------------------------------------|-------------------|----------------------|----------------------------------------------|
|                                             | Fair Value (1)    | Unfunded Commitments | Redemption Frequency (if currently eligible) |
| Equity Long/Short Hedge Funds (2)           | \$33,176          | \$ —                 | Monthly, Quarterly                           |
| Fixed Income and High Yield Hedge Funds (3) | 417               | —                    | —                                            |
| Fund of Funds (4)                           | 189               | —                    | —                                            |
| Equity Funds (5)                            | 26,798            | 19,084               | —                                            |
| Multi-asset Funds (6)                       | 154,805           | —                    | —                                            |
| Total                                       | \$215,385         | \$ 19,084            |                                              |
|                                             | November 30, 2016 |                      |                                              |
|                                             | Fair Value (1)    | Unfunded Commitments | Redemption Frequency (if currently eligible) |
| Equity Long/Short Hedge Funds (2)           | \$34,446          | \$ —                 | Monthly, Quarterly                           |
| Fixed Income and High Yield Hedge Funds (3) | 772               | —                    | —                                            |
| Fund of Funds (4)                           | 230               | —                    | —                                            |
| Equity Funds (5)                            | 42,179            | 20,295               | —                                            |
| Multi-asset Funds (6)                       | 133,190           | —                    | —                                            |
| Total                                       | \$210,817         | \$ 20,295            |                                              |

(1) Where fair value is calculated based on NAV, fair value has been derived from each of the funds' capital statements.

(2) This category includes investments in hedge funds that invest, long and short, primarily in equity securities in domestic and international markets in both the public and private sectors. At November 30, 2017 and 2016, approximately 1% and 2%, respectively, of the fair value of investments in this category are classified as being in liquidation.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

This category includes investments in funds that invest in loans secured by a first trust deed on property, domestic (3) and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt and private equity investments. There are no redemption provisions.

This category includes investments in fund of funds that invest in various private equity funds. The investments in (4) this category are managed by us and have no redemption provisions. These investments are gradually being liquidated or we have requested redemption, however, we are unable to estimate when these funds will be received.

At November 30, 2017 and 2016, the investments in this category include investments in equity funds that invest in the equity of various U.S. and foreign private companies in the energy, technology, internet service and (5) telecommunication service industries. These investments cannot be redeemed; instead, distributions are received through the liquidation of the underlying assets of the funds which are expected to liquidate in one to six years.

This category includes investments in hedge funds that invest long and short, primarily in multi-asset securities in domestic and international markets in both the public and private sectors. At both November 30, 2017 and 2016, (6) investments representing approximately 12% of the fair value of investments in this category are redeemable with 30 days prior written notice.

**Other Secured Financings**

Other secured financings that are accounted for at fair value include notes issued by consolidated VIEs, which are classified as Level 2 or Level 3 within the fair value hierarchy. Fair value is based on recent transaction prices for similar assets.

**Short-term Borrowings / Long-term Debt**

Short-term borrowings that are accounted for at fair value include equity-linked notes, which are generally categorized as Level 2 within the fair value hierarchy, as the fair value is based on the price of the underlying equity security.

Long-term debt includes variable rate, fixed-to-floating rate, CMS (constant maturity swap) and Bermudan structured notes. These are valued using various valuation models that incorporate our own credit spread, market price quotations from external pricing sources referencing the appropriate interest rate curves, volatilities and other inputs and are generally categorized within Level 2 of the fair value hierarchy. In addition, pricing transparency has been evidenced based on transaction data from recently issued notes.

**Long-term Debt-Embedded Conversion Option**

The embedded conversion option presented in Long-term debt represented the fair value of the conversion option on Leucadia shares within our 3.875% Convertible Senior Debentures, due November 1, 2029 and was categorized as Level 3 within the fair value hierarchy. The conversion option expired on November 1, 2017. The conversion option was valued using a convertible bond model using as inputs the price of Leucadia's common stock, the conversion strike price, 252-day historical volatility, maturity date (the first put date), dividend yield and the risk-free interest rate curve.

**Transfers Between Levels 1 and 2 for Instruments Carried at Fair Value**

There were no material transfers between Level 1 and Level 2 for the years ended November 30, 2017 and 2016.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Level 3 Rollforwards

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the year ended November 30, 2017 (in thousands):

Year Ended November 30, 2017

|                                                       | Balance at November 30, 2016 | Total gains/losses (realized and unrealized) (1) | Purchases | Sales     | Settlements | Issuances/ (out of) Level 3 | Balance at November 30, 2017 | Change in unrealized gains/ (losses) relating to instruments still held at November 30, 2017 (1) |
|-------------------------------------------------------|------------------------------|--------------------------------------------------|-----------|-----------|-------------|-----------------------------|------------------------------|--------------------------------------------------------------------------------------------------|
| <b>Assets:</b>                                        |                              |                                                  |           |           |             |                             |                              |                                                                                                  |
| <b>Financial instruments owned:</b>                   |                              |                                                  |           |           |             |                             |                              |                                                                                                  |
| Corporate equity securities                           | \$21,739                     | \$ 3,262                                         | \$ 896    | \$(1,623) | \$ 52       | \$ — \$(2,317)              | \$ 22,009                    | \$ 2,515                                                                                         |
| Corporate debt securities                             | 25,005                       | (3,723 )                                         | 36,850    | (34,077)  | (1,968)     | — 3,949                     | 26,036                       | (3,768 )                                                                                         |
| CDOs and CLOs                                         | 54,354                       | (19,858 )                                        | 112,239   | (110,907) | (367 )      | — (5,457 )                  | 30,004                       | (2,262 )                                                                                         |
| Municipal securities                                  | 27,257                       | (1,547 )                                         | —         | (25,710)  | —           | — —                         | —                            | —                                                                                                |
| RMBS                                                  | 38,772                       | (10,817 )                                        | 6,805     | (26,193)  | (115 )      | — 17,625                    | 26,077                       | (7,201 )                                                                                         |
| CMBS                                                  | 20,580                       | (5,346 )                                         | 3,275     | (5,263 )  | (1,018)     | — 191                       | 12,419                       | (6,976 )                                                                                         |
| Other ABS                                             | 40,911                       | (17,705 )                                        | 77,508    | (8,613 )  | (25,799)    | — (5,173 )                  | 61,129                       | (12,562 )                                                                                        |
| Loans and other receivables                           | 81,872                       | 24,794                                           | 63,768    | (53,095)  | (34,622)    | — (35,413)                  | 47,304                       | 17,451                                                                                           |
| Investments at fair value                             | 96,369                       | 6,361                                            | 1,981     | (10,157)  | (1,100)     | — —                         | 93,454                       | 8,385                                                                                            |
| <b>Liabilities:</b>                                   |                              |                                                  |           |           |             |                             |                              |                                                                                                  |
| <b>Financial instruments sold, not yet purchased:</b> |                              |                                                  |           |           |             |                             |                              |                                                                                                  |
| Corporate equity securities                           | \$313                        | \$ 60                                            | \$(373 )  | \$48      | \$ —        | \$ — \$—                    | \$ 48                        | \$ —                                                                                             |
| Corporate debt securities                             | 523                          | (1 )                                             | —         | —         | —           | — —                         | 522                          | 1                                                                                                |
| CMBS                                                  | —                            | 105                                              | —         | —         | —           | — —                         | 105                          | (105 )                                                                                           |
| Net derivatives (2)                                   | 3,441                        | (1,638 )                                         | —         | —         | 5,558       | 456 (1,071 )                | 6,746                        | (17,740 )                                                                                        |
| Loans                                                 | 378                          | 196                                              | (385 )    | 2,485     | —           | — 812                       | 3,486                        | (2,639 )                                                                                         |
| Other secured financings                              | 418                          | (418 )                                           | —         | —         | —           | — —                         | —                            | —                                                                                                |

(1) Realized and unrealized gains/losses are reported in Principal transaction revenues in our Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned—Derivatives and Financial instruments sold, not yet purchased —Derivatives.

## Analysis of Level 3 Assets and Liabilities for the Year Ended November 30, 2017

During the year ended November 30, 2017, transfers of assets of \$33.8 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

RMBS of \$19.6 million and corporate debt securities of \$8.3 million due to a lack of observable market transactions. During the year ended November 30, 2017, transfers of assets of \$60.4 million from Level 3 to Level 2 are primarily attributed to:

Loans and other receivables of \$40.9 million due to greater pricing transparency supporting classification into Level 2.

Net losses on Level 3 assets were \$24.6 million and net gains on Level 3 liabilities were \$1.7 million for the year ended November 30, 2017. Net losses on Level 3 assets were primarily due to decreased valuations of CDOs and

CLOs, other ABS and RMBS, partially offset by increased valuations of certain loans and other receivables. Net gains on Level 3 liabilities were primarily due to increased valuations of certain net derivatives.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the year ended November 30, 2016 (in thousands):

Year Ended November 30, 2016

|                                                       | Balance<br>at<br>November<br>30,<br>2015 | Total<br>gains/<br>losses<br>(realized<br>and<br>unrealized)<br>(1) | Purchases | Sales      | Settlements | Issuances/<br>outs | Net<br>transfers<br>(out of)<br>Level 3 | Balance<br>at<br>November<br>30, 2016 | Change<br>in<br>unrealized<br>gains/<br>(losses)<br>relating<br>to<br>instruments<br>still held<br>at<br>November<br>30, 2016<br>(1) |
|-------------------------------------------------------|------------------------------------------|---------------------------------------------------------------------|-----------|------------|-------------|--------------------|-----------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| <b>Assets:</b>                                        |                                          |                                                                     |           |            |             |                    |                                         |                                       |                                                                                                                                      |
| <b>Financial instruments owned:</b>                   |                                          |                                                                     |           |            |             |                    |                                         |                                       |                                                                                                                                      |
| Corporate equity securities                           | \$40,906                                 | \$ (8,463 )                                                         | \$ 3,365  | \$ (49 )   | \$ (671 )   | \$ —               | —\$(13,349)                             | \$ 21,739                             | \$ 291                                                                                                                               |
| Corporate debt securities                             | 25,876                                   | (16,230 )                                                           | 27,242    | (29,347 )  | (7,223 )    | —                  | 24,687                                  | 25,005                                | (18,799 )                                                                                                                            |
| CDOs and CLOs                                         | 85,092                                   | (14,918 )                                                           | 52,316    | (69,394 )  | (2,750 )    | —                  | 4,008                                   | 54,354                                | (7,628 )                                                                                                                             |
| Municipal securities                                  | —                                        | (1,462 )                                                            | —         | —          | —           | —                  | 28,719                                  | 27,257                                | (1,462 )                                                                                                                             |
| Sovereign obligations                                 | 120                                      | 5                                                                   | —         | (125 )     | —           | —                  | —                                       | —                                     | —                                                                                                                                    |
| RMBS                                                  | 70,263                                   | (9,612 )                                                            | 623       | (12,249 )  | (931 )      | —                  | (9,322 )                                | 38,772                                | (1,095 )                                                                                                                             |
| CMBS                                                  | 14,326                                   | (7,550 )                                                            | 3,132     | (2,024 )   | (2,229 )    | —                  | 14,925                                  | 20,580                                | (7,243 )                                                                                                                             |
| Other ABS                                             | 42,925                                   | (14,381 )                                                           | 133,986   | (102,952 ) | (8,769 )    | —                  | (9,898 )                                | 40,911                                | (18,056 )                                                                                                                            |
| Loans and other receivables                           | 189,289                                  | (42,566 )                                                           | 75,264    | (69,262 )  | (46,851 )   | —                  | (24,002 )                               | 81,872                                | (52,003 )                                                                                                                            |
| Investments at fair value                             | 53,120                                   | (13,278 )                                                           | 26,228    | (542 )     | (1,107 )    | —                  | 31,948                                  | 96,369                                | (13,208 )                                                                                                                            |
| <b>Liabilities:</b>                                   |                                          |                                                                     |           |            |             |                    |                                         |                                       |                                                                                                                                      |
| <b>Financial instruments sold, not yet purchased:</b> |                                          |                                                                     |           |            |             |                    |                                         |                                       |                                                                                                                                      |
| Corporate equity securities                           | \$38                                     | \$ —                                                                | \$ —      | \$ 313     | \$ (38 )    | \$ —               | —\$ —                                   | \$ 313                                | \$ —                                                                                                                                 |
| Corporate debt securities                             | —                                        | (27 )                                                               | —         | 550        | —           | —                  | —                                       | 523                                   | —                                                                                                                                    |
| Net derivatives (2)                                   | (242 )                                   | (1,760 )                                                            | —         | 11,101     | 31          | 2,067              | (7,756 )                                | 3,441                                 | (6,458 )                                                                                                                             |
| Loans                                                 | 10,469                                   | —                                                                   | —         | 378        | —           | —                  | (10,469 )                               | 378                                   | —                                                                                                                                    |
| Other secured financings                              | 544                                      | (126 )                                                              | —         | —          | —           | —                  | —                                       | 418                                   | (126 )                                                                                                                               |

(1) Realized and unrealized gains/losses are reported in Principal transaction revenues in our Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned—Derivatives and Financial instruments sold, not yet purchased —Derivatives.

## Analysis of Level 3 Assets and Liabilities for the Year Ended November 30, 2016

During the year ended November 30, 2016, transfers of assets of \$179.6 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

- CDOs and CLOs of \$19.4 million, RMBS of \$17.5 million, CMBS of \$17.4 million and other ABS of \$16.9 million, for which no recent trade activity was observed for purposes of determining observable inputs;
-

Loans and other receivables of \$13.8 million due to a lower number of contributors for certain vendor quotes supporting classification within Level 2; and

• Investments at fair value of \$31.9 million, municipal securities of \$28.7 million and corporate debt securities of \$28.1 million due to a lack of observable market transactions.

During the year ended November 30, 2016, transfers of assets of \$133.2 million from Level 3 to Level 2 are primarily attributed to:

• RMBS of \$26.8 million, other ABS of \$26.8 million and CDOs and CLOs of \$15.4 million, for which market trades were observed in the year for either identical or similar securities;

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Loans and other receivables of \$37.8 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2; and

Corporate equity securities of \$19.2 million due to an increase in observable market transactions.

There were \$10.5 million transfers of loan liabilities from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net losses on Level 3 assets were \$128.5 million and net gains on Level 3 net liabilities were \$1.9 million for the year ended November 30, 2016. Net losses on Level 3 assets were primarily due to decreased valuations of loans and other receivables, corporate debt securities, CDOs and CLOs, other ABS, certain investments at fair value, RMBS, corporate equity securities and CMBS. Net gains on Level 3 net liabilities were primarily due to increased valuations of certain net derivatives.

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the year ended November 30, 2015 (in thousands):

## Year Ended November 30, 2015

|                                                       | Balance<br>at<br>November<br>30, 2014 | Total<br>gains/<br>losses<br>(realized<br>and<br>unrealized)<br>(1) | Purchases | Sales      | Settlements | Issuances/<br>transfers<br>(out of)<br>Level 3 | Balance at<br>November<br>30, 2015 | Change in<br>unrealized<br>gain/<br>(losses)<br>relating to<br>instruments<br>still held at<br>November<br>30, 2015<br>(1) |
|-------------------------------------------------------|---------------------------------------|---------------------------------------------------------------------|-----------|------------|-------------|------------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| <b>Assets:</b>                                        |                                       |                                                                     |           |            |             |                                                |                                    |                                                                                                                            |
| <b>Financial instruments owned:</b>                   |                                       |                                                                     |           |            |             |                                                |                                    |                                                                                                                            |
| Corporate equity securities                           | \$20,964                              | \$ 11,154                                                           | \$ 21,385 | \$(6,391)  | \$ —        | \$ — \$(6,206)                                 | \$ 40,906                          | \$ 11,424                                                                                                                  |
| Corporate debt securities                             | 22,766                                | (11,013 )                                                           | 21,534    | (14,636 )  | —           | — 7,225                                        | 25,876                             | (9,443 )                                                                                                                   |
| CDOs and CLOs                                         | 124,650                               | (66,332 )                                                           | 104,998   | (107,381 ) | (5,754 )    | — 34,911                                       | 85,092                             | (48,514 )                                                                                                                  |
| Municipal securities                                  | —                                     | 10                                                                  | —         | —          | (21,551 )   | — 21,541                                       | —                                  | —                                                                                                                          |
| Sovereign obligations                                 | —                                     | 47                                                                  | 1,032     | (1,031 )   | —           | — 72                                           | 120                                | 39                                                                                                                         |
| RMBS                                                  | 82,557                                | (12,951 )                                                           | 18,961    | (31,762 )  | (597 )      | — 14,055                                       | 70,263                             | (4,498 )                                                                                                                   |
| CMBS                                                  | 26,655                                | (3,813 )                                                            | 3,480     | (10,146 )  | (6,861 )    | — 5,011                                        | 14,326                             | (3,205 )                                                                                                                   |
| Other ABS                                             | 2,294                                 | (990 )                                                              | 42,922    | (1,299 )   | (2 )        | — —                                            | 42,925                             | (254 )                                                                                                                     |
| Loans and other receivables                           | 97,258                                | (14,755 )                                                           | 792,345   | (576,536 ) | (124,365 )  | — 15,342                                       | 189,289                            | (16,802 )                                                                                                                  |
| Investments, at fair value                            | 53,224                                | 64,380                                                              | 5,510     | (124,852 ) | (4,093 )    | — 58,951                                       | 53,120                             | (388 )                                                                                                                     |
| <b>Liabilities:</b>                                   |                                       |                                                                     |           |            |             |                                                |                                    |                                                                                                                            |
| <b>Financial instruments sold, not yet purchased:</b> |                                       |                                                                     |           |            |             |                                                |                                    |                                                                                                                            |
| Corporate equity securities                           | \$38                                  | \$ —                                                                | \$ —      | \$ —       | \$ —        | \$ — \$ —                                      | \$ 38                              | \$ —                                                                                                                       |
| Corporate debt securities                             | 223                                   | (110 )                                                              | (6,804 )  | 6,691      | —           | — —                                            | —                                  | —                                                                                                                          |
| Net derivatives (2)                                   | (4,638 )                              | (7,310 )                                                            | (6,705 )  | 13,522     | 37          | 2,437 2,415                                    | (242 )                             | 4,754                                                                                                                      |
| Loans                                                 | 14,450                                | (163 )                                                              | (2,059 )  | 229        | —           | — (1,988 )                                     | 10,469                             | 104                                                                                                                        |
| Other secured financings                              | 30,825                                | —                                                                   | —         | —          | (15,704 )   | 36,995 (51,572 )                               | 544                                | —                                                                                                                          |
| Embedded conversion option                            | 693                                   | (693 )                                                              | —         | —          | —           | — —                                            | —                                  | 693                                                                                                                        |

- (1) Realized and unrealized gains/losses are reported in Principal transaction revenues in our Consolidated Statements of Earnings.
- (2) Net derivatives represent Financial instruments owned—Derivatives and Financial instruments sold, not yet purchased —Derivatives.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Analysis of Level 3 Assets and Liabilities for the Year Ended November 30, 2015

During the year ended November 30, 2015, transfers of assets of \$236.7 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

- CDOs and CLOs of \$69.8 million, non-agency RMBS of \$30.4 million and CMBS of \$11.3 million, for which no recent trade activity was observed for purposes of determining observable inputs;
- Municipal securities of \$21.5 million and loans and other receivables of \$20.1 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2; and
- Investments at fair value of \$74.7 million and corporate debt securities of \$7.4 million due to a lack of observable market transactions.

During the year ended November 30, 2015, transfers of assets of \$85.8 million from Level 3 to Level 2 are primarily attributed to:

- Non-agency RMBS of \$16.3 million and CMBS of \$6.3 million, for which market trades were observed in the period for either identical or similar securities;
- CDOs and CLOs of \$34.9 million and loans and other receivables of \$4.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Investments at fair value of \$15.8 million due to an increase in observable market transactions; and
- Corporate equity securities of \$7.7 million due to an increase in observable market transactions.

There were \$51.6 million transfers of other secured financings from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net losses on Level 3 assets were \$34.3 million and net gains on Level 3 net liabilities were \$8.3 million for the year ended November 30, 2015. Net losses on Level 3 assets were primarily due to decreased valuations of CDOs and CLOs, certain loans and other receivables, RMBS and CMBS, partially offset by increased valuations of certain investments at fair value and corporate equity securities. Net gains on Level 3 liabilities were primarily due to decreased valuations of certain derivatives liabilities.

Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at November 30, 2017 and 2016

The tables below present information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets and liabilities, subject to threshold levels related to the market value of the positions held, measured at fair value on a recurring basis with a significant Level 3 balance. The range of unobservable inputs could differ significantly across different firms given the range of products across different firms in the financial services sector. The inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument (i.e., the input used for valuing one financial instrument within a particular class of financial instruments may not be appropriate for valuing other financial instruments within that given class). Additionally, the ranges of inputs presented below should not be construed to represent uncertainty regarding the fair values of our financial instruments; rather, the range of inputs is reflective of the differences in the underlying characteristics of the financial instruments in each category.

For certain categories, we have provided a weighted average of the inputs allocated based on the fair values of the financial instruments comprising the category. We do not believe that the range or weighted average of the inputs is indicative of the reasonableness of uncertainty of our Level 3 fair values. The range and weighted average are driven by the individual financial instruments within each category and their relative distribution in the population. The disclosed inputs when compared with the inputs as disclosed in other periods should not be expected to necessarily be indicative of changes in our estimates of unobservable inputs for a particular financial instrument as the population of financial instruments comprising the category will vary from period to period based on purchases and sales of financial instruments during the period as well as transfers into and out of Level 3 each period.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

November 30, 2017

| Financial Instruments Owned    | Fair Value (in thousands) | Valuation Technique    | Significant Unobservable Input(s) | Input / Range | Weighted Average |
|--------------------------------|---------------------------|------------------------|-----------------------------------|---------------|------------------|
| Corporate equity securities    | \$ 18,109                 |                        |                                   |               |                  |
| Non-exchange-traded securities |                           | Market approach        | Price                             | \$3-\$75      | \$ 33            |
|                                |                           |                        | Underlying stock price            | \$6           | —                |
|                                |                           | Comparable pricing     | Comparable asset price            | \$7           | —                |
| Corporate debt securities      | \$ 26,036                 | Convertible bond model | Discount rate/yield               | 8%            | —                |
|                                |                           |                        | Volatility                        | 40%           | —                |
|                                |                           | Market approach        | Estimated recovery percentage     | 17%           | —                |
|                                |                           |                        | Price                             | \$10          | —                |
| CDOs and CLOs                  | \$ 30,004                 | Discounted cash flows  | Constant prepayment rate          | 20%           | —                |
|                                |                           |                        | Constant default rate             | 2%            | —                |
|                                |                           |                        | Loss severity                     | 25%-30%       | 26 %             |
|                                |                           |                        | Discount rate/yield               | 3%-26%        | 12 %             |
|                                |                           | Scenario analysis      | Estimated recovery percentage     | 8%-40%        | 22 %             |
| RMBS                           | \$ 26,077                 | Discounted cash flows  | Cumulative loss rate              | 3%-19%        | 10 %             |
|                                |                           |                        | Duration (years)                  | 2-4           | 3                |
|                                |                           |                        | Discount rate/yield               | 6%-10%        | 8 %              |
| CMBS                           | \$ 12,419                 | Discounted cash flows  | Cumulative loss rate              | 8%-65%        | 44 %             |
|                                |                           |                        | Duration (years)                  | 1-3           | 2                |
|                                |                           |                        | Discount rate/yield               | 2%-26%        | 12 %             |
|                                |                           | Scenario analysis      | Estimated recovery percentage     | 26%-32%       | 28 %             |
|                                |                           |                        | Price                             | \$52-\$56     | \$ 54            |
| Other ABS                      | \$ 61,129                 | Discounted cash flows  | Cumulative loss rate              | 0%-33%        | 23 %             |
|                                |                           |                        | Duration (years)                  | 1-6           | 2                |
|                                |                           |                        | Discount rate/yield               | 5%-39%        | 9 %              |
|                                |                           | Market approach        | Price                             | \$100         | —                |
|                                |                           | Scenario analysis      | Estimated recovery percentage     | 14%           | —                |
| Loans and other receivables    | \$ 46,121                 | Market approach        | Estimated recovery percentage     | 76%           | —                |
|                                |                           |                        | Price                             | \$54-\$100    | \$ 95            |
|                                |                           | Scenario analysis      | Estimated recovery percentage     | 13%-107%      | 78 %             |
| Derivatives                    | \$ 9,295                  |                        |                                   |               |                  |
| Total return swaps             |                           | Market approach        | Price                             | \$101-\$106   | \$ 103           |
| Interest rate swaps            |                           | Market approach        | Credit spread                     | 800 bps       | —                |
| Investments at fair value      | \$ 77,423                 |                        |                                   |               |                  |
| Private equity securities      |                           | Market approach        | Transaction level                 | \$3-\$250     | \$ 172           |
|                                |                           |                        | Price                             | \$7           | —                |

Financial Instruments Sold, Not Yet

Purchased:

Derivatives \$ 16,041

|                             |                           |                          |             |        |
|-----------------------------|---------------------------|--------------------------|-------------|--------|
| Equity options              | Option model/default rate | Default probability      | 0%          | —      |
| Unfunded commitments        | Market approach           | Price                    | \$99        |        |
| Total return swaps          | Market approach           | Price                    | \$101-\$106 | \$ 103 |
| Variable funding note swaps | Discounted cash flows     | Constant prepayment rate | 20%         | —      |
|                             |                           | Constant default rate    | 2%          | —      |
|                             |                           | Loss severity            | 25%         | —      |
|                             |                           | Discount rate/yield      | 26%         | —      |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

November 30, 2016

| Financial Instruments Owned:                   | Fair Value (in thousands) | Valuation Technique    | Significant Unobservable Input(s)        | Input / Range | Weighted Average |
|------------------------------------------------|---------------------------|------------------------|------------------------------------------|---------------|------------------|
| Corporate equity securities                    | \$ 19,799                 |                        |                                          |               |                  |
| Non-exchange-traded securities                 |                           | Market approach        | Underlying stock price                   | \$3-\$75      | \$ 15            |
|                                                |                           | Comparable pricing     | Underlying stock price                   | \$218         | —                |
|                                                |                           |                        | Comparable asset price                   | \$11          | —                |
|                                                |                           | Present value          | Average silver production (tons per day) | 666           | —                |
| Corporate debt securities                      | \$ 25,005                 | Convertible bond model | Discount rate/yield                      | 9%            | —                |
|                                                |                           |                        | Volatility                               | 40%           | —                |
| CDOs and CLOs                                  | \$ 33,016                 | Market approach        | Transaction level                        | \$30          | —                |
|                                                |                           | Discounted cash flows  | Constant prepayment rate                 | 10%-20%       | 19 %             |
|                                                |                           |                        | Constant default rate                    | 2%-4%         | 2 %              |
|                                                |                           |                        | Loss severity                            | 25%-70%       | 40 %             |
|                                                |                           |                        | Yield                                    | 7%-17%        | 12 %             |
|                                                |                           | Scenario analysis      | Estimated recovery percentage            | 28%-38%       | 31 %             |
| RMBS                                           | \$ 38,772                 | Discounted cash flows  | Constant prepayment rate                 | 0%-11%        | 5 %              |
|                                                |                           |                        | Constant default rate                    | 1%-7%         | 3 %              |
|                                                |                           |                        | Loss severity                            | 35%-100%      | 62 %             |
|                                                |                           |                        | Yield                                    | 2%-10%        | 6 %              |
| CMBS                                           | \$ 20,580                 | Discounted cash flows  | Yield                                    | 6%-11%        | 8 %              |
|                                                |                           |                        | Cumulative loss rate                     | 5%-95%        | 39 %             |
| Other ABS                                      | \$ 40,911                 | Discounted cash flows  | Constant prepayment rate                 | 4%-20%        | 14 %             |
|                                                |                           |                        | Constant default rate                    | 0%-31%        | 13 %             |
|                                                |                           |                        | Loss severity                            | 0%-100%       | 90 %             |
|                                                |                           |                        | Yield                                    | 4%-17%        | 15 %             |
| Loans and other receivables                    | \$ 54,347                 | Market approach        | Price                                    | \$72          | —                |
|                                                |                           | Market approach        | EBITDA multiple                          | 3.3           | —                |
|                                                |                           |                        | Discount rate/yield                      | 2%-4%         | 3 %              |
|                                                |                           |                        | Transaction level                        | \$0.42        | —                |
|                                                |                           | Present value          | Average silver production (tons per day) | 666           | —                |
|                                                |                           | Scenario analysis      | Estimated recovery percentage            | 6%-50%        | 37 %             |
| Derivatives                                    | \$ 6,429                  |                        |                                          |               |                  |
| Equity swaps                                   |                           | Comparable pricing     | Comparable asset price                   | \$102         | —                |
| Credit default swaps                           |                           | Market approach        | Credit spread                            | 265 bps       | —                |
| Investments at fair value                      | \$ 42,907                 |                        |                                          |               |                  |
| Private equity securities                      |                           | Market approach        | Transaction level                        | \$250         | —                |
|                                                |                           |                        | Price                                    | \$25,815,720  | —                |
| Financial Instruments Sold, Not Yet Purchased: |                           |                        |                                          |               |                  |

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|                             |          |                       |                          |       |   |
|-----------------------------|----------|-----------------------|--------------------------|-------|---|
| Derivatives                 | \$ 9,870 |                       |                          |       |   |
| Equity options              |          | Option model          | Volatility               | 45%   | — |
|                             |          | Default rate          | Default probability      | 0%    | — |
| Equity swaps                |          | Comparable pricing    | Comparable asset price   | \$102 | — |
| Unfunded commitments        |          | Market approach       | Discount rate/yield      | 4%    | — |
| Variable funding note swaps |          | Discounted cash flows | Constant prepayment rate | 20%   | — |
|                             |          |                       | Constant default rate    | 2%    | — |
|                             |          |                       | Loss severity            | 25%   | — |
|                             |          |                       | Yield                    | 16%   | — |

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported NAV or a percentage of the reported enterprise fair value are excluded from the above tables. At November 30, 2017 and 2016, asset exclusions consisted of \$21.1 million and \$131.5 million, respectively, primarily comprised of private equity securities, CDOs and CLOs, municipal securities, non-exchange-traded securities and loans and other receivables. At November 30, 2017 and 2016, liability exclusions consisted of \$4.2 million and \$1.6 million, respectively, of other secured financings, CMBS, loans and corporate debt and equity securities.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Sensitivity of Fair Values to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs (if any) are described below:

Non-exchange-traded securities and equity swaps using comparable pricing valuation techniques. A significant increase (decrease) in the comparable asset and underlying stock price in isolation would result in a significantly higher (lower) fair value measurement.

Corporate debt securities using a convertible bond model. A significant increase (decrease) in the bond discount rate/yield would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in volatility would result in a significantly higher (lower) fair value measurement.

Non-exchange-traded securities, corporate debt securities, loans and other receivables, unfunded commitments, credit default swaps, interest rate swaps, total return swaps, other ABS and private equity securities using a market approach valuation technique. A significant increase (decrease) in the EBITDA or other multiples in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the discount rate/yield of a loan and other receivable or certain derivatives would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in the transaction level of a private equity security, corporate debt security or loan and other receivable would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the underlying stock price of the non-exchange-traded securities would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the credit spread of certain derivatives would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in the price of the private equity securities, non-exchange-traded securities, corporate debt securities, unfunded commitments, total return swaps, other ABS or loans and other receivables would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the estimated recovery rates of the cash flow outcomes underlying the corporate debt securities or loans and other receivables would result in a significantly higher (lower) fair value measurement.

Loans and other receivables, CDOs and CLOs, CMBS and other ABS using scenario analysis. A significant increase (decrease) in the possible recovery rates of the cash flow outcomes underlying the investment would result in a significantly higher (lower) fair value measurement for the financial instrument. A significant increase (decrease) in the price of the CMBS would result in a significantly higher (lower) fair value measurement.

CDOs and CLOs, RMBS and CMBS and other ABS and variable funding notes using a discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate, loss severity or cumulative loss rate would result in a significantly lower (higher) fair value measurement. The impact of changes in the constant prepayment rate and duration would have differing impacts depending on the capital structure and type of security. A significant increase (decrease) in the discount rate/security yield would result in a significantly lower (higher) fair value measurement.

Derivative equity options using an option model. A significant increase (decrease) in volatility would result in a significantly higher (lower) fair value measurement.

Derivative equity options using a default rate model. A significant increase (decrease) in default probability would result in a significantly lower (higher) fair value measurement.

Non-exchange-traded securities and loans and other receivables using a present value model. A significant increase (decrease) in average silver production would result in a significantly higher (lower) fair value measurement.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Fair Value Option Election

We have elected the fair value option for all loans and loan commitments made by our capital markets businesses. These loans and loan commitments include loans entered into by our Investment Banking division in connection with client bridge financing and loan syndications, loans purchased by our leveraged credit trading desk as part of its bank loan trading activities and mortgage and consumer loan commitments, purchases and fundings in connection with mortgage- and other asset-backed securitization activities. Loans and loan commitments originated or purchased by our leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Financial instruments owned and loan commitments are included in Financial instruments owned and Financial instruments sold, not yet purchased in our Consolidated Statements of Financial Condition. The fair value option election is not applied to loans made to affiliate entities as such loans are entered into as part of ongoing, strategic business ventures. Loans to affiliate entities are included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition and are accounted for on an amortized cost basis. We have also elected the fair value option for certain of our structured notes, which are managed by our capital markets business and are included in Long-term debt and Short-term borrowings in our Consolidated Statements of Financial Condition. We have elected the fair value option for certain financial instruments held by subsidiaries as the investments are risk managed by us on a fair value basis. The fair value option has also been elected for certain secured financings that arise in connection with our securitization activities and other structured financings. Other secured financings, Receivables – Brokers, dealers and clearing organizations, Receivables – Customers, Receivables – Fees, interest and other, Payables – Brokers, dealers and clearing organizations and Payables – Customers, are accounted for at cost plus accrued interest rather than at fair value; however, the recorded amounts approximate fair value due to their liquid or short-term nature.

The following is a summary of gains (losses) due to changes in instrument specific credit risk on loans, other receivables and debt instruments and gains (losses) due to other changes in fair value on Long-term debt and Short-term borrowings measured at fair value under the fair value option (in thousands):

|                                                | Year Ended November 30, |            |            |
|------------------------------------------------|-------------------------|------------|------------|
|                                                | 2017                    | 2016       | 2015       |
| Financial instruments owned:                   |                         |            |            |
| Loans and other receivables                    | \$22,088                | \$(68,812) | \$(17,389) |
| Financial instruments sold:                    |                         |            |            |
| Loans                                          | \$—                     | \$9        | \$(162 )   |
| Loan commitments                               | 230                     | 5,509      | 7,502      |
| Long-term debt:                                |                         |            |            |
| Changes in instrument specific credit risk (1) | \$(34,609)              | \$(10,745) | \$—        |
| Other changes in fair value (2)                | 47,291                  | 30,995     | —          |
| Short-term borrowings:                         |                         |            |            |
| Other changes in fair value (2)                | \$(681 )                | \$—        | \$—        |

(1) Changes in instrument-specific credit risk related to structured notes are included in our Consolidated Statements of Comprehensive Income, net of tax.

(2) Other changes in fair value are included in Principal transactions revenues in our Consolidated Statements of Earnings.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following is a summary of the amount by which contractual principal exceeds fair value for loans and other receivables and long-term debt measured at fair value under the fair value option (in thousands):

|                                                                                               | November 30,<br>2017 | 2016        |
|-----------------------------------------------------------------------------------------------|----------------------|-------------|
| Financial instruments owned:                                                                  |                      |             |
| Loans and other receivables (1)                                                               | \$752,076            | \$1,325,938 |
| Loans and other receivables on nonaccrual status and/or greater than 90 days past due (1) (2) | 159,462              | 205,746     |
| Long-term debt and short-term borrowings                                                      | 32,839               | 20,202      |

(1) Interest income is recognized separately from other changes in fair value and is included in Interest revenues in our Consolidated Statements of Earnings.

(2) Amounts include loans and other receivables greater than 90 days past due by which contractual principal exceeds fair value of \$38.7 million and \$64.6 million at November 30, 2017 and 2016, respectively.

The aggregate fair value of loans and other receivables on nonaccrual status and/or greater than 90 days past due was \$55.1 million and \$29.8 million at November 30, 2017 and 2016, respectively, which includes loans and other receivables greater than 90 days past due, was \$37.4 million and \$18.9 million at November 30, 2017 and 2016, respectively.

#### Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Certain intangible assets were measured at fair value on a non-recurring basis and are not included in the tables above. The following table presents those assets measured at fair value on a non-recurring basis for which the Company recognized a non-recurring fair value adjustment during the years ended November 30, 2017, 2016 and 2015 (in thousands):

|                                                    | Carrying<br>Value at<br>November<br>30, 2017 | Level<br>2 | Level<br>3 | Impairment<br>Losses for<br>the Year<br>Ended<br>November<br>30, 2017 |
|----------------------------------------------------|----------------------------------------------|------------|------------|-----------------------------------------------------------------------|
| Exchange ownership interests and registrations (1) | \$ 2,672                                     | \$2,672    | \$         | —\$ 613                                                               |
|                                                    | Carrying<br>Value at<br>November<br>30, 2016 | Level<br>2 | Level<br>3 | Impairment<br>Losses for<br>the Year<br>Ended<br>November<br>30, 2016 |
| Exchange ownership interests and registrations (1) | \$ 2,716                                     | \$2,716    | \$         | —\$ 1,284                                                             |
|                                                    | Carrying<br>Value at<br>November<br>30, 2015 | Level 2    | Level 3    | Impairment<br>Losses for<br>the Year<br>Ended<br>November<br>30, 2015 |
| Exchange ownership interests and registrations (1) | \$ 4,178                                     | \$4,178    | \$         | —\$ 1,289                                                             |

(1) Impairment losses of \$0.6 million, \$1.3 million and \$1.3 million, were recognized in Other expenses, during the years ended November 30, 2017, 2016 and 2015, respectively, for exchange memberships, which represent ownership interests in market exchanges on which trading business is conducted, and registrations. The fair value of these exchange memberships is based on observed quoted sales prices for each individual membership. (See Note 10, Goodwill and Intangible Assets.) The intangible assets are recognized for the years ended November 30,

2017 and 2016, primarily in the Fixed income reporting unit, and for the year ended November 30, 2015, primarily in the Futures reporting unit. For further information on the exit of the Futures business, refer to Note 20, Exit Costs.

There were no assets measured at fair value on a non-recurring basis, which utilized Level 1 inputs during the years ended November 30, 2017, 2016 and 2015. There were no liabilities measured at fair value on a non-recurring basis during the years ended November 30, 2017, 2016 and 2015.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Financial Instruments Not Measured at Fair Value

Certain of our financial instruments are not carried at fair value but are recorded at amounts that approximate fair value due to their liquid or short-term nature and generally negligible credit risk. These financial assets include Cash and cash equivalents and Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations and would generally be presented in Level 1 of the fair value hierarchy. Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations includes U.S. Treasury securities with a fair value of \$99.7 million and \$99.9 million at November 30, 2017 and 2016, respectively.

Note 5. Derivative Financial Instruments

Derivative Financial Instruments

Our derivative activities are recorded at fair value in our Consolidated Statements of Financial Condition in Financial instruments owned and Financial instruments sold, not yet purchased, net of cash paid or received under credit support agreements and on a net counterparty basis when a legally enforceable right to offset exists under a master netting agreement. We enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities. In addition, we apply hedge accounting to an interest rate swap that has been designated as a fair value hedge of the changes in fair value due to the benchmark interest rate for certain fixed rate senior long-term debt.

See Note 4, Fair Value Disclosures, and Note 16, Commitments, Contingencies and Guarantees, for additional disclosures about derivative financial instruments.

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. The risks of derivatives should not be viewed in isolation, but rather should be considered on an aggregate basis along with our other trading-related activities. We manage the risks associated with derivatives on an aggregate basis along with the risks associated with proprietary trading as part of our firm wide risk management policies.

In connection with our derivative activities, we may enter into International Swaps and Derivatives Association, Inc. ("ISDA") master netting agreements or similar agreements with counterparties. See Note 2, Summary of Significant Accounting Policies, for additional information regarding the offsetting of derivative contracts.

The following tables present the fair value and related number of derivative contracts at November 30, 2017 and 2016 categorized by type of derivative contract and the platform on which these derivatives are transacted. The fair value of assets/liabilities represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged. The following tables also provide information regarding 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in our Consolidated Statements of Financial Condition as appropriate under U.S. GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our financial position (in thousands, except contract amounts).

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

|                                                                           | November 30, 2017 (1) |                         |             |                         |
|---------------------------------------------------------------------------|-----------------------|-------------------------|-------------|-------------------------|
|                                                                           | Assets                |                         | Liabilities |                         |
|                                                                           | Fair Value            | Number of Contracts (2) | Fair Value  | Number of Contracts (2) |
| Derivatives designated as accounting hedges:                              |                       |                         |             |                         |
| Interest rate contracts:                                                  |                       |                         |             |                         |
| Cleared OTC                                                               | \$—                   | —                       | \$2,420     | 1                       |
| Total derivatives designated as accounting hedges                         | —                     |                         | 2,420       |                         |
| Derivatives not designated as accounting hedges:                          |                       |                         |             |                         |
| Interest rate contracts:                                                  |                       |                         |             |                         |
| Exchange-traded                                                           | 1,957                 | 33,972                  | 66          | 8,515                   |
| Cleared OTC                                                               | 1,334,878             | 2,711                   | 1,263,994   | 2,948                   |
| Bilateral OTC                                                             | 380,223               | 1,804                   | 444,716     | 1,346                   |
| Foreign exchange contracts:                                               |                       |                         |             |                         |
| Exchange-traded                                                           | 157                   | 2,045                   | 20          | 101                     |
| Bilateral OTC                                                             | 303,091               | 4,338                   | 286,582     | 4,361                   |
| Equity contracts:                                                         |                       |                         |             |                         |
| Exchange-traded                                                           | 1,288,295             | 2,654,555               | 1,375,832   | 2,090,935               |
| Bilateral OTC                                                             | 78,812                | 1,847                   | 247,750     | 1,722                   |
| Commodity contracts:                                                      |                       |                         |             |                         |
| Exchange-traded                                                           | 209                   | 3,723                   | 18          | 3,819                   |
| Credit contracts:                                                         |                       |                         |             |                         |
| Cleared OTC                                                               | 5,506                 | 18                      | 8,613       | 27                      |
| Bilateral OTC                                                             | 24,921                | 110                     | 33,188      | 164                     |
| Total derivatives not designated as hedges                                | 3,418,049             |                         | 3,660,779   |                         |
| Total gross derivative assets/ liabilities:                               |                       |                         |             |                         |
| Exchange-traded                                                           | 1,290,618             |                         | 1,375,936   |                         |
| Cleared OTC                                                               | 1,340,384             |                         | 1,275,027   |                         |
| Bilateral OTC                                                             | 787,047               |                         | 1,012,236   |                         |
| Amounts offset in our Consolidated Statements of Financial Condition (3): |                       |                         |             |                         |
| Exchange-traded                                                           | (1,268,043)           |                         | (1,268,043) |                         |
| Cleared OTC                                                               | (1,319,895)           |                         | (1,274,900) |                         |
| Bilateral OTC                                                             | (666,278 )            |                         | (883,306 )  |                         |
| Net amounts per Consolidated Statements of Financial Condition (4)        | \$163,833             |                         | \$236,950   |                         |

Exchange-traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives include derivatives executed bilaterally and subsequently novated to and cleared through central clearing counterparties. Bilateral OTC derivatives include derivatives executed and settled bilaterally without the use of an organized exchange or central clearing counterparty.

Number of exchange-traded contracts may include open futures contracts. The unsettled fair value of these futures contracts is included in Receivables from/Payables to brokers, dealers and clearing organizations in our Consolidated Statements of Financial Condition

(3) Amounts netted include both netting by counterparty and for cash collateral paid or received.

(4)

We have not received or pledged additional collateral under master netting agreements and/or other credit support agreements that is eligible to be offset beyond what has been offset in our Consolidated Statements of Financial Condition.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

|                                                                           | November 30, 2016 (1) |                         |             |                         |
|---------------------------------------------------------------------------|-----------------------|-------------------------|-------------|-------------------------|
|                                                                           | Assets                |                         | Liabilities |                         |
|                                                                           | Fair Value            | Number of Contracts (2) | Fair Value  | Number of Contracts (2) |
| Derivatives not designated as accounting hedges:                          |                       |                         |             |                         |
| Interest rate contracts:                                                  |                       |                         |             |                         |
| Exchange-traded                                                           | \$2,275               | 24,300                  | \$24        | 29,773                  |
| Cleared OTC (3)                                                           | 2,835,812             | 3,596                   | 2,636,469   | 3,445                   |
| Bilateral OTC                                                             | 444,159               | 1,136                   | 522,965     | 1,627                   |
| Foreign exchange contracts:                                               |                       |                         |             |                         |
| Exchange-traded                                                           | —                     | 376                     | —           | 686                     |
| Bilateral OTC                                                             | 529,609               | 7,448                   | 516,869     | 7,633                   |
| Equity contracts:                                                         |                       |                         |             |                         |
| Exchange-traded                                                           | 712,767               | 2,820,702               | 1,095,582   | 2,410,956               |
| Bilateral OTC                                                             | 72,041                | 1,077                   | 67,033      | 1,191                   |
| Commodity contracts:                                                      |                       |                         |             |                         |
| Exchange-traded                                                           | —                     | 1,356                   | —           | 920                     |
| Credit contracts:                                                         |                       |                         |             |                         |
| Cleared OTC                                                               | 645                   | 6                       | 2,304       | 8                       |
| Bilateral OTC                                                             | 19,225                | 213                     | 25,503      | 184                     |
| Total gross derivative assets/liabilities:                                |                       |                         |             |                         |
| Exchange-traded                                                           | 715,042               |                         | 1,095,606   |                         |
| Cleared OTC                                                               | 2,836,457             |                         | 2,638,773   |                         |
| Bilateral OTC                                                             | 1,065,034             |                         | 1,132,370   |                         |
| Amounts offset in our Consolidated Statements of Financial Condition (4): |                       |                         |             |                         |
| Exchange-traded                                                           | (691,009 )            |                         | (691,009 )  |                         |
| Cleared OTC (3)                                                           | (2,751,650)           |                         | (2,638,774) |                         |
| Bilateral OTC                                                             | (813,340 )            |                         | (899,431 )  |                         |
| Net amounts per Consolidated Statements of Financial Condition (5)        | \$360,534             |                         | \$637,535   |                         |

Exchange-traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives include derivatives executed bilaterally and subsequently novated to and cleared through central clearing (1) counterparties. Bilateral OTC derivatives include derivatives executed and settled bilaterally without the use of an organized exchange or central clearing counterparty.

Number of exchange-traded contracts may include open futures contracts. The unsettled fair value of these futures (2) contracts is included in Receivables from/Payables to brokers, dealers and clearing organizations in our Consolidated Statements of Financial Condition.

Pursuant to a rule change by the Chicago Mercantile Exchange in the first quarter of 2017, variation margin (3) exchanged each day with this clearing organization on certain interest rate and credit derivatives is characterized as settlement payments as opposed to cash posted as collateral. The impact of this rule change would have been a reduction in gross interest rate derivative assets and liabilities as of November 30, 2016 of approximately \$1.0 billion, and a corresponding decrease in counterparty and cash collateral netting, with no impact to our Consolidated Statement of Financial Condition.

(4) Amounts netted include both netting by counterparty and for cash collateral paid or received.

(5)

We have not received or pledged additional collateral under master netting agreements and/or other credit support agreements that is eligible to be offset beyond what has been offset in our Consolidated Statements of Financial Condition.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following table provides information related to gains (losses) recognized in Interest expense in our Consolidated Statements of Earnings on a fair value hedge (in thousands):

|                     | Year Ended<br>November 30, |      |      |
|---------------------|----------------------------|------|------|
| Gains (Losses)      | 2017                       | 2016 | 2015 |
| Interest rate swaps | \$(2,091)                  | \$ — | —    |
| Long-term debt      | 8,124                      | —    | —    |
| Total               | \$6,033                    | \$ — | —    |

The following table presents unrealized and realized gains (losses) on derivative contracts recognized in Principal transactions revenue in our Consolidated Statements of Earnings, which are utilized in connection with our client activities and our economic risk management activities (in thousands):

|                            | Year Ended November 30, |             |             |
|----------------------------|-------------------------|-------------|-------------|
| Gains (Losses)             | 2017                    | 2016        | 2015        |
| Interest rate contracts    | \$2,959                 | \$(34,319)  | \$(37,601)  |
| Foreign exchange contracts | 4,735                   | 18,122      | 36,101      |
| Equity contracts           | (303,953)               | (650,815)   | (137,636)   |
| Commodity contracts        | (4,911)                 | 1,310       | 21,409      |
| Credit contracts           | 8,508                   | 13,039      | (14,397)    |
| Total                      | \$(292,662)             | \$(652,663) | \$(132,124) |

The net gains (losses) on derivative contracts in the table above are one of a number of activities comprising our business activities and are before consideration of economic hedging transactions, which generally offset the net gains (losses) included above. We substantially mitigate our exposure to market risk on our cash instruments through derivative contracts, which generally provide offsetting revenues, and we manage the risk associated with these contracts in the context of our overall risk management framework.

OTC Derivatives. The following tables set forth by remaining contract maturity the fair value of OTC derivative assets and liabilities at November 30, 2017 (in thousands):

|                                                                     | OTC Derivative Assets (1) (2) (3) |             |                      |                            |           |
|---------------------------------------------------------------------|-----------------------------------|-------------|----------------------|----------------------------|-----------|
|                                                                     | 0 – 12 Months                     | 1 – 5 Years | Greater Than 5 Years | Cross-Maturity Netting (4) | Total     |
| Equity swaps and options                                            | \$3,082                           | \$6,084     | \$ —                 | \$ —                       | \$9,166   |
| Credit default swaps                                                | 567                               | 105         | 9,510                | (5,625)                    | 4,557     |
| Total return swaps                                                  | 34,228                            | 1,581       | —                    | (193)                      | 35,616    |
| Foreign currency forwards, swaps and options                        | 76,213                            | 231         | —                    | (30)                       | 76,414    |
| Interest rate swaps, options and forwards                           | 28,111                            | 166,403     | 74,048               | (83,534)                   | 185,028   |
| Total                                                               | \$142,201                         | \$174,404   | \$ 83,558            | \$ (89,382)                | 310,781   |
| Cross product counterparty netting                                  |                                   |             |                      |                            | (23,732)  |
| Total OTC derivative assets included in Financial instruments owned |                                   |             |                      |                            | \$287,049 |

(1) At November 30, 2017, we held exchange-traded derivative assets and other credit agreements with a fair value of \$22.7 million, which are not included in this table.

OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of (2) collateral received in our Consolidated Statements of Financial Condition. At November 30, 2017, cash collateral received was \$146.0 million.

(3) Derivative fair values include counterparty netting within product category.

(4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

|                                                                                               | OTC Derivative Liabilities (1) (2) (3) |                |                            |                               | Total     |
|-----------------------------------------------------------------------------------------------|----------------------------------------|----------------|----------------------------|-------------------------------|-----------|
|                                                                                               | 0 – 12<br>Months                       | 1 – 5<br>Years | Greater<br>Than 5<br>Years | Cross-Maturity<br>Netting (4) |           |
| Equity swaps and options                                                                      | \$78                                   | \$172,088      | \$2,920                    | \$ —                          | \$175,086 |
| Credit default swaps                                                                          | 104                                    | 16,540         | 3,953                      | (5,625)                       | ) 14,972  |
| Total return swaps                                                                            | 28,920                                 | 1,517          | —                          | (193)                         | ) 30,244  |
| Foreign currency forwards, swaps and options                                                  | 59,874                                 | 157            | —                          | (30)                          | ) 60,001  |
| Fixed income forwards                                                                         | 8,512                                  | —              | —                          | —                             | 8,512     |
| Interest rate swaps, options and forwards                                                     | 16,544                                 | 96,484         | 151,624                    | (83,534)                      | ) 181,118 |
| Total                                                                                         | \$114,032                              | \$286,786      | \$158,497                  | \$ (89,382)                   | ) 469,933 |
| Cross product counterparty netting                                                            |                                        |                |                            |                               | (23,732 ) |
| Total OTC derivative liabilities included in Financial<br>instruments sold, not yet purchased |                                        |                |                            |                               | \$446,201 |

(1) At November 30, 2017, we held exchange-traded derivative liabilities and other credit agreements with a fair value of \$108.7 million, which are not included in this table.

OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded (2) net of collateral pledged in our Consolidated Statements of Financial Condition. At November 30, 2017, cash collateral pledged was \$318.0 million.

(3) Derivative fair values include counterparty netting within product category.

(4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

The following table presents the counterparty credit quality with respect to the fair value of our OTC derivative assets at November 30, 2017 (in thousands):

Counterparty credit quality (1):

|              |           |
|--------------|-----------|
| A- or higher | \$163,871 |
| BBB- to BBB+ | 40,565    |
| BB+ or lower | 48,338    |
| Unrated      | 34,275    |
| Total        | \$287,049 |

We utilize internal credit ratings determined by our Risk Management department. Credit ratings determined by (1) Risk Management use methodologies that produce ratings generally consistent with those produced by external rating agencies.

## Credit Related Derivative Contracts

The external credit ratings of the underlyings or referenced assets for our written credit related derivative contracts (in millions):

|                                  | November 30, 2017         |                  |
|----------------------------------|---------------------------|------------------|
|                                  | External Credit<br>Rating | Investment Grade |
|                                  | Notional                  | Notional         |
| Credit protection sold:          |                           |                  |
| Index credit default swaps       | \$3.0 \$ 46.0             | \$ 49.0          |
| Single name credit default swaps | 129.189.1                 | 218.2            |



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

|                                  | November 30, 2016      |                |           |
|----------------------------------|------------------------|----------------|-----------|
|                                  | External Credit Rating |                |           |
|                                  | Investment             | Non-investment | Total     |
|                                  | Grade                  | Grade          | Notional  |
| Credit protection sold:          |                        |                |           |
| Index credit default swaps       | \$54.0                 | \$             | — \$ 54.0 |
| Single name credit default swaps | 122.4                  | 261.2          | 383.6     |

## Contingent Features

Certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a liability position at November 30, 2017 and 2016 is \$95.1 million and \$70.6 million, respectively, for which we have posted collateral of \$80.8 million and \$44.4 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on November 30, 2017 and 2016, we would have been required to post an additional \$14.3 million and \$26.1 million, respectively, of collateral to our counterparties.

## Note 6. Collateralized Transactions

We enter into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance inventory positions, meet customer needs or re-lend as part of our dealer operations. We monitor the fair value of the securities loaned and borrowed on a daily basis as compared with the related payable or receivable, and request additional collateral or return excess collateral, as appropriate. We pledge financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Our agreements with counterparties generally contain contractual provisions allowing the counterparty the right to sell or repledge the collateral. Pledged securities owned that can be sold or repledged by the counterparty are included in Financial instruments owned and noted parenthetically as Securities pledged in our Consolidated Statements of Financial Condition.

In instances where we receive securities as collateral in connection with securities-for-securities transactions in which we are the lender of securities and are permitted to sell or repledge the securities received as collateral, we report the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At November 30, 2017 and 2016, \$103,000 and \$0, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following tables set forth the carrying value of securities lending arrangements, repurchase agreements and obligation to return securities received as collateral by class of collateral pledged (in thousands):

| November 30, 2017                             |                                       |                          |                                                                       |              |
|-----------------------------------------------|---------------------------------------|--------------------------|-----------------------------------------------------------------------|--------------|
|                                               | Securities<br>Lending<br>Arrangements | Repurchase<br>Agreements | Obligation<br>To Return<br>Securities<br>Received<br>As<br>Collateral | Total        |
| Collateral Pledged:                           |                                       |                          |                                                                       |              |
| Corporate equity securities                   | \$2,353,798                           | \$214,413                | \$ —                                                                  | \$2,568,211  |
| Corporate debt securities                     | 470,908                               | 2,336,702                | —                                                                     | 2,807,610    |
| Mortgage- and asset-backed securities         | —                                     | 2,562,268                | —                                                                     | 2,562,268    |
| U.S. government and federal agency securities | 19,205                                | 11,792,534               | —                                                                     | 11,811,739   |
| Municipal securities                          | —                                     | 444,861                  | —                                                                     | 444,861      |
| Sovereign obligations                         | —                                     | 2,023,530                | 103                                                                   | 2,023,633    |
| Loans and other receivables                   | —                                     | 454,941                  | —                                                                     | 454,941      |
| Total                                         | \$2,843,911                           | \$19,829,249             | \$ 103                                                                | \$22,673,263 |

| November 30, 2016                             |                                       |                          |              |
|-----------------------------------------------|---------------------------------------|--------------------------|--------------|
|                                               | Securities<br>Lending<br>Arrangements | Repurchase<br>Agreements | Total        |
| Collateral Pledged:                           |                                       |                          |              |
| Corporate equity securities                   | \$2,046,243                           | \$66,291                 | \$2,112,534  |
| Corporate debt securities                     | 731,276                               | 1,907,888                | 2,639,164    |
| Mortgage- and asset-backed securities         | —                                     | 2,171,480                | 2,171,480    |
| U.S. government and federal agency securities | 41,613                                | 9,232,624                | 9,274,237    |
| Municipal securities                          | —                                     | 553,010                  | 553,010      |
| Sovereign obligations                         | —                                     | 2,625,079                | 2,625,079    |
| Loans and other receivables                   | —                                     | 455,960                  | 455,960      |
| Total                                         | \$2,819,132                           | \$17,012,332             | \$19,831,464 |

The following tables set forth the carrying value of securities lending arrangements, repurchase agreements and obligation to return securities received as collateral by remaining contractual maturity (in thousands):

| November 30, 2017                                      |                                |                  |             |                            |              |
|--------------------------------------------------------|--------------------------------|------------------|-------------|----------------------------|--------------|
|                                                        | Overnight<br>and<br>Continuous | Up to 30<br>Days | 31-90 Days  | Greater<br>than 90<br>Days | Total        |
| Securities lending arrangements                        | \$1,676,940                    | \$—              | \$741,971   | \$425,000                  | \$2,843,911  |
| Repurchase agreements                                  | 10,780,474                     | 4,058,228        | 3,211,464   | 1,779,083                  | 19,829,249   |
| Obligation to return securities received as collateral | 103                            | —                | —           | —                          | 103          |
| Total                                                  | \$12,457,517                   | \$4,058,228      | \$3,953,435 | \$2,204,083                | \$22,673,263 |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

|                                 | November 30, 2016              |                  |             |                            |              |
|---------------------------------|--------------------------------|------------------|-------------|----------------------------|--------------|
|                                 | Overnight<br>and<br>Continuous | Up to 30<br>Days | 31-90 Days  | Greater<br>than 90<br>Days | Total        |
| Securities lending arrangements | \$2,131,891                    | \$39,673         | \$104,516   | \$543,052                  | \$2,819,132  |
| Repurchase agreements           | 9,147,176                      | 2,008,119        | 3,809,533   | 2,047,504                  | 17,012,332   |
| Total                           | \$11,279,067                   | \$2,047,792      | \$3,914,049 | \$2,590,556                | \$19,831,464 |

We receive securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. We also receive securities as collateral in connection with securities-for-securities transactions in which we are the lender of securities. In many instances, we are permitted by contract to rehypothecate the securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending transactions, satisfy margin requirements on derivative transactions or cover short positions. At November 30, 2017 and 2016, the approximate fair value of securities received as collateral by us that may be sold or replighted was \$27.1 billion and \$25.5 billion, respectively. At November 30, 2017 and 2016, a substantial portion of the securities received by us had been sold or replighted.

**Offsetting of Securities Financing Agreements**

To manage our exposure to credit risk associated with securities financing transactions, we may enter into master netting agreements and collateral arrangements with counterparties. Generally, transactions are executed under standard industry agreements, including, but not limited to, master securities lending agreements (securities lending transactions) and master repurchase agreements (repurchase transactions). See Note 2, Summary of Significant Accounting Policies, for additional information regarding the offsetting of securities financing agreements. The following tables provide information regarding repurchase agreements, securities borrowing and lending arrangements and securities received as collateral and obligation to return securities received as collateral that are recognized in our Consolidated Statements of Financial Condition and 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in our Consolidated Statements of Financial Condition as appropriate under U.S. GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our financial position (in thousands).

|                                                           | November 30, 2017 |                                                                         |                                                                             |                                                         |                             |                   |
|-----------------------------------------------------------|-------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------|-----------------------------|-------------------|
|                                                           | Gross<br>Amounts  | Netting in<br>Consolidated<br>Statement<br>of<br>Financial<br>Condition | Net<br>Amounts in<br>Consolidated<br>Statement of<br>Financial<br>Condition | Additional<br>Amounts<br>Available<br>for Setoff<br>(1) | Available<br>Collateral (2) | Net<br>Amount (3) |
| <b>Assets</b>                                             |                   |                                                                         |                                                                             |                                                         |                             |                   |
| Securities borrowing arrangements                         | \$7,721,803       | \$ —                                                                    | \$ 7,721,803                                                                | \$(966,712)                                             | \$(1,032,629)               | \$ 5,722,462      |
| Reverse repurchase agreements                             | 14,858,297        | (11,168,738)                                                            | 3,689,559                                                                   | (463,973)                                               | (3,207,147)                 | 18,439            |
| Securities received as collateral                         | 103               | —                                                                       | 103                                                                         | —                                                       | (103)                       | —                 |
| <b>Liabilities</b>                                        |                   |                                                                         |                                                                             |                                                         |                             |                   |
| Securities lending arrangements                           | \$2,843,911       | \$ —                                                                    | \$ 2,843,911                                                                | \$(966,712)                                             | \$(1,795,408)               | \$ 81,791         |
| Repurchase agreements                                     | 19,829,249        | (11,168,738)                                                            | 8,660,511                                                                   | (463,973)                                               | (7,067,512)                 | 1,129,026         |
| Obligation to return securities received<br>as collateral | 103               | —                                                                       | 103                                                                         | —                                                       | (103)                       | —                 |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

|                                   | November 30, 2016 |                                                                      |                                                                             |                                                         |                             |                   |
|-----------------------------------|-------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------|-----------------------------|-------------------|
|                                   | Gross<br>Amounts  | Netting in<br>Consolidated<br>Statement of<br>Financial<br>Condition | Net Amounts<br>in<br>Consolidated<br>Statement of<br>Financial<br>Condition | Additional<br>Amounts<br>Available<br>for Setoff<br>(1) | Available<br>Collateral (2) | Net<br>Amount (4) |
| <b>Assets</b>                     |                   |                                                                      |                                                                             |                                                         |                             |                   |
| Securities borrowing arrangements | \$7,743,562       | \$ —                                                                 | \$ 7,743,562                                                                | \$(710,611)                                             | \$(647,290)                 | \$ 6,385,661      |
| Reverse repurchase agreements     | 14,083,144        | (10,220,656)                                                         | 3,862,488                                                                   | (176,275)                                               | (3,591,654)                 | 94,559            |
| <b>Liabilities</b>                |                   |                                                                      |                                                                             |                                                         |                             |                   |
| Securities lending arrangements   | \$2,819,132       | \$ —                                                                 | \$ 2,819,132                                                                | \$(710,611)                                             | \$(2,064,299)               | \$ 44,222         |
| Repurchase agreements             | 17,012,332        | (10,220,656)                                                         | 6,791,676                                                                   | (176,275)                                               | (5,780,909)                 | 834,492           |

Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the balance sheet because other netting provisions of U.S. GAAP are not met. Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.

Amounts include \$5,678.6 million of securities borrowing arrangements, for which we have received securities collateral of \$5,516.7 million, and \$1,084.4 million of repurchase agreements, for which we have pledged securities collateral of \$1,115.9 million, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

Amounts include \$6,337.5 million of securities borrowing arrangements, for which we have received securities collateral of \$6,146.0 million, and \$810.4 million of repurchase agreements, for which we have pledged securities collateral of \$834.2 million, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

#### Cash and Securities Segregated and on Deposit for Regulatory Purposes or Deposited with Clearing and Depository Organizations

Cash and securities deposited with clearing and depository organizations and segregated in accordance with regulatory regulations totaled \$578.0 million and \$857.3 million at November 30, 2017 and 2016, respectively. Segregated cash and securities consist of deposits in accordance with Rule 15c-3 of the Securities Exchange Act of 1934, which subjects Jefferies as a broker-dealer carrying customer accounts to requirements related to maintaining cash or qualified securities in segregated special reserve bank accounts for the exclusive benefit of its customers.

#### Note 7. Securitization Activities

We engage in securitization activities related to corporate loans, commercial mortgage loans, consumer loans and mortgage-backed and other asset-backed securities. In our securitization transactions, we transfer these assets to special purpose entities ("SPEs") and act as the placement or structuring agent for the beneficial interests sold to investors by the SPE. A significant portion of our securitization transactions are the securitization of assets issued or guaranteed by U.S. government agencies. These SPEs generally meet the criteria of VIEs; however, we generally do not consolidate the SPEs as we are not considered the primary beneficiary for these SPEs. See Note 8, Variable Interest Entities, for further discussion on VIEs and our determination of the primary beneficiary.

We account for our securitization transactions as sales, provided we have relinquished control over the transferred assets. Transferred assets are carried at fair value with unrealized gains and losses reflected in Principal transactions revenues in our Consolidated Statements of Earnings prior to the identification and isolation for securitization.

Subsequently, revenues recognized upon securitization are reflected as net underwriting revenues. We generally receive cash proceeds in connection with the transfer of assets to an SPE. We may, however, have continuing involvement with the transferred assets, which is limited to retaining one or more tranches of the securitization (primarily senior and subordinated debt securities in the form of mortgage- and other-asset backed securities or CLOs), which are included in Financial instruments owned and are generally initially categorized as Level 2 within the fair value hierarchy. We apply fair value accounting to the securities. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Summary of Significant Accounting Policies, herein and Note 4, Fair Value Disclosures.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following table presents activity related to our securitizations that were accounted for as sales in which we had continuing involvement (in millions):

|                                           | Year Ended November 30, |           |           |
|-------------------------------------------|-------------------------|-----------|-----------|
|                                           | 2017                    | 2016      | 2015      |
| Transferred assets                        | \$4,552.9               | \$5,786.0 | \$5,770.5 |
| Proceeds on new securitizations           | 4,594.5                 | 5,809.0   | 5,811.3   |
| Cash flows received on retained interests | 28.7                    | 28.2      | 31.2      |

We have no explicit or implicit arrangements to provide additional financial support to these SPEs, have no liabilities related to these SPEs and do not have any outstanding derivative contracts executed in connection with these securitization activities at November 30, 2017 and 2016.

The following tables summarize our retained interests in SPEs where we transferred assets and have continuing involvement and received sale accounting treatment (in millions):

|                             | November 30, |                    |              |                    |
|-----------------------------|--------------|--------------------|--------------|--------------------|
|                             | 2017         |                    | 2016         |                    |
| Securitization Type         | Total Assets | Retained Interests | Total Assets | Retained Interests |
| U.S. government agency RMBS | \$6,383.5    | \$ 28.2            | \$7,584.9    | \$ 31.0            |
| U.S. government agency CMBS | 2,075.7      | 81.4               | 1,806.3      | 29.6               |
| CLOs                        | 3,957.8      | 20.3               | 4,102.2      | 37.0               |
| Consumer and other loans    | 247.6        | 47.8               | 395.7        | 25.3               |

Total assets represent the unpaid principal amount of assets in the SPEs in which we have continuing involvement and are presented solely to provide information regarding the size of the transactions and the size of the underlying assets supporting our retained interests, and are not considered representative of the risk of potential loss. Assets retained in connection with a securitization transaction represent the fair value of the securities of one or more tranches issued by an SPE, including senior and subordinated tranches. Our risk of loss is limited to this fair value amount which is included in total Financial instruments owned in our Consolidated Statements of Financial Condition.

Although not obligated, in connection with secondary market-making activities we may make a market in the securities issued by these SPEs. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities purchased through these market-making activities are not considered to be continuing involvement in these SPEs. To the extent we purchased securities through these market-making activities and we are not deemed to be the primary beneficiary of the VIE, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated VIEs section presented in Note 8, Variable Interest Entities.

#### Note 8. Variable Interest Entities

VIEs are entities in which equity investors lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has both (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. Our variable interests in VIEs include debt and equity interests, commitments, guarantees and certain fees. Our involvement with VIEs arises primarily from:

- Purchases of securities in connection with our trading and secondary market making activities;
- Retained interests held as a result of securitization activities, including the resecuritization of mortgage- and other asset-backed securities and the securitization of commercial mortgage, corporate and consumer loans;
- Acting as placement agent and/or underwriter in connection with client-sponsored securitizations;
- Financing of agency and non-agency mortgage- and other asset-backed securities;



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

• Warehouse funding arrangements for client-sponsored consumer loan vehicles and CLOs through participation certificates and revolving loan and note commitments; and

• Loans to, investments in and fees from various investment vehicles.

We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and we reassess whether we are the primary beneficiary of a VIE on an ongoing basis. Our determination of whether we are the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment. Our considerations in determining the VIE's most significant activities and whether we have power to direct those activities include, but are not limited to, the VIE's purpose and design and the risks passed through to investors, the voting interests of the VIE, management, service and/or other agreements of the VIE, involvement in the VIE's initial design and the existence of explicit or implicit financial guarantees. In situations where we have determined that the power over the VIE's significant activities is shared, we assess whether we are the party with the power over the most significant activities. If we are the party with the power over the most significant activities, we meet the "power" criteria of the primary beneficiary. If we do not have the power over the most significant activities or we determine that decisions require consent of each sharing party, we do not meet the "power" criteria of the primary beneficiary.

We assess our variable interests in a VIE both individually and in aggregate to determine whether we have an obligation to absorb losses of or a right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of whether our variable interest is significant to the VIE requires significant judgment. In determining the significance of our variable interest, we consider the terms, characteristics and size of the variable interests, the design and characteristics of the VIE, our involvement in the VIE and our market-making activities related to the variable interests.

**Consolidated VIEs**

The following table presents information about our consolidated VIEs at November 30, 2017 and 2016 (in millions). The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation.

|                                                     | November 30,            |        |                         |        |
|-----------------------------------------------------|-------------------------|--------|-------------------------|--------|
|                                                     | 2017                    |        | 2016                    |        |
|                                                     | Securitization Vehicles | Other  | Securitization Vehicles | Other  |
| Cash                                                | \$6.5                   | \$ 1.1 | \$ 16.1                 | \$ 0.7 |
| Financial instruments owned                         | 37.6                    | 0.4    | 86.6                    | 0.6    |
| Securities purchased under agreements to resell (1) | 729.3                   | —      | 733.5                   | —      |
| Fees, interest and other receivables                | 0.2                     | —      | 1.5                     | —      |
| Total assets                                        | \$773.6                 | \$ 1.5 | \$837.7                 | \$ 1.3 |
| Other secured financings (2)                        | \$766.2                 | \$ —   | \$813.1                 | \$ —   |
| Other liabilities                                   | 5.9                     | 0.2    | 24.1                    | 0.2    |
| Total liabilities                                   | \$772.1                 | \$ 0.2 | \$837.2                 | \$ 0.2 |

(1) Securities purchased under agreements to resell represent amounts due under collateralized transactions on related consolidated entities, which are eliminated in consolidation.

(2) Approximately \$44.1 million and \$57.6 million of the secured financing represent an amount held by us in inventory and is eliminated in consolidation at November 30, 2017 and 2016, respectively.

Securitization Vehicles. We are the primary beneficiary of mortgage-backed financing vehicles to which we sell agency and non-agency residential and commercial mortgage loans and mortgage-backed securities pursuant to the terms of a master repurchase agreement. We manage the assets within these vehicles. Our variable interests in these vehicles consist of our collateral margin maintenance obligations under the master repurchase agreement and retained interests in securities issued. The assets of these VIEs consist of reverse repurchase agreements, which are available for the benefit of the vehicle's debt holders. The creditors of these VIEs do not have recourse to our general credit and

each such VIE's assets are not available to satisfy any other debt.

We are also the primary beneficiary of securitization vehicles associated with our financing of consumer and small business loans. In the creation of the securitization vehicles, we were involved in the decisions made during the establishment and design of the entities and hold variable interests consisting of the securities retained that could potentially be significant. The assets of the VIEs consist of the small business loans and term loans backed by consumer installment receivables, which are available for the benefit of the vehicles' beneficial interest holders. The creditors of the VIEs do not have recourse to our general credit and the assets of the VIEs are not available to satisfy any other debt.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Other. We are the primary beneficiary of certain investment vehicles set up for the benefit of our employees. We manage and invest alongside our employees in these vehicles. The assets of these VIEs consist of private equity securities, and are available for the benefit of the entities' equity holders. Our variable interests in these vehicles consist of equity securities. The creditors of these VIEs do not have recourse to our general credit and each such VIE's assets are not available to satisfy any other debt.

## Nonconsolidated VIEs

The following tables present information about our variable interests in nonconsolidated VIEs (in millions):

|                                       | November 30, 2017 |             |                  |            |
|---------------------------------------|-------------------|-------------|------------------|------------|
|                                       | Carrying Amount   |             | Maximum          | VIE        |
|                                       | Assets            | Liabilities | Exposure to Loss | Assets     |
| CLOs                                  | \$163.5           | \$ 8.9      | \$1,020.5        | \$5,210.4  |
| Consumer loan vehicles                | 254.8             | —           | 759.8            | 2,322.7    |
| Related party private equity vehicles | 23.7              | —           | 45.4             | 75.0       |
| Other private investment vehicles     | 48.0              | —           | 48.7             | 2,938.4    |
| Total                                 | \$490.0           | \$ 8.9      | \$1,874.4        | \$10,546.5 |
|                                       | November 30, 2016 |             |                  |            |
|                                       | Carrying Amount   |             | Maximum          | VIE        |
|                                       | Assets            | Liabilities | Exposure to Loss | Assets     |
| CLOs                                  | \$263.3           | \$ 4.8      | \$920.0          | \$4,451.7  |
| Consumer loan vehicles                | 90.3              | —           | 219.6            | 985.5      |
| Related party private equity vehicles | 37.6              | —           | 63.6             | 155.6      |
| Other private investment vehicles     | 52.3              | —           | 53.8             | 3,874.7    |
| Total                                 | \$443.5           | \$ 4.8      | \$1,257.0        | \$9,467.5  |

Our maximum exposure to loss often differs from the carrying value of the variable interests. The maximum exposure to loss is dependent on the nature of our variable interests in the VIEs and is limited to the notional amounts of certain loan and equity commitments and guarantees. Our maximum exposure to loss does not include the offsetting benefit of any financial instruments that may be utilized to hedge the risks associated with our variable interests and is not reduced by the amount of collateral held as part of a transaction with a VIE.

Collateralized Loan Obligations. Assets collateralizing the CLOs include bank loans, participation interests and sub-investment grade and senior secured U.S. loans. We underwrite securities issued in CLO transactions on behalf of sponsors and provide advisory services to the sponsors. We may also sell corporate loans to the CLOs. Our variable interests in connection with CLOs where we have been involved in providing underwriting and/or advisory services consist of the following:

- Forward sale agreements whereby we commit to sell, at a fixed price, corporate loans and ownership interests in an entity holding such corporate loans to CLOs;
- Warehouse funding arrangements in the form of participation interests in corporate loans held by CLOs and commitments to fund such participation interests;
- Trading positions in securities issued in a CLO transaction;
- Investments in variable funding notes issued by CLOs; and
- A guarantee to a CLO managed by Jefferies Finance, LLC ("Jefferies Finance"), whereby we guarantee certain of the obligations of Jefferies Finance to the CLO.

Consumer Loan Vehicles. We provide financing and lending related services to certain client-sponsored VIEs in the form of revolving funding note agreements, revolving credit facilities and forward purchase agreements. The underlying assets, which are collateralizing the vehicles, are primarily composed of unsecured consumer and small business loans. In addition, we may provide structuring and advisory services and act as an underwriter or placement

agent for securities issued by the vehicles. We do not control the activities of these entities.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Related Party Private Equity Vehicles.** We committed to invest equity in private equity funds (the “JCP Funds”) managed by Jefferies Capital Partners, LLC (the “JCP Manager”). Additionally, we committed to invest equity in the general partners of the JCP Funds (the “JCP General Partners”) and the JCP Manager. Our variable interests in the JCP Funds, JCP General Partners and JCP Manager (collectively, the “JCP Entities”) consist of equity interests that, in total, provide us with limited and general partner investment returns of the JCP Funds, a portion of the carried interest earned by the JCP General Partners and a portion of the management fees earned by the JCP Manager. Our total equity commitment in the JCP Entities was \$148.1 million, of which \$126.3 million and \$125.1 million had been funded at November 30, 2017 and 2016, respectively. The carrying value of our equity investments in the JCP Entities was \$23.7 million and \$37.6 million at November 30, 2017 and 2016, respectively. Our exposure to loss is limited to the total of our carrying value and unfunded equity commitment. The assets of the JCP Entities primarily consist of private equity and equity related investments.

We also had provided a guarantee of a portion of Energy Partners I, LP’s obligations under a credit agreement (“Energy Partners Credit Agreement”). Energy Partners I, LP, is a private equity fund owned and managed by certain of our employees. The maximum exposure to loss of the guarantee was \$3.0 million at November 30, 2016. Energy Partners I, LP, has assets consisting primarily of debt and equity investments. The Energy Partners Credit Agreement was terminated in April 2017.

**Other Private Investment Vehicles.** At November 30, 2017 and 2016, we had equity commitments to invest \$61.8 million and \$75.8 million, respectively, in various other private investment vehicles, of which \$61.0 million and \$74.3 million was funded, respectively. The carrying value of our equity investments was \$48.0 million and \$52.3 million at November 30, 2017 and 2016, respectively. Our exposure to loss is limited to the total of our carrying value and unfunded equity commitment. These private investment vehicles have assets primarily consisting of private and public equity investments, debt instruments and various oil and gas assets.

**Mortgage- and Other Asset-Backed Securitization Vehicles.** In connection with our secondary trading and market making activities, we buy and sell agency and non-agency mortgage-backed securities and other asset-backed securities, which are issued by third party securitization SPEs and are generally considered variable interests in VIEs. Securities issued by securitization SPEs are backed by residential mortgage loans, U.S. agency collateralized mortgage obligations, commercial mortgage loans, CDOs and CLOs and other consumer loans, such as installment receivables, auto loans and student loans. These securities are accounted for at fair value and included in Financial instruments owned in our Consolidated Statements of Financial Condition. We have no other involvement with the related SPEs and therefore do not consolidate these entities.

We also engage in underwriting, placement and structuring activities for third-party-sponsored securitization trusts generally through agency (FNMA (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) or GNMA (“Ginnie Mae”)) or non-agency-sponsored SPEs and may purchase loans or mortgage-backed securities from third parties that are subsequently transferred into the securitization trusts. The securitizations are backed by residential and commercial mortgage, home equity and auto loans. We do not consolidate agency-sponsored securitizations as we do not have the power to direct the activities of the SPEs that most significantly impact their economic performance. Further, we are not the servicer of non-agency-sponsored securitizations and therefore do not have power to direct the most significant activities of the SPEs and accordingly, do not consolidate these entities. We may retain unsold senior and/or subordinated interests at the time of securitization in the form of securities issued by the SPEs.

We transfer existing securities, typically mortgage-backed securities, into resecuritization vehicles. These transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests occur in connection with both agency and non-agency-sponsored VIEs. Our consolidation analysis is largely dependent on our role and interest in the resecuritization trusts. Most resecuritizations in which we are involved are in connection with investors seeking securities with specific risk and return characteristics. As such, we have concluded that the decision-making power is shared between us and the investor(s), considering the joint efforts involved in structuring the trust and selecting the underlying assets as well as the level of security interests the investor(s) hold in the SPE; therefore, we do not consolidate the resecuritization VIEs.

At November 30, 2017 and 2016, we held \$1,829.6 million and \$1,002.2 million of agency mortgage-backed securities, respectively, and \$253.2 million and \$439.4 million of non-agency mortgage and other asset-backed securities, respectively, as a result of our secondary trading and market making activities, underwriting, placement and structuring activities and resecuritization activities. Our maximum exposure to loss on these securities is limited to the carrying value of our investments in these securities. These mortgage- and other asset-backed securitization vehicles discussed are not included in the above table containing information about our variable interests in nonconsolidated VIEs.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Note 9. Investments

We have investments in Jefferies Finance and Epic Gas Ltd. (“Epic Gas”). We also had an investment in Jefferies LoanCore LLC (“Jefferies LoanCore”), which we sold on October 31, 2017. Our investments in Jefferies Finance, Jefferies LoanCore and Epic Gas have been accounted for under the equity method and have been included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition with our share of the investees’ earnings recognized in Other revenues in our Consolidated Statements of Earnings. We have limited partnership interests of 11% and 50% in Jefferies Capital Partners V L.P. and the SBI USA Fund L.P. (together, “JCP Fund V”), respectively, which are private equity funds managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee. In addition, we had an investment in KCG Holdings, Inc. (“KCG”), which was sold on July 20, 2017. Our investment in KCG was accounted for at fair value by electing the fair value option available under U.S. GAAP and was included in corporate equity securities in Financial instruments owned, at fair value in our Consolidated Statements of Financial Condition with changes in fair value recognized in Principal transaction revenues in our Consolidated Statements of Earnings.

## Jefferies Finance

Jefferies Finance, a joint venture entity pursuant to an agreement with Massachusetts Mutual Life Insurance Company (“MassMutual”), is a commercial finance company whose primary focus is the origination and syndication of senior secured debt to middle market and growth companies in the form of term and revolving loans. Loans are originated primarily through the investment banking efforts of Jefferies. Jefferies Finance may also originate other debt products such as second lien term, bridge and mezzanine loans, as well as related equity co-investments. Jefferies Finance also purchases syndicated loans in the secondary market and acts as an investment advisor for various loan funds.

At November 30, 2017, we and MassMutual each had equity commitments to Jefferies Finance of \$750.0 million for a combined total commitment of \$1.5 billion. At November 30, 2017, we had funded \$636.2 million of our \$750.0 million commitment, leaving \$113.8 million unfunded. The investment commitment is scheduled to expire on March 1, 2018 with automatic one year extensions absent a 60 day termination notice by either party.

Jefferies Finance has executed a Secured Revolving Credit Facility with us and MassMutual, to be funded equally, to support loan underwritings by Jefferies Finance, which bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. The total Secured Revolving Credit Facility is a committed amount of \$500.0 million at November 30, 2017. Advances are shared equally between us and MassMutual. The facility is scheduled to mature on March 1, 2018 with automatic one year extensions absent a 60 day termination notice by either party. At November 30, 2017, we had funded \$0.0 million of our \$250.0 million commitment. The following summarizes the activity included in our Consolidated Statements of Earnings related to the facility (in millions):

|                          | Year Ended<br>November 30,<br>2017 2016 2015 |       |       |
|--------------------------|----------------------------------------------|-------|-------|
| Interest income          | \$2.9                                        | \$0.1 | \$0.9 |
| Unfunded commitment fees | 1.0                                          | 1.2   | 1.6   |

Separate financial statements for Jefferies Finance are included in this Annual Report on Form 10-K. The following is a summary of selected financial information for Jefferies Finance (in millions):

|                          | November 30,<br>2017 2016  |           |
|--------------------------|----------------------------|-----------|
| Total assets             | \$8,164.9                  | \$7,293.3 |
| Total liabilities        | 6,892.6                    | 6,352.3   |
| Total equity             | 1,272.3                    | 941.1     |
| Our total equity balance | 636.2                      | 470.5     |
|                          | Year Ended November<br>30, |           |

|                     | 2017    | 2016     | 2015   |
|---------------------|---------|----------|--------|
| Net earnings (loss) | \$181.7 | \$(19.6) | \$83.4 |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following summarizes activity related to our other transactions with Jefferies Finance (in millions):

|                                              | Year Ended November<br>30, |         |         |
|----------------------------------------------|----------------------------|---------|---------|
|                                              | 2017                       | 2016    | 2015    |
| Origination and syndication fee revenues (1) | \$327.9                    | \$112.6 | \$122.7 |
| Origination fee expenses (1)                 | 2.4                        | 0.5     | 5.9     |
| CLO placement fee revenues (2)               | 6.1                        | 2.6     | 6.2     |
| Derivative gains (losses) (3)                | (1.1)                      | 0.5     | —       |
| Underwriting fees (4)                        | —                          | —       | 1.3     |
| Service fees (5)                             | 50.7                       | 46.1    | 51.7    |

We engage in debt capital markets transactions with Jefferies Finance related to the originations and syndications of loans by Jefferies Finance. In connection with such services, we earned fees, which are recognized in Investment banking revenues in our Consolidated Statements of Earnings. In addition, we paid fees to Jefferies Finance in respect of certain loans originated by Jefferies Finance, which are recognized as Business development expenses in our Consolidated Statements of Earnings.

We act as a placement agent for CLOs managed by Jefferies Finance, for which we recognized fees, which are included in Investment banking revenues in our Consolidated Statements of Earnings. At November 30, 2017 and 2016, we held securities issued by CLOs managed by Jefferies Finance, which are included in Financial instruments owned. At November 30, 2016, we provided a guarantee whereby we were required to make certain payments to a CLO in the event that Jefferies Finance was unable to meet its obligations to the CLO, which was terminated in October 2017.

We have entered into participation agreements and derivative contracts with Jefferies Finance based upon certain securities issued by the CLO and we have recognized gains (losses) relating to the derivative contracts.

We acted as underwriter in connection with senior notes issued by Jefferies Finance.

Under a service agreement, we charge Jefferies Finance for services provided.

At November 30, 2017, we had a receivable from Jefferies Finance of \$20.5 million included in Other Assets, and at November 30, 2016, we had a payable to Jefferies Finance of \$5.8 million included in Accrued expenses and other liabilities, in our Consolidated Statements of Financial Condition.

Jefferies enters into OTC foreign exchange contracts with Jefferies Finance as to which, at November 30, 2017, we had \$1.5 million included in Financial instruments owned, at fair value in our Consolidated Statements of Financial Condition.

**Jefferies LoanCore**

Jefferies LoanCore, a commercial real estate finance company and a joint venture with the Government of Singapore Investment Corporation, the Canada Pension Plan Investment Board and LoanCore, LLC, originates and purchases commercial real estate loans throughout the U.S. and Europe. On October 31, 2017, we sold all of our membership interests (which constituted a 48.5% voting interest) in Jefferies LoanCore for approximately \$173.1 million, the estimated book value at October 31, 2017. In addition, we may be entitled to additional cash consideration over the next five years in the event Jefferies LoanCore's yearly return on equity exceeds certain thresholds.

The following is a summary of selected financial information for Jefferies LoanCore (in millions):

|                          | November<br>30, 2016                 |
|--------------------------|--------------------------------------|
| Total assets             | \$ 1,827.2                           |
| Total liabilities        | 1,505.0                              |
| Total equity             | 322.2                                |
| Our total equity balance | 156.3                                |
|                          | Eleven Year Ended<br>Months November |

|                 | Ended 30,<br>October 2016 | 2015<br>31, 2017 |
|-----------------|---------------------------|------------------|
| Net earnings \$ | 37.5                      | \$71.8 \$79.0    |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following summarizes activity related to our transactions with Jefferies LoanCore (in thousands):

|                              | Year Ended November<br>30, |         |          |
|------------------------------|----------------------------|---------|----------|
|                              | 2017                       | 2016    | 2015     |
| Interest income and fees (1) | \$588                      | \$8,412 | \$10,690 |
| Placement fees (2)           | 100                        | 100     | 1,643    |
| Service fees (3)             | 190                        | 200     | 241      |

We enter into master repurchase agreements with Jefferies LoanCore and earn interest income and fees related to (1) these agreements. At November 30, 2016, we had reverse repurchase agreements outstanding of \$68.1 million in connection with these agreements.

(2) In connection with the securitization of commercial real estate loans originated by Jefferies LoanCore, we earned placement fees.

(3) Under a service agreement, we charged Jefferies LoanCore for services provided.

We also entered into OTC foreign exchange contracts with Jefferies LoanCore. In connection with these contracts, we had \$8.3 million at November 30, 2016, recorded in Payables-brokers, dealers and clearing organizations in our Consolidated Statements of Financial Condition.

**JCP Fund V**

The amount of our investments in JCP Fund V included in Investments in managed funds in our Consolidated Statements of Financial Condition was \$19.6 million and \$29.1 million at November 30, 2017 and 2016, respectively. We account for these investments at fair value based on the NAV of the funds provided by the fund managers (see Note 2, Summary of Significant Accounting Policies). The following summarizes the results from these investments which are included in Asset management fees and investment income from managed funds in our Consolidated Statements of Earnings (in millions):

|                                               | Year Ended November<br>30, |         |          |
|-----------------------------------------------|----------------------------|---------|----------|
|                                               | 2017                       | 2016    | 2015     |
| Net losses from our investments in JCP Fund V | \$(10.7)                   | \$(1.1) | \$(24.3) |

At November 30, 2017 and 2016, we were committed to invest equity of up to \$85.0 million in JCP Fund V.

At November 30, 2017 and 2016, our unfunded commitment relating to JCP Fund V was \$10.1 million and \$11.3 million, respectively.

The following is a summary of selected financial information for 100.0% of JCP Fund V, in which we own effectively 35.2% of the combined equity interests (in thousands):

|                         | September 30, |          |
|-------------------------|---------------|----------|
|                         | 2017 (1)      | 2016 (1) |
| Total assets            | \$55,788      | \$82,689 |
| Total liabilities       | 96            | 73       |
| Total partners' capital | 55,692        | 82,616   |

|                                                                 | Nine<br>Months<br>Ended<br>September<br>30, 2017<br>(1) | Three<br>Months<br>Ended<br>December<br>31, 2016<br>(1) | Nine<br>Months<br>Ended<br>September<br>30, 2016<br>(1) | Three<br>Months<br>Ended<br>December<br>31, 2015<br>(1) | Nine<br>Months<br>Ended<br>September<br>30, 2015<br>(1) | Three<br>Months<br>Ended<br>December<br>31, 2014<br>(1) |
|-----------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Net increase (decrease) in net assets resulting from operations | \$ (24,630 )                                            | \$ (2,294 )                                             | \$ 6,159                                                | \$ (7,886 )                                             | \$ (1,751 )                                             | \$ (65,700 )                                            |

(1) Financial information for JCP Fund V within our financial position and results of operations at November 30, 2017 and 2016 and for the years ended November 30, 2017, 2016 and 2015 is included based on the presented periods.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Epic Gas

On July 14, 2015, Jefferies purchased common shares of Epic Gas. In addition, one of our directors serves on the Board of Directors of Epic Gas and owns common shares of Epic Gas. At November 30, 2017, we own approximately 21.1% of the outstanding common stock of Epic Gas. The amount of our investments in Epic Gas included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition was \$22.2 million and \$21.5 million at November 30, 2017 and 2016, respectively.

The following is a summary of selected financial information for Epic Gas (in millions) reflecting available public financial information for Epic Gas:

|                   | September 30, |         |
|-------------------|---------------|---------|
|                   | 2017          | 2016    |
| Total assets      | \$599.2       | \$579.0 |
| Total liabilities | 340.2         | 315.0   |
| Total equity      | 259.0         | 264.0   |

|                       | Nine Months Ended September 30, 2017<br>(1) | Three Months Ended December 31, 2016<br>(1) | Nine Months Ended September 30, 2016<br>(1) | Three Months Ended December 31, 2015<br>(1) | Nine Months Ended September 30, 2015<br>(1) | Three Months Ended December 31, 2014<br>(1) |
|-----------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| Net losses \$ (14.5 ) | \$ (15.9 )                                  | \$ (7.4 )                                   | \$ (11.4 )                                  | \$ (4.6 )                                   | \$ (16.1 )                                  |                                             |

(1) Financial information for Epic Gas within our financial position and results of operations at November 30, 2017 and 2016 and for the years ended November 30, 2017, 2016 and 2015 is included based on the presented periods.

## KCG

Our investment in KCG was sold on July 20, 2017. At November 30, 2016, we owned approximately 24% of the outstanding common stock of KCG. We had elected to record our investment in KCG at fair value under the fair value option as the investment was acquired as part of our capital markets activities. The valuation of our investment at November 30, 2016 was based on the closing exchange price of KCG and included in Level 1 of the fair value hierarchy.

The following summarizes the changes in the fair value of our investment in KCG, which were recognized in Principal transactions revenues in our Consolidated Statements of Earnings (in millions):

|                                      | Year Ended November 30, |        |        |
|--------------------------------------|-------------------------|--------|--------|
|                                      | 2017                    | 2016   | 2015   |
| Net gains from our investment in KCG | \$93.4                  | \$19.6 | \$49.1 |

The following is a summary of selected financial information for KCG at December 31, 2016, reflecting available public information (in millions):

|                   |           |
|-------------------|-----------|
| Total assets      | \$6,261.3 |
| Total liabilities | 4,904.0   |
| Total equity      | 1,357.3   |

The following is a summary of net earnings for KCG (in millions), reflecting available public financial information for KCG:

|                      | Year Ended November 30, |         |
|----------------------|-------------------------|---------|
|                      | 2016                    | 2015    |
| Net earnings for KCG | \$255.7                 | \$249.1 |

In connection with a KCG shares and warrants exchange transaction, we earned advisory fees of \$2.9 million during the year ended November 30, 2016.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

We have separately entered into securities lending transactions with KCG in the normal course of our capital markets activities. The following is a summary of the balances related to these activities (in millions):

|                        | November<br>30, 2016 |
|------------------------|----------------------|
| Securities borrowed \$ | 9.2                  |
| Securities loaned      | 9.2                  |

## Note 10. Goodwill and Intangible Assets

## Goodwill

Goodwill attributed to our reportable business segments are as follows (in thousands):

|                      | November 30, |             |
|----------------------|--------------|-------------|
|                      | 2017         | 2016        |
| Capital Markets (1)  | \$1,644,089  | \$1,637,653 |
| Asset Management (1) | 3,000        | 3,000       |
| Total goodwill       | \$1,647,089  | \$1,640,653 |

Accumulated goodwill impairments related to the Capital Markets segment were \$51.9 million at December 1, 2017 and 2016, and goodwill prior to these impairments was \$1,696.0 million and \$1,689.6 million at December 1, (1)2017 and 2016, respectively. Accumulated goodwill impairments related to the Asset Management segment were \$2.1 million at December 1, 2017 and 2016, and goodwill prior to these impairments was \$5.1 million at both December 1, 2017 and 2016.

The following table is a summary of the changes to goodwill (in thousands):

|                                 | Year Ended November<br>30, |             |
|---------------------------------|----------------------------|-------------|
|                                 | 2017                       | 2016        |
| Balance, at beginning of period | \$1,640,653                | \$1,656,588 |
| Translation adjustments         | 6,436                      | (15,935 )   |
| Balance, at end of period       | \$1,647,089                | \$1,640,653 |

## Goodwill Impairment Testing

A reporting unit is an operating segment or one level below an operating segment. The quantitative goodwill impairment test is performed at the level of the reporting unit and consists of two steps. In the first step, the fair value of each reporting unit is compared with its carrying value, including goodwill and allocated intangible assets. If the fair value is in excess of the carrying value, the goodwill for the reporting unit is considered not to be impaired. If the fair value is less than the carrying value, then a second step is performed in order to measure the amount of the impairment loss, if any, which is based on comparing the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill.

Allocated tangible equity plus allocated goodwill and intangible assets are used for the carrying amount of each reporting unit. The amount of tangible equity allocated to a reporting unit is based on our cash capital model deployed in managing our businesses, which seeks to approximate the capital a business would require if it were operating independently. Intangible assets are allocated to a reporting unit based on either specifically identifying a particular intangible asset as pertaining to a reporting unit or, if shared among reporting units, based on an assessment of the reporting unit's benefit from the intangible asset in order to generate results.

Estimating the fair value of a reporting unit requires management judgment. Estimated fair values for our reporting units were determined using a market valuation method that incorporate price-to-earnings and price-to-book multiples of comparable public companies. In addition, as the fair values determined under the market approach represent a noncontrolling interest, we applied a control premium to arrive at the estimated fair value of each reporting unit on a controlling basis. We engaged an independent valuation specialist to assist us in our valuation process at August 1,

2017.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Our annual goodwill impairment testing at August 1, 2017 did not indicate any goodwill impairment in any of our reporting units. Substantially all of our goodwill is allocated to our Investment Banking, Equities and Fixed Income reporting units, for which the results of our assessment indicated that these reporting units had a fair value in excess of their carrying amounts based on current projections. At November 30, 2017, goodwill allocated to these reporting units is \$1,644.1 million of total goodwill of \$1,647.1 million.

**Intangible Assets**

Intangible assets are included in Other assets in our Consolidated Statements of Financial Condition. The following tables present the gross carrying amount, changes in carrying amount, net carrying amount and weighted average amortization period of identifiable intangible assets at November 30, 2017 and 2016 (in thousands):

| November 30, 2017                                                         |            |                   |                          |                          |                                          |                                          |
|---------------------------------------------------------------------------|------------|-------------------|--------------------------|--------------------------|------------------------------------------|------------------------------------------|
|                                                                           | Gross cost | Impairment losses | Accumulated amortization | Net carrying amount      | Weighted average remaining lives (years) |                                          |
| Customer relationships                                                    | \$126,412  | \$ —              | \$ (50,983 )             | \$75,429                 | 11.3                                     |                                          |
| Trade name                                                                | 129,370    | —                 | (17,557 )                | 111,813                  | 30.3                                     |                                          |
| Exchange and clearing organization membership interests and registrations | 9,164      | (613 )            | —                        | 8,551                    | N/A                                      |                                          |
| Total                                                                     | \$264,946  | \$ (613 )         | \$ (68,540 )             | \$195,793                |                                          |                                          |
| November 30, 2016                                                         |            |                   |                          |                          |                                          |                                          |
|                                                                           | Gross cost | Disposals (1)     | Impairment losses        | Accumulated amortization | Net carrying amount                      | Weighted average remaining lives (years) |
| Customer relationships                                                    | \$125,381  | \$—               | \$ —                     | \$ (42,283 )             | \$83,098                                 | 12.1                                     |
| Trade name                                                                | 128,052    | —                 | —                        | (13,720 )                | 114,332                                  | 31.3                                     |
| Exchange and clearing organization membership interests and registrations | 11,704     | (1,379 )          | (1,284 )                 | —                        | 9,041                                    | N/A                                      |
| Total                                                                     | \$265,137  | \$ (1,379 )       | \$ (1,284 )              | \$ (56,003 )             | \$206,471                                |                                          |

(1) Activity is primarily related to the sale of certain exchange and clearing organization membership interests in the Futures reporting unit due to the exit of the business.

We performed our annual impairment testing of intangible assets with an indefinite useful life, which consists of exchange and clearing organization membership interests and registrations, at August 1, 2017. We elected to perform a quantitative assessment of membership interests and registrations that have available quoted sales prices as well as certain other membership interests and registrations that have declined in utilization. A qualitative assessment was performed on the remainder of our indefinite-life intangible assets. In applying our quantitative assessment at August 1, 2017 and 2016, we recognized an impairment loss of \$44,000 and \$1.3 million, respectively, on certain exchange membership interests and registrations. With regard to our qualitative assessment of the remaining indefinite-life intangible assets, based on our assessment of market conditions, the utilization of the assets and the replacement costs associated with the assets, we have concluded that it is not more likely than not that the intangible assets are impaired. In addition, we recognized an impairment loss of \$569,000 during the year ended November 30, 2017 on certain membership interests that were not renewed.

**Amortization Expense**

For finite life intangible assets, aggregate amortization expense amounted to \$11.9 million, \$12.0 million and \$12.2 million for the years ended November 30, 2017, 2016 and 2015, respectively. These expenses are included in Other expenses in our Consolidated Statements of Earnings.

The estimated future amortization expense for the five succeeding fiscal years is as follows (in thousands):

Year ending November 30, 2018 \$12,198

Year ending November 30, 2019 12,198  
Year ending November 30, 2020 12,198  
Year ending November 30, 2021 12,198  
Year ending November 30, 2022 12,198

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Note 11. Short-Term Borrowings

Short-term borrowings at November 30, 2017 and 2016 include the following and mature in one year or less (in thousands):

|                                   | November 30, |           |
|-----------------------------------|--------------|-----------|
|                                   | 2017         | 2016      |
| Bank loans (1)                    | \$304,651    | \$372,301 |
| Secured revolving loan facilities | —            | 57,086    |
| Floating rate puttable notes      | 108,240      | 96,455    |
| Equity-linked notes               | 23,324       | —         |
| Total short-term borrowings       | \$436,215    | \$525,842 |

(1) Bank loans include loans entered into, pursuant to a Master Loan Agreement, between the Bank of New York Mellon and us, with original maturities of three months or less.

At November 30, 2017, the weighted average interest rate on short-term borrowings outstanding is 2.51% per annum. Average daily short-term borrowings outstanding were \$482.4 million and \$399.6 million for the year ended November 30, 2017 and 2016, respectively.

During 2017, we issued equity-linked notes with principal amounts of \$30.6 million, which matured on July 18, 2017, \$4.2 million, which matured on September 20, 2017 and \$23.3 million, which matured on December 7, 2017. See Note 4, Fair Value Disclosures, for further information.

During 2016, we issued floating rate puttable notes with an aggregate principal amount of €91.0 million.

The Bank of New York Mellon agrees to make revolving intraday credit advances (“Intraday Credit Facility”) for an aggregate committed amount of \$150.0 million. The Intraday Credit Facility contains a financial covenant, which includes a minimum regulatory net capital requirement for Jefferies. Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. At November 30, 2017, we were in compliance with debt covenants under the Intraday Credit Facility.

On December 14, 2015, we entered into secured revolving loan facility (“Secured Revolving Loan Facility”), whereby the lender agreed to make available a revolving loan facility in a maximum principal amount of \$50.0 million to purchase eligible receivables that met certain requirements as defined in the Second Secured Revolving Loan Facility agreement. Interest was based on an annual rate equal to the lesser of the LIBOR rate plus four and one-quarter percent or the maximum rate as defined in the Second Secured Revolving Loan Facility agreement. The Secured Revolving Loan Facility was terminated effective January 24, 2017.

On February 19, 2016, we entered into a demand loan margin financing facility (“Demand Loan Facility”) in a maximum principal amount of \$25.0 million to satisfy certain of our margin obligations. Interest is based on an annual rate equal to weighted average LIBOR as defined in the Demand Loan Facility agreement plus 150 basis points. The Demand Loan Facility was terminated effective November 30, 2016.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Note 12. Long-Term Debt

The following summarizes our long-term debt carrying values (including unamortized discounts and premiums, valuation adjustments and debt issuance costs, where applicable) (in thousands):

|                                          | Maturity         | Effective Interest Rate | November 30, |             |
|------------------------------------------|------------------|-------------------------|--------------|-------------|
|                                          |                  |                         | 2017         | 2016        |
| Unsecured long-term debt                 |                  |                         |              |             |
| 5.125% Senior Notes                      | April 13, 2018   | 3.46%                   | 682,338      | 817,813     |
| 8.500% Senior Notes                      | July 15, 2019    | 4.00%                   | 728,872      | 778,367     |
| 2.375% Euro Medium Term Notes            | May 20, 2020     | 2.42%                   | 593,334      | 528,250     |
| 6.875% Senior Notes                      | April 15, 2021   | 4.40%                   | 808,157      | 823,797     |
| 2.250% Euro Medium Term Notes            | July 13, 2022    | 4.08%                   | 4,389        | 3,848       |
| 5.125% Senior Notes                      | January 20, 2023 | 4.55%                   | 615,703      | 618,355     |
| 4.850% Senior Notes (1)                  | January 15, 2027 | 4.93%                   | 736,357      | —           |
| 6.450% Senior Debentures                 | June 8, 2027     | 5.46%                   | 375,794      | 377,806     |
| 3.875% Convertible Senior Debentures (2) | November 1, 2029 | 3.50%                   | 324,779      | 346,187     |
| 6.250% Senior Debentures                 | January 15, 2036 | 6.03%                   | 512,040      | 512,396     |
| 6.500% Senior Notes                      | January 20, 2043 | 6.09%                   | 420,990      | 421,333     |
| Structured notes (3) (4)                 | Various          | Various                 | 614,091      | 255,203     |
| Total long-term debt                     |                  |                         | \$6,416,844  | \$5,483,355 |

These senior notes with a principal amount of \$750.0 million were issued on January 17, 2017. The carrying value includes a decrease of \$8.1 million associated with an interest rate swap based on its designation as a fair value hedge. See Note 2, Summary of Significant Accounting Policies, and Note 5, Derivative Financial Instruments, for further information.

The change in fair value of the conversion feature embedded in the debentures, which is included in Principal transaction revenues in our Consolidated Statements of Earnings, was not material for the years ended November 30, 2017, 2016 and 2015.

The carrying value includes \$607.0 million and \$248.9 million of notes carried at fair value at November 30, 2017 and 2016, respectively. These structured notes contain various interest rate payment terms and are accounted for at fair value, with changes in fair value resulting from a change in the instrument-specific credit risk presented in other comprehensive income and changes in fair value resulting from non-credit components recognized in Principal transaction revenues. A weighted average coupon rate is not meaningful, as substantially all of the structured notes are carried at fair value.

Of the \$614.1 million of structured notes at November 30, 2017, \$7.1 million matures in 2018, \$6.0 million matures in 2019, \$25.0 million matures in 2022 and the remaining \$576.0 million matures in 2024 or thereafter.

During the year ended November 30, 2017, we issued senior notes with a total principal amount of approximately \$609.1 million, net of retirements, and structured notes with a total principal amount of approximately \$329.9 million, net of retirements. In addition, during 2017, \$20.2 million of our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the “debentures”) were called. During the year ended November 30, 2016, we issued structured notes with a total principal amount of approximately \$275.4 million and approximately \$350.0 million of long-term borrowings matured. We did not issue notes during the year ended November 30, 2015. During the year ended November 30, 2015, approximately \$500.0 million of long-term borrowings matured or were retired.

On January 23, 2018, we issued 4.150% senior notes with a principal amount of \$1.0 billion, due 2030. At November 22, 2017, all of the remaining convertible debentures (\$324.8 million at November 30, 2017) were called for optional redemption, with a redemption date of January 5, 2018, at a redemption price equal to 100% of the principal amount of the convertible debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. All of these remaining convertible debentures were redeemed on January 5, 2018. In addition, our \$682.3 million 5.125% senior notes will mature in April 2018 and we will pay a \$200.0 million distribution to Leucadia on January 31, 2018,

which will reduce our total capital. For further information on this distribution, see Note 19, Related Party Transactions.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The conversion option to Leucadia common shares embedded within the debentures met the definition of a derivative contract, did not qualify to be accounted for within Jefferies Group LLC member's equity and was not clearly and closely related to the economic interest rate or credit risk characteristics of our debt. Accordingly, the conversion option was accounted for on a standalone basis at fair value with changes in fair value recognized in Principal transaction revenues and was presented in Long-term debt in our Consolidated Statements of Financial Condition. The conversion option matured at November 1, 2017. At November 30, 2016, the fair value of the conversion option was not material.

## Note 13. Benefit Plans

## U.S. Pension Plan

We maintain a defined benefit pension plan, Jefferies Group LLC Employees' Pension Plan (the "U.S. Pension Plan"), which is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and covers certain of our employees. Under the U.S. Pension Plan, benefits to participants are based on years of service and the employee's career average pay. Effective December 31, 2005, benefits under the U.S. Pension Plan were frozen with no further benefit accruing to participants for future service after December 31, 2005.

Employer Contributions - Our funding policy is to contribute to the U.S. Pension Plan at least the minimum amount required for funding purposes under applicable employee benefit and tax laws. We contributed \$1.0 million to the U.S. Pension Plan during the year ended November 30, 2017 and plan to make a \$1.0 million contribution to the plan during the year ended November 30, 2018.

The following tables summarize the changes in the projected benefit obligation, the fair value of the assets and the funded status of the plan (in thousands):

|                                                   | Year Ended<br>November 30, |            |
|---------------------------------------------------|----------------------------|------------|
|                                                   | 2017                       | 2016       |
| Change in projected benefit obligation:           |                            |            |
| Projected benefit obligation, beginning of period | \$58,731                   | \$58,330   |
| Service cost                                      | 450                        | 400        |
| Interest cost                                     | 2,232                      | 2,311      |
| Actuarial losses                                  | 2,327                      | 862        |
| Administrative expenses paid                      | (395 )                     | (461 )     |
| Benefits paid                                     | (2,786 )                   | (2,711 )   |
| Projected benefit obligation, end of period       | \$60,559                   | \$58,731   |
| Change in plan assets:                            |                            |            |
| Fair value of assets, beginning of period         | \$49,992                   | \$47,031   |
| Benefits paid                                     | (2,786 )                   | (2,711 )   |
| Administrative expenses paid                      | (395 )                     | (461 )     |
| Actual return on plan assets                      | 5,138                      | 3,133      |
| Contributions                                     | 1,000                      | 3,000      |
| Fair value of assets, end of period               | \$52,949                   | \$49,992   |
| Funded status at end of period                    | \$(7,610 )                 | \$(8,739 ) |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The amounts recognized in our Consolidated Statements of Financial Condition are as follows (in thousands):

|                                                       | November 30, |           |
|-------------------------------------------------------|--------------|-----------|
|                                                       | 2017         | 2016      |
| Consolidated statements of financial condition:       |              |           |
| Liabilities                                           | \$7,610      | \$8,739   |
| Accumulated other comprehensive income, before taxes: |              |           |
| Net losses                                            | \$(6,092)    | \$(5,901) |

The following tables summarize the components of net periodic pension cost and other amounts recognized in Other comprehensive income, before taxes (in thousands):

|                                               | Year Ended November 30, |         |         |
|-----------------------------------------------|-------------------------|---------|---------|
|                                               | 2017                    | 2016    | 2015    |
| Components of net periodic pension cost:      |                         |         |         |
| Service cost                                  | \$450                   | \$400   | \$250   |
| Interest cost on projected benefit obligation | 2,232                   | 2,311   | 2,340   |
| Expected return on plan assets                | (3,021)                 | (2,917) | (3,357) |
| Net amortization                              | 19                      | —       | —       |
| Settlement losses                             | —                       | —       | 244     |
| Net periodic pension cost                     | \$(320)                 | \$(206) | \$(523) |

|                                                                                   | Year Ended November 30, |       |         |
|-----------------------------------------------------------------------------------|-------------------------|-------|---------|
|                                                                                   | 2017                    | 2016  | 2015    |
| Amounts recognized in Other comprehensive income:                                 |                         |       |         |
| Net losses arising during the period                                              | \$210                   | \$646 | \$7,890 |
| Amortization of net loss                                                          | (19)                    | —     | —       |
| Settlements during the period                                                     | —                       | —     | (244)   |
| Total losses recognized in Other comprehensive income                             | \$191                   | \$646 | \$7,646 |
| Net losses recognized in net periodic benefit cost and Other comprehensive income | \$(129)                 | \$440 | \$7,123 |

The assumptions used to determine the actuarial present value of the projected obligation and net periodic pension benefit cost are as follows:

|                                                                  | Year Ended November 30, |       |       |
|------------------------------------------------------------------|-------------------------|-------|-------|
|                                                                  | 2017                    | 2016  | 2015  |
| Discount rate used to determine benefit obligation               | 3.60%                   | 3.90% | 4.10% |
| Weighted average assumptions used to determine net pension cost: |                         |       |       |
| Discount rate                                                    | 3.90%                   | 4.10% | 4.30% |
| Expected long-term rate of return on plan assets                 | 6.25%                   | 6.25% | 6.75% |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Expected Benefit Payments - Expected benefit payments for each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows (in thousands):

|                   |         |
|-------------------|---------|
| 2018              | \$2,312 |
| 2019              | 3,030   |
| 2020              | 2,527   |
| 2021              | 2,137   |
| 2022              | 2,989   |
| 2023 through 2027 | 24,274  |

Plan Assets - The following tables present the fair value of plan assets by level within the fair value hierarchy (in thousands):

At November 30,  
2017  
Level 2 Total

Plan assets (1):

|                          |          |          |
|--------------------------|----------|----------|
| Common collective trusts | \$52,949 | \$52,949 |
| Total plan assets        | \$52,949 | \$52,949 |

(1) There are no plan assets classified within Levels 1 and 3 of the fair value hierarchy.

At November 30, 2016  
Level 1 Level 2 Total

Plan assets (1):

|                                   |          |          |          |
|-----------------------------------|----------|----------|----------|
| Cash and cash equivalents         | \$1,135  | \$—      | \$1,135  |
| Listed equity securities (2)      | 32,342   | —        | 32,342   |
| Fixed income securities:          |          |          |          |
| Corporate debt securities         | —        | 4,906    | 4,906    |
| Foreign corporate debt securities | —        | 1,835    | 1,835    |
| U.S. government securities        | 5,370    | —        | 5,370    |
| Agency mortgage-backed securities | —        | 3,330    | 3,330    |
| CMBS                              | —        | 591      | 591      |
| ABS                               | —        | 483      | 483      |
| Total plan assets                 | \$38,847 | \$11,145 | \$49,992 |

(1) There are no plan assets classified within Level 3 of the fair value hierarchy.

(2) Listed equity securities are diversified across a spectrum of primarily U.S. large-cap companies.

Valuation technique and inputs - The following is a description of the valuation techniques and inputs used in measuring plan assets accounted for at fair value on a recurring basis:

• Cash equivalents are valued at cost, which approximates fair value and are categorized in Level 1 of the fair value hierarchy;

• Common collective trusts are valued at their NAV as a practical expedient for fair value and categorized in Level 2;

• Listed equity securities are valued using the quoted prices in active markets for identical assets;

• Fixed income securities:

Corporate debt, mortgage- and asset-backed securities and other securities valuations use data readily available to all market participants and use inputs available for substantially the full term of the security. Valuation inputs include benchmark yields, reported trades, broker dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers, reference data, and industry and economic events;

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

U.S. government and agency securities valuations generally include quoted bid prices in active markets for identical or similar assets.

Investment Policies and Strategies - Assets in the plan are invested under guidelines adopted by the Administrative Committee of the U.S. Pension Plan. Because the U.S. Pension Plan exists to provide a vehicle for funding future benefit obligations, the investment objectives of the portfolio take into account the nature and timing of future plan liabilities. The policy recognizes that the portfolio's long-term investment performance and its ability to meet the plan's overall objectives are dependent on the strategic asset allocation, which includes adequate diversification among assets classes.

On May 16, 2017, we entered into an agreement with an external investment manager to invest and manage the plan's assets under a strategy using a combination of two portfolios. The investment manager allocates the plan's assets between a growth portfolio and a liability-driven portfolio according to certain target allocations and tolerance bands that are agreed to by the Administrative Committee of the U.S. Pension Plan. Such target allocations will take into consideration the plan's funded ratio. The manager will also monitor the strategy and, as the plan's funded ratio changes over time, will rebalance the strategy, if necessary, to be within the agreed tolerance bands and target allocations. The portfolios are comprised of certain common collective investment trusts that are established and maintained by the investment manager.

**German Pension Plan**

In connection with the acquisition of Jefferies Bache from Prudential on July 1, 2011, we acquired a defined benefits pension plan located in Germany (the "German Pension Plan") for the benefit of eligible employees of Jefferies Bache in that territory. The German Pension Plan has no plan assets and is therefore unfunded. We have purchased insurance contracts from multi-national insurers held in the name of Jefferies Bache Limited to provide for the plan's future obligations. The investment in these insurance contracts is included in Financial instruments owned in our Consolidated Statements of Financial Condition and has a fair value of \$16.0 million and \$15.2 million at November 30, 2017 and 2016, respectively. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) are paid by us. In connection with the acquisition, it was agreed with Prudential that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to us by Prudential. On December 28, 2017, a Liquidation Insurance Contract was entered into between Jefferies Bache Limited and Generali Lebensversicherung AG ("Generali") to transfer the defined benefit pension obligations and insurance contracts to Generali, for approximately €7.3 million, which will be paid in January 2018 and which will release us from any and all obligations under the German Pension Plan. Subject to certain precedent conditions being fulfilled, this transaction is expected to be completed in the first quarter of 2018. In addition, on December 28, 2017, we entered into an agreement with Prudential under which we received \$3.25 million as consideration for the release of Prudential by us from their indemnity relating to the German Pension Plan defined benefit pension obligations. The provisions and assumptions used in the German Pension Plan are based on local conditions in Germany. We did not contribute to the plan during the years ended November 30, 2017 and 2016.

The following tables summarize the changes in the projected benefit obligation and the components of net periodic pension cost (in thousands):

|                                                   | Year Ended   |           |
|---------------------------------------------------|--------------|-----------|
|                                                   | November 30, |           |
|                                                   | 2017         | 2016      |
| Change in projected benefit obligation:           |              |           |
| Projected benefit obligation, beginning of period | \$24,166     | \$23,545  |
| Interest cost                                     | 426          | 529       |
| Actuarial loss (gain)                             | (91)         | ) 1,157   |
| Benefits paid                                     | (1,233)      | ) (1,104) |
| Currency adjustment                               | 2,976        | 39        |
| Projected benefit obligation, end of period       | \$26,244     | \$24,166  |

|                                |            |            |
|--------------------------------|------------|------------|
| Funded status at end of period | \$(26,244) | \$(24,166) |
| Th                             |            |            |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The amounts recognized in our Consolidated Statements of Financial Condition are as follows (in thousands):

|                                                       | November 30,<br>2017      2016 |            |
|-------------------------------------------------------|--------------------------------|------------|
| Consolidated statements of financial condition:       |                                |            |
| Liabilities                                           | \$26,244                       | \$24,166   |
| Accumulated other comprehensive income, before taxes: |                                |            |
| Net losses                                            | \$(5,305 )                     | \$(5,748 ) |

The following tables summarize the components of net periodic pension cost and other amounts recognized in Other comprehensive income, before taxes (in thousands):

|                                               | Year Ended<br>November 30,<br>2017   2016   2015 |       |       |
|-----------------------------------------------|--------------------------------------------------|-------|-------|
| Components of net periodic pension cost:      |                                                  |       |       |
| Interest cost on projected benefit obligation | \$426                                            | \$529 | \$523 |
| Net amortization                              | 353                                              | 326   | 325   |
| Net periodic pension cost                     | \$779                                            | \$855 | \$848 |

|                                                                                                                                                        | Year Ended November<br>30,<br>2017      2016      2015 |         |         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|---------|---------|
| Amounts recognized in Other comprehensive income:                                                                                                      |                                                        |         |         |
| Net (gain) loss arising during the period                                                                                                              | \$(91 )                                                | \$1,157 | \$(39 ) |
| Amortization of net loss                                                                                                                               | (353 )                                                 | (326 )  | (325 )  |
| Total loss (gain) recognized in Other comprehensive income                                                                                             | \$(444)                                                | \$831   | \$(364) |
| Net losses recognized in net periodic benefit cost and Other comprehensive income                                                                      | \$335                                                  | \$1,686 | \$484   |
| The following are assumptions used to determine the actuarial present value of the projected benefit obligation and net periodic pension benefit cost: |                                                        |         |         |

|                                    | Year Ended<br>November 30,<br>2017   2016   2015 |       |       |
|------------------------------------|--------------------------------------------------|-------|-------|
| Projected benefit obligation:      |                                                  |       |       |
| Discount rate                      | 1.80%                                            | 1.70% | 2.20% |
| Rate of compensation increase (1)  | N/A                                              | N/A   | N/A   |
| Net periodic pension benefit cost: |                                                  |       |       |
| Discount rate                      | 1.70%                                            | 2.20% | 2.10% |
| Rate of compensation increase (1)  | N/A                                              | N/A   | N/A   |

(1) There were no active participants of the pension plan at November 30, 2017 and 2016.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Expected Benefit Payments - Expected benefit payments for each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows (in thousands):

|                   |          |
|-------------------|----------|
| 2018              | \$ 1,303 |
| 2019              | 1,275    |
| 2020              | 1,329    |
| 2021              | 1,339    |
| 2022              | 1,320    |
| 2023 through 2027 | 6,571    |

## Note 14. Compensation Plans

Leucadia sponsors our following share-based compensation plans: Incentive Compensation Plan, Employee Stock Purchase Plan ("ESPP") and the Deferred Compensation Plan. The outstanding and future share-based awards relating to these plans relate to Leucadia common shares. The fair value of share-based awards is estimated on the date of grant based on the market price of the underlying common stock less the impact of market conditions and selling restrictions subsequent to vesting, if any, and is amortized as compensation expense over the related requisite service periods. We are allocated costs associated with awards granted to our employees under such plans.

In addition, we sponsor non-share-based compensation plans. Non-share-based compensation plans sponsored by us include a profit sharing plan and other forms of restricted cash awards.

The components of total compensation cost associated with certain of our compensation plans are as follows (in millions):

|                                  | Year Ended November<br>30, |          |          |
|----------------------------------|----------------------------|----------|----------|
|                                  | 2017                       | 2016     | 2015     |
| Components of compensation cost: |                            |          |          |
| Restricted cash awards           | \$ 251.6                   | \$ 263.7 | \$ 249.2 |
| Restricted stock and RSUs (1)    | 26.6                       | 23.5     | 57.9     |
| Profit sharing plan              | 6.0                        | 6.0      | 6.1      |
| Total compensation cost          | \$ 284.2                   | \$ 293.2 | \$ 313.2 |

Total compensation cost associated with restricted stock and RSUs includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks. Additionally, we recognize compensation cost related (1) to the discount provided to employees in electing to defer compensation under the Deferred Compensation Plan.

This compensation cost was approximately \$227,000, \$150,000 and \$399,000 for the years ended November 30, 2017, 2016 and 2015, respectively.

Remaining unamortized amounts related to certain compensation plans at November 30, 2017 are as follows (dollars in millions):

|                               | Remaining<br>Unamortized<br>Amounts | Weighted Average Vesting Period<br>(in Years) |
|-------------------------------|-------------------------------------|-----------------------------------------------|
| Non-vested share-based awards | \$ 38.7                             | 2                                             |
| Restricted cash awards        | 481.6                               | 3                                             |
| Total                         | \$ 520.3                            |                                               |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

In December 2017, \$117.0 million of restricted cash awards related to the 2017 performance year that contain a future service requirement were approved or contractually awarded. Absent actual forfeitures or cancellations or accelerations, the annual compensation cost for these awards will be recognized as follows (in millions):

Year Ended

November 30,

2017 2018 2019 Thereafter Total

Restricted cash awards \$16.5 \$24.0 \$23.6 \$ 52.9 \$117.0

The following are descriptions of the compensation plans:

**Incentive Compensation Plan.** The Incentive Compensation Plan (“Incentive Plan”) allows for awards in the form of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, stock appreciation rights, restricted stock, unrestricted stock, performance awards, restricted stock units, dividend equivalents or other share-based awards. Restricted stock units (“RSUs”) give a participant the right to receive fully vested common shares at the end of a specified deferral period, allowing a participant to hold an interest tied to common stock on a tax deferred basis. Prior to settlement, RSUs carry no voting or dividend rights associated with the stock ownership, but dividend equivalents are accrued to the extent there are dividends declared on the underlying common shares as cash amounts or as deemed reinvestments in additional RSUs. Awards issued and outstanding related to the Incentive Plan relate to shares of Leucadia.

Restricted stock and RSUs may be granted to new employees as sign-on awards, to existing employees as “retention” awards and to certain executive officers as awards for multiple years. Sign-on and retention awards are generally subject to annual ratable vesting over a four-year service period and are amortized as compensation expense on a straight line basis over the related four years. Restricted stock and RSUs are granted to certain senior executives with market, performance and service conditions. Market conditions are incorporated into the grant-date fair value of senior executive awards using a Monte Carlo valuation model. Compensation expense for awards with market conditions is recognized over the service period and is not reversed if the market condition is not met. Awards with performance conditions are amortized over the service period if we determine that it is probable that the performance condition will be achieved. Awards granted to senior executives related to the 2015 fiscal year did not meet performance targets, and as a result, compensation expense has been adjusted to reflect the reduced number of shares that have vested.

**Employee Stock Purchase Plan.** There is also an ESPP which we consider noncompensatory effective January 1, 2007. The ESPP permits all regular full-time employees and employees who work part time over 20 hours per week to purchase, at a discount, Leucadia common shares. Annual employee contributions are limited to \$21,250, are voluntary and made through payroll deduction. The stock purchase price is equal to 95% of the closing price of common stock on the last day of the applicable session (monthly).

**Deferred Compensation Plan.** There is also a Deferred Compensation Plan (“Deferred Compensation Plan”), which was established in 2001. Eligible employees are able to defer compensation on a pre-tax basis, with deferred amounts deemed invested at a discount in Leucadia common shares, or by allocating among any combination of other investment funds available under the Deferred Compensation Plan. We often invest directly, as a principal, in investments corresponding to the other investment funds, relating to our obligations to perform under the Deferred Compensation Plan. The compensation deferred by our employees is expensed in the period earned. The change in fair value of our investments in assets corresponding to the specified other investment funds are recognized in Principal transaction revenues and changes in the corresponding deferred compensation liability are reflected as Compensation and benefits expense in our Consolidated Statements of Earnings.

**Profit Sharing Plan.** We have a profit sharing plan, covering substantially all employees, which includes a salary reduction feature designed to qualify under Section 401(k) of the Internal Revenue Code.

**Restricted Cash Awards.** We provide compensation to new and existing employees in the form of loans and/or other cash awards which are subject to ratable vesting terms with service requirements. We amortize these awards to compensation expense over the relevant service period, which is generally considered to start at the beginning of the annual compensation year.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Note 15. Income Taxes

Total income taxes were allocated as follows (in thousands):

|                                                                                                                           | Year Ended November 30, |          |          |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------|----------|----------|
|                                                                                                                           | 2017                    | 2016     | 2015     |
| Income tax expense                                                                                                        | \$147,340               | \$14,566 | \$18,898 |
| Stockholders' equity, compensation expense for tax purposes less than amounts recognized for financial reporting purposes | —                       | 4,186    | 5,935    |

The provision for income tax expense consists of the following components (in thousands):

|                          | Year Ended November 30, |           |            |
|--------------------------|-------------------------|-----------|------------|
|                          | 2017                    | 2016      | 2015       |
| Current:                 |                         |           |            |
| U.S. Federal             | \$147,065               | \$27,473  | \$(45,007) |
| U.S. state and local     | 30,611                  | 6,196     | (28,260 )  |
| Foreign                  | 12,910                  | (5,090 )  | 3,369      |
| Total current            | 190,586                 | 28,579    | (69,898 )  |
| Deferred:                |                         |           |            |
| U.S. Federal             | (53,157 )               | (11,249 ) | 74,085     |
| U.S. state and local     | 1,760                   | (4,819 )  | 22,811     |
| Foreign                  | 8,151                   | 2,055     | (8,100 )   |
| Total deferred           | (43,246 )               | (14,013 ) | 88,796     |
| Total income tax expense | \$147,340               | \$14,566  | \$18,898   |

The following table presents the U.S. and non-U.S. components of income before income tax expense (in thousands):

|                                  | Year Ended November 30, |          |           |
|----------------------------------|-------------------------|----------|-----------|
|                                  | 2017                    | 2016     | 2015      |
| U.S.                             | \$403,445               | \$34,178 | \$82,515  |
| Non-U.S. (1)                     | 101,479                 | (4,206 ) | 31,712    |
| Income before income tax expense | \$504,924               | \$29,972 | \$114,227 |

(1) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the U.S.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Income tax expense differed from the amounts computed by applying the U.S. Federal statutory income tax rate of 35% to earnings before income taxes as a result of the following (dollars in thousands):

|                                                                | Year Ended November 30, |         |          |         |           |         |
|----------------------------------------------------------------|-------------------------|---------|----------|---------|-----------|---------|
|                                                                | 2017                    |         | 2016     |         | 2015      |         |
|                                                                | Amount                  | Percent | Amount   | Percent | Amount    | Percent |
| Computed expected income taxes                                 | \$176,724               | 35.0 %  | \$10,490 | 35.0 %  | \$39,979  | 35.0 %  |
| Increase (decrease) in income taxes resulting from:            |                         |         |          |         |           |         |
| State and city income taxes, net of Federal income tax benefit | 21,041                  | 4.2     | 124      | 0.5     | (3,542 )  | (3.1 )  |
| International operations (including foreign rate differential) | (11,577 )               | (2.3 )  | (3,404 ) | (11.4 ) | (11,474 ) | (10.0 ) |
| Tax exempt income                                              | (3,850 )                | (0.8 )  | (4,640 ) | (15.5 ) | (6,789 )  | (5.9 )  |
| Foreign tax credits                                            | (32,974 )               | (6.5 )  | —        | —       | (7,240 )  | (6.3 )  |
| Non-deductible Jefferies Bache wind down costs                 | —                       | —       | —        | —       | 3,225     | 2.8     |
| Meals and entertainment                                        | 4,129                   | 0.8     | 4,640    | 15.5    | 5,232     | 4.6     |
| Excess stock detriment                                         | 406                     | 0.1     | 9,755    | 32.6    | —         | —       |
| Federal benefits related to prior year tax filings             | (3,786 )                | (0.8 )  | (2,928 ) | (9.8 )  | 199       | 0.1     |
| Other, net                                                     | (2,773 )                | (0.5 )  | 529      | 1.7     | (692 )    | (0.7 )  |
| Total income tax expense                                       | \$147,340               | 29.2 %  | \$14,566 | 48.6 %  | \$18,898  | 16.5 %  |

The following table presents a reconciliation of gross unrecognized tax benefits (in thousands):

|                                                                | Year Ended November 30, |           |           |
|----------------------------------------------------------------|-------------------------|-----------|-----------|
|                                                                | 2017                    | 2016      | 2015      |
| Balance at beginning of period                                 | \$109,527               | \$107,902 | \$126,662 |
| Increases based on tax positions related to the current period | 18,619                  | 5,045     | —         |
| Increases based on tax positions related to prior periods      | 7,310                   | 1,447     | 2,818     |
| Decreases based on tax positions related to prior periods      | (5,912 )                | (4,520 )  | (3,883 )  |
| Decreases related to settlements with taxing authorities       | —                       | (347 )    | (17,695 ) |
| Balance at end of period                                       | \$129,544               | \$109,527 | \$107,902 |

The total amount of unrecognized benefit that, if recognized, would favorably affect the effective tax rate was \$86.1 million and \$73.1 million (net of benefits of taxes) at November 30, 2017 and 2016, respectively.

We recognize interest accrued related to unrecognized tax benefits in Interest expense. Penalties, if any, are recognized in Other expenses in our Consolidated Statements of Earnings. Net interest expense related to unrecognized tax benefits was \$9.0 million, \$6.5 million and \$2.2 million for the years ended November 30, 2017, 2016 and 2015, respectively. At November 30, 2017 and 2016, we had interest accrued of approximately \$48.3 million and \$39.3 million, respectively, included in Accrued expenses and other liabilities in our Consolidated Statements of Financial Condition. No material penalties were accrued for the years ended November 30, 2017 and 2016.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The cumulative tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below (in thousands):

|                                                  | November 30, |           |
|--------------------------------------------------|--------------|-----------|
|                                                  | 2017         | 2016      |
| Deferred tax assets:                             |              |           |
| Compensation and benefits                        | \$376,642    | \$285,542 |
| Net operating loss                               | 20,094       | 11,021    |
| Long-term debt                                   | 26,476       | 60,707    |
| Accrued expenses and other                       | 121,746      | 124,269   |
| Sub-total                                        | 544,958      | 481,539   |
| Valuation allowance                              | (14,217 )    | (9,464 )  |
| Total deferred tax assets                        | 530,741      | 472,075   |
| Deferred tax liabilities:                        |              |           |
| Amortization of intangibles                      | 102,739      | 107,474   |
| Other                                            | 17,282       | 21,630    |
| Total deferred tax liabilities                   | 120,021      | 129,104   |
| Net deferred tax asset, included in Other assets | \$410,720    | \$342,971 |

The valuation allowance represents the portion of our deferred tax assets for which it is more likely than not that the benefit of such items will not be realized. We believe that the realization of the net deferred tax asset of \$410.7 million at November 30, 2017 is more likely than not based on expectations of future taxable income in the jurisdictions in which we operate.

At November 30, 2017, we had gross net operating loss carryforwards of \$122.1 million, primarily related to New York State, New York City and various European jurisdictions. A deferred tax asset of \$9.7 million related to net operating losses in Europe has been fully offset by a valuation allowance, while \$0.3 million of deferred tax assets related to net operating losses in Asia has been fully offset by a valuation allowance. The remaining valuation allowance is attributable to deferred tax assets related to compensation and benefits, capital losses, and tax credits in the U.K.

We have a tax sharing agreement between us and Leucadia. Refer to Note 19, Related Party Transactions, for further information.

At November 30, 2017 and 2016, we had approximately \$232.0 million and \$157.0 million, respectively, of earnings attributable to foreign subsidiaries that are indefinitely reinvested abroad and for which no U.S. Federal income tax provision has been recorded. Accordingly, a deferred tax liability of approximately \$73.0 million and \$55.0 million has not been recorded with respect to these earnings at November 30, 2017 and 2016, respectively.

We are currently under examination by the Internal Revenue Service and other major tax jurisdictions. We do not expect that resolution of these examinations will have a material effect on our consolidated financial position, but could have a material impact on the consolidated results of operations for the period in which resolution occurs. It is reasonably possible that, within the next twelve months, statutes of limitation will expire which would have the effect of reducing the balance of unrecognized tax benefits by \$12.6 million.

The table below summarizes the earliest tax years that remain subject to examination in the major tax jurisdictions in which we operate:

| Jurisdiction   | Tax Year |
|----------------|----------|
| United States  | 2007     |
| California     | 2007     |
| New Jersey     | 2010     |
| New York State | 2001     |
| New York City  | 2003     |
| United Kingdom | 2014     |

|           |      |
|-----------|------|
| Hong Kong | 2011 |
| India     | 2010 |
| Italy     | 2012 |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. The Tax Act has made significant changes to the U.S. Internal Revenue Code, including the taxation of U.S. corporations, by, among other things, limiting interest deductions, reducing the U.S. corporate income tax rate, disallowing certain deductions that had previously been allowed, altering the expensing of capital expenditures, adopting elements of a territorial tax system, assessing a repatriation tax or “toll-charge” on undistributed earnings and profits of U.S.-owned foreign corporations, and introducing certain anti-base erosion provisions. We are currently evaluating the impact that the Tax Act will have on both our Consolidated Statements of Financial Condition and Consolidated Statements of Earnings. At this time, based on information currently available, we anticipate taking a charge of approximately \$170.0 million in the first quarter of 2018. Approximately two-thirds of this estimated charge relates to the non-cash write down of our deferred tax asset resulting from the impact of a lower federal tax rate of 21% on the future deductibility of our deferred tax items. The remaining balance relates to a toll charge on the deemed repatriation of unremitted foreign earnings.

## Note 16. Commitments, Contingencies and Guarantees

## Commitments

The following table summarizes our commitments at November 30, 2017 (in millions):

|                                                 | Expected Maturity Date (fiscal years) |         |               |               |                | Maximum Payout |
|-------------------------------------------------|---------------------------------------|---------|---------------|---------------|----------------|----------------|
|                                                 | 2018                                  | 2019    | 2020 and 2021 | 2022 and 2023 | 2024 and Later |                |
| Equity commitments (1)                          | \$—                                   | \$0.2   | \$18.6        | \$—           | \$117.8        | \$136.6        |
| Loan commitments (1)                            | 261.9                                 | —       | 56.5          | —             | —              | 318.4          |
| Mortgage-related and other purchase commitments | —                                     | 177.7   | —             | —             | —              | 177.7          |
| Underwriting commitments                        | 11.0                                  | —       | —             | —             | —              | 11.0           |
| Forward starting reverse repos (2)              | 3,211.1                               | —       | —             | —             | —              | 3,211.1        |
| Forward starting repos (2)                      | 2,987.9                               | —       | —             | —             | —              | 2,987.9        |
| Other unfunded commitments (1)                  | 218.8                                 | 122.9   | 18.3          | 153.0         | —              | 513.0          |
| Total commitments                               | \$6,690.7                             | \$300.8 | \$93.4        | \$153.0       | \$117.8        | \$7,355.7      |

(1) Equity, loan and other unfunded commitments are presented by contractual maturity date. The amounts, however, are available on demand.

(2) At November 30, 2017, \$3,207.4 million within forward starting securities purchased under agreements to resell and \$2,982.8 million within securities sold under agreements to repurchase settled within three business days.

Equity Commitments. Includes a commitment to invest in our joint venture, Jefferies Finance, and commitments to invest in private equity funds and in Jefferies Capital Partners, LLC, the manager of the private equity funds, which consists of a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee. At November 30, 2017, our outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$22.0 million.

See Note 9, Investments, for additional information regarding our investments in Jefferies Finance.

Additionally, at November 30, 2017, we had other outstanding equity commitments to invest up to \$0.8 million in various other investments.

Loan Commitments. From time to time we make commitments to extend credit to investment banking and other clients in loan syndication, acquisition finance and securities transactions and to SPE sponsors in connection with the funding of CLO and other asset-backed transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. At November 30, 2017, we had \$68.3 million of outstanding loan commitments to clients.

Loan commitments outstanding at November 30, 2017 also include our portion of the outstanding secured revolving credit facility provided to Jefferies Finance, to support loan underwritings by Jefferies Finance. See Note 9,

Investments, for additional information.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Mortgage-Related and Other Purchase Commitments.** We enter into forward contracts to purchase mortgage participation certificates, mortgage-backed securities and consumer loans. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related and other purchase commitments recorded in our Consolidated Statements of Financial Condition was \$37.6 million at November 30, 2017.

**Underwriting Commitments.** In connection with investment banking activities, we may from time to time provide underwriting commitments to our clients in connection with capital raising transactions.

**Forward Starting Reverse Repos and Repos.** We enter into commitments to take possession of securities with agreements to resell on a forward starting basis and to sell securities with agreements to repurchase on a forward starting basis that are primarily secured by U.S. government and agency securities.

**Other Unfunded Commitments.** Other unfunded commitments include obligations in the form of revolving notes to provide financing to asset-backed and CLO vehicles. Upon advancing funds, drawn amounts are collateralized by the assets of an entity.

**Leases.** As lessee, we lease certain premises and equipment under non-cancelable agreements expiring at various dates through 2039 which are operating leases. At November 30, 2017, future minimum aggregate annual lease payments under such leases (net of subleases) for fiscal years ended November 30, 2018 through 2022 and the aggregate amount thereafter, are as follows (in thousands):

| Fiscal Year | Operating<br>Leases |
|-------------|---------------------|
| 2018        | \$59,464            |
| 2019        | 57,698              |
| 2020        | 50,254              |
| 2021        | 48,616              |
| 2022        | 51,466              |
| Thereafter  | 630,991             |
| Total       | \$898,489           |

The total minimum rentals to be received in the future under non-cancelable subleases at November 30, 2017 was \$19.4 million.

Rental expense, net of subleases, amounted to \$56.1 million, \$56.1 million and \$57.4 million for the years ended November 30, 2017, 2016 and 2015, respectively.

During 2012, we entered into a master sale and leaseback agreement under which we sold and have leased back existing and additional new equipment supplied by the lessor. The transaction resulted in a gain of \$2.0 million, which is being amortized into earnings in proportion to and is reflected net against the leased equipment. The lease term is approximately five years from the start of the supply of new and additional equipment, which commenced on various dates in 2013 and continued into 2015. At November 30, 2017, minimum future lease payments are as follows (in thousands):

| Fiscal Year                                 | Minimum<br>Future<br>Lease<br>Payments |
|---------------------------------------------|----------------------------------------|
| 2018                                        | \$ 1,513                               |
| 2019                                        | 189                                    |
| Net minimum lease payments                  | 1,702                                  |
| Less amount representing interest           | 28                                     |
| Present value of net minimum lease payments | \$ 1,674                               |



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Guarantees

Derivative Contracts. As a dealer, we make markets and trade in a variety of derivative instruments. Certain derivative contracts that we have entered into meet the accounting definition of a guarantee under U.S. GAAP, including credit default swaps, written foreign currency options and written equity put options. On certain of these contracts, such as written interest rate caps and foreign currency options, the maximum payout cannot be quantified since the increase in interest or foreign exchange rates are not contractually limited by the terms of the contract. As such, we have disclosed notional values as a measure of our maximum potential payout under these contracts.

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under U.S. GAAP at November 30, 2017 (in millions):

|  | Expected Maturity Date (Fiscal Years) |      |                     |                     |                      | Notional/<br>Maximum<br>Payout |
|--|---------------------------------------|------|---------------------|---------------------|----------------------|--------------------------------|
|  | 2018                                  | 2019 | 2020<br>and<br>2021 | 2022<br>and<br>2023 | 2024<br>and<br>Later |                                |

## Guarantee Type:

|                                         |            |           |         |        |         |            |
|-----------------------------------------|------------|-----------|---------|--------|---------|------------|
| Derivative contracts—non-credit related | \$24,454.8 | \$2,420.2 | \$150.5 | \$45.9 | \$466.3 | \$27,537.7 |
|-----------------------------------------|------------|-----------|---------|--------|---------|------------|

|                                             |      |      |       |   |       |  |
|---------------------------------------------|------|------|-------|---|-------|--|
| Written derivative contracts—credit related | 42.0 | 20.5 | 155.7 | — | 218.2 |  |
|---------------------------------------------|------|------|-------|---|-------|--|

|                            |            |           |         |         |         |            |
|----------------------------|------------|-----------|---------|---------|---------|------------|
| Total derivative contracts | \$24,454.8 | \$2,462.2 | \$171.0 | \$201.6 | \$466.3 | \$27,755.9 |
|----------------------------|------------|-----------|---------|---------|---------|------------|

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or “one-sided” component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments, and we manage the risk associated with these contracts in the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At November 30, 2017, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$243.6 million.

Standby Letters of Credit. At November 30, 2017, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$51.8 million, which expire within one year. Standby letters of credit commit us to make payment to the beneficiary if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary. Since commitments associated with these collateral instruments may expire unused, the amount shown does not necessarily reflect the actual future cash funding requirement.

Other Guarantees. We are members of various exchanges and clearing houses. In the normal course of business we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. Our obligations under such guarantees could exceed the collateral amounts posted. Our maximum potential liability under these arrangements cannot be quantified; however, the potential for us to be required to make payments under such guarantees is deemed remote. Accordingly, no liability has been recognized for these arrangements.

## Note 17. Net Capital Requirements

As a broker-dealer registered with the SEC and member firms of the Financial Industry Regulatory Authority (“FINRA”), Jefferies is subject to the Securities and Exchange Commission Uniform Net Capital Rule (“Rule 15c3-1”), which requires the maintenance of minimum net capital, and has elected to calculate minimum capital requirements using the alternative method permitted by Rule 15c3-1 in calculating net capital. Jefferies, as a dually-registered U.S. broker-dealer and FCM, is also subject to Rule 1.17 of the CFTC, which sets forth minimum financial requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and

FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17. In November 2017, Jefferies Execution Services, Inc. merged with and into Jefferies, with Jefferies as the surviving entity.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

At November 30, 2017, Jefferies' net capital and excess net capital were as follows (in thousands):

|           | Net Capital | Excess Net Capital |
|-----------|-------------|--------------------|
| Jefferies | \$1,418,930 | \$1,330,169        |

FINRA is the designated examining authority for our U.S. broker-dealer and the National Futures Association is the designated self-regulatory organization for Jefferies as an FCM.

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited, which is authorized and regulated by the Financial Conduct Authority in the U.K.

The regulatory capital requirements referred to above may restrict our ability to withdraw capital from our regulated subsidiaries.

At November 30, 2017 and 2016, \$5,124.9 million and \$4,833.0 million, respectively, of net assets of our consolidated subsidiaries are restricted, as they reflect regulatory capital requirements or require regulatory approval prior to the payment of cash dividends and advances to the parent company.

## Note 18. Segment Reporting

We operate in two reportable business segments – Capital Markets and Asset Management. The Capital Markets reportable business segment includes our securities, commodities, futures and foreign exchange trading activities and investment banking, which is composed of underwriting and financial advisory activities. The Capital Markets reportable business segment provides the sales, trading, origination and advisory effort for various fixed income, equity and advisory products and services. The Asset Management reportable business segment provides investment management services to investors in the U.S. and overseas.

Our reportable business segment information is prepared using the following methodologies:

• Net revenues and non-interest expenses directly associated with each reportable business segment are included in determining earnings before income taxes.

• Net revenues and non-interest expenses not directly associated with specific reportable business segments are allocated based on the most relevant measures applicable, including each reportable business segment's net revenues, headcount and other factors.

• Reportable business segment assets include an allocation of indirect corporate assets that have been fully allocated to our reportable business segments, generally based on each reportable business segment's capital utilization.

Our net revenues, non-interest expenses and earnings before income taxes by reportable business segment are summarized below (in millions):

|                                     | Year Ended November 30, |           |           |
|-------------------------------------|-------------------------|-----------|-----------|
|                                     | 2017                    | 2016      | 2015      |
| Capital Markets:                    |                         |           |           |
| Net revenues                        | \$3,174.4               | \$2,339.3 | \$2,415.1 |
| Non-interest expenses               | 2,636.2                 | 2,321.5   | 2,325.2   |
| Earnings before income taxes        | \$538.2                 | \$17.8    | \$89.9    |
| Asset Management:                   |                         |           |           |
| Net revenues                        | \$23.7                  | \$75.3    | \$60.1    |
| Non-interest expenses               | 57.0                    | 63.1      | 35.8      |
| Earnings (loss) before income taxes | \$(33.3)                | \$12.2    | \$24.3    |
| Total:                              |                         |           |           |
| Net revenues                        | \$3,198.1               | \$2,414.6 | \$2,475.2 |
| Non-interest expenses               | 2,693.2                 | 2,384.6   | 2,361.0   |
| Earnings before income taxes        | \$504.9                 | \$30.0    | \$114.2   |



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following table summarizes our total assets by reportable business segment (in millions):

|                                              | November 30, |            |
|----------------------------------------------|--------------|------------|
|                                              | 2017         | 2016       |
| Total Assets by Reportable Business Segment: |              |            |
| Capital Markets                              | \$38,620.4   | \$35,931.8 |
| Asset Management                             | 1,085.3      | 1,009.5    |
| Total assets                                 | \$39,705.7   | \$36,941.3 |

## Net Revenues by Geographic Region

Net revenues for the Capital Market reportable business segment are recorded in the geographic region in which the position was risk-managed or, in the case of investment banking, in which the senior coverage banker is located. For the Asset Management reportable business segment, net revenues are allocated according to the location of the investment advisor. Net revenues by geographic region were as follows (in millions):

|              | Year Ended November 30, |           |           |
|--------------|-------------------------|-----------|-----------|
|              | 2017                    | 2016      | 2015      |
| Americas (1) | \$2,602.7               | \$1,870.4 | \$1,887.0 |
| Europe (2)   | 489.6                   | 458.0     | 510.0     |
| Asia         | 105.8                   | 86.2      | 78.2      |
| Net revenues | \$3,198.1               | \$2,414.6 | \$2,475.2 |

(1) Substantially all relates to U.S. results.

(2) Substantially all relates to U.K. results.

## Note 19. Related Party Transactions

**Jefferies Capital Partners Related Funds.** We have equity investments in the JCP Manager and in private equity funds, which are managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee ("Private Equity Related Funds"). At November 30, 2017 and 2016, our equity investments in Private Equity Related Funds were in aggregate \$23.7 million and \$37.7 million, respectively. We also charge the JCP Manager for certain services under a service agreement. The following table presents revenues and service charges related to our investment in Private Equity Related Funds (in thousands):

|                                             | Year Ended November 30, |           |            |
|---------------------------------------------|-------------------------|-----------|------------|
|                                             | 2017                    | 2016      | 2015       |
| Other revenues and investment income (loss) | \$(11,718)              | \$(2,328) | \$(26,179) |
| Service charges                             | 726                     | 760       | 1,341      |

For further information regarding our commitments and funded amounts to the Private Equity Related Funds, see Note 16, Commitments, Contingencies and Guarantees.

**Berkadia Commercial Mortgage, LLC.** At November 30, 2017 and 2016, we had commitments to purchase \$864.1 million and \$817.0 million, respectively, in agency CMBS from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

**HRG Group Inc. ("HRG").** We recognized investment banking and advisory revenues of \$1.3 million for the year ended November 30, 2015.

**Officers, Directors and Employees.** The following sets forth information regarding related party transactions with our officers, directors and employees:

At November 30, 2017 and 2016, we had \$45.6 million and \$38.4 million, respectively, of loans outstanding to certain of our officers and employees (none of whom are executive officers or directors) that are included in Other assets in our Consolidated Statements of Financial Condition.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Receivables from and payables to customers include balances arising from officers', directors' and employees' individual security transactions. These transactions are subject to the same regulations as all customer transactions and are provided on substantially the same terms.

At November 30, 2016 and 2015, we had provided a guarantee of a credit agreement for a private equity fund owned by our employees. This guarantee was terminated in April 2017.

One of our directors has investments in a hedge fund managed by us of approximately \$4.9 million and \$5.0 million at November 30, 2017 and 2016, respectively.

See Note 8, Variable Interest Entities, and Note 16, Commitments, Contingencies and Guarantees, for further information regarding related party transactions with our officers, directors and employees.

Leucadia. The following is a description of related party transactions with Leucadia and its affiliates:

Under a service agreement, we provide services to and receive services from Leucadia (in millions):

|                                             | Year Ended<br>November 30, |        |        |
|---------------------------------------------|----------------------------|--------|--------|
|                                             | 2017                       | 2016   | 2015   |
| Charges to Leucadia for services provided   | \$42.2                     | \$38.8 | \$40.7 |
| Charges from Leucadia for services received | 14.2                       | 11.2   | 6.1    |

Receivables from and payables to Leucadia, included in Other assets and Accrued expenses and other liabilities, respectively, in our Consolidated Statements of Financial Condition:

|                          | Year<br>Ended<br>November<br>30, |       |
|--------------------------|----------------------------------|-------|
|                          | 2017                             | 2016  |
| Receivable from Leucadia | \$2.5                            | \$2.8 |
| Payable to Leucadia      | 3.1                              | 1.9   |

On January 11, 2018, our Board of Directors approved a distribution to our sole limited liability company member, Leucadia, in the amount of \$200.0 million, payable on January 31, 2018, which will reduce our total equity. In addition, our Board of Directors approved a quarterly distribution policy authorizing us to pay a quarterly distribution to our limited liability company members following the end of each of our fiscal quarters. Beginning at the end of our fiscal quarter ending February 28, 2018 and on a quarterly basis thereafter, we will pay our limited liability company members a quarterly dividend equal to 50% of our net earnings.

Pursuant to a tax sharing agreement entered into between us and Leucadia, payments are made between us and Leucadia to settle current tax assets and liabilities. At November 30, 2017 and 2016, a net current tax payable to Leucadia of \$91.5 million and a net current tax receivable from Leucadia of \$80.1 million, respectively, is included in Accrued expenses and other liabilities and Other assets, respectively, in our Consolidated Statements of Financial Condition.

In 2017, we entered into OTC foreign exchange contracts with an affiliate of Leucadia. In connection with these contracts, at November 30, 2017 we had \$17.0 million included in Payables—brokers, dealers and clearing organizations.

Two of our directors have investments totaling \$3.6 million at November 30, 2017 in a hedge fund managed by Leucadia.

In July 2016, a subsidiary of Leucadia made a \$30.0 million capital contribution to a hedge fund managed by us. We made a capital contribution of \$0.5 million in June 2017 to a hedge fund managed by Leucadia. We also made capital contributions of \$27.0 million and \$114.0 million in October 2017 and March 2016, respectively, to another hedge fund managed by Leucadia; and in December 2016, we redeemed \$17.0 million from this hedge fund. Net gains on our investment in these hedge funds were \$8.0 million and \$3.6 million for the years ended November 30, 2017 and 2016, respectively, which are included in Principal transactions in our Consolidated Statements of Earnings.

As a result of a public offering by Landcadia Holdings Inc., an affiliate of Leucadia, we own 638,561 public units (each unit consisting of one share of Class A common stock and one public warrant) at both November 30, 2017 and 2016, with fair values of \$6.8 million and \$6.6 million, respectively, included in Financial instruments owned in our Consolidated Statements of Financial Condition.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

We sold securities to Leucadia during the periods presented below at fair value for cash. There was no gain or loss on these transactions.

| Date          | Amount<br>(in<br>millions) |
|---------------|----------------------------|
| August 2017   | \$ 7.1                     |
| April 2017    | 21.9                       |
| February 2017 | 25.6                       |
| August 2015   | 124.4                      |

We provide capital markets and asset management services to Leucadia and its affiliates. The following table presents the revenues earned by type of services provided (in thousands):

|                                 | Year Ended November<br>30, |         |          |
|---------------------------------|----------------------------|---------|----------|
|                                 | 2017                       | 2016    | 2015     |
| Investment banking and advisory | \$14,700                   | \$1,786 | \$21,185 |
| Asset management                | —                          | 155     | 400      |
| Commissions and other fees      | 69                         | 88      | 43       |
| Other revenues                  | 274                        | —       | —        |

In connection with our sales and trading activities, from time to time we make a market in long-term debt securities of Leucadia (i.e., we buy and sell debt securities issued by Leucadia). At November 30, 2017 and 2016, approximately \$0.2 million and \$1.0 million, respectively, of debt securities issued by Leucadia are included in Financial instruments owned in our Consolidated Statements of Financial Condition.

For information on transactions with our equity method investees, see Note 9, Investments.

## Note 20. Exit Costs

Jefferies Bache. On April 9, 2015, we entered into an agreement with Société Générale S.A. (the “Agreement”) to transfer certain client exchange and OTC transactions associated with our Jefferies Bache business for the net book value of the OTC transactions, calculated in accordance with certain principles set forth in the agreement, plus the repayment of certain margin loans in respect of certain exchange transactions. In addition, we initiated a plan to substantially exit the remaining aspects of the business, which was completed during the second quarter of 2016. The pre-tax losses of the Jefferies Bache business were \$1.9 million and \$134.7 million for the years ended November 30, 2016 and 2015, respectively.

In addition, we terminated our \$750.0 million committed senior secured revolving credit facility on July 31, 2015.

During the year ended November 30, 2015, we recognized costs of \$3.8 million related to this facility.

The following summarizes our recorded restructuring and impairment costs (in thousands):

|                                                                         | Year Ended<br>November 30, |          |
|-------------------------------------------------------------------------|----------------------------|----------|
|                                                                         | 2016                       | 2015     |
| Severance costs                                                         | \$279                      | \$30,327 |
| Accelerated amortization of restricted stock and restricted cash awards | 41                         | 7,922    |
| Accelerated amortization of capitalized software                        | —                          | 19,745   |
| Contract termination costs                                              | 1,234                      | 11,247   |
| Other expenses                                                          | 300                        | 3,853    |
| Total                                                                   | \$1,854                    | \$73,094 |

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Of the above costs, \$341,000 and \$28.7 million are of a non-cash nature for the years ended November 30, 2016 and 2015, respectively.

Restructuring and exit costs are wholly attributed to our Capital Markets reportable business segment and were recorded in the following categories in our Consolidated Statements of Earnings (in thousands):

|                               | Year Ended   |           |
|-------------------------------|--------------|-----------|
|                               | November 30, |           |
|                               | 2016         | 2015      |
| Compensation and benefits     | \$ 320       | \$ 38,249 |
| Technology and communications | 1,234        | 30,992    |
| Professional services         | —            | 2,508     |
| Other expenses                | 300          | 1,345     |
| Total                         | \$ 1,854     | \$ 73,094 |

The following summarizes our restructuring reserve activity (in thousands):

|                                | Severance costs | Other costs | Contract termination costs | Total restructuring costs | Accelerated amortization of restricted stock and restricted cash awards | Accelerated amortization of capitalized software | Impairments | Total    |
|--------------------------------|-----------------|-------------|----------------------------|---------------------------|-------------------------------------------------------------------------|--------------------------------------------------|-------------|----------|
| Liability at November 30, 2015 | \$ 4,805        | \$ —        | \$ —                       | \$ 4,805                  |                                                                         |                                                  |             |          |
| Expenses                       | 279             | 300         | 1,234                      | 1,813                     | \$ 41                                                                   | \$ —                                             |             | —\$1,854 |
| Payments                       | (5,084)         | (300)       | (1,234)                    | (6,618)                   |                                                                         |                                                  |             |          |
| Liability at November 30, 2016 | \$ —            | \$ —        | \$ —                       | \$ —                      |                                                                         |                                                  |             |          |

## Note 21. Selected Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly statements of earnings for the years ended November 30, 2017 and 2016 (in thousands):

|                                                  | Three Months Ended |                 |              |                   |
|--------------------------------------------------|--------------------|-----------------|--------------|-------------------|
|                                                  | November 30, 2017  | August 31, 2017 | May 31, 2017 | February 28, 2017 |
| Total revenues                                   | \$1,081,499        | \$1,048,331     | \$1,038,955  | \$1,009,797       |
| Net revenues                                     | 822,610            | 800,692         | 779,294      | 795,513           |
| Earnings before income taxes                     | 142,280            | 122,264         | 116,181      | 124,199           |
| Net earnings attributable to Jefferies Group LLC | 89,913             | 83,815          | 69,751       | 114,019           |

  

|                                                         | Three Months Ended |                 |              |                   |
|---------------------------------------------------------|--------------------|-----------------|--------------|-------------------|
|                                                         | November 30, 2016  | August 31, 2016 | May 31, 2016 | February 29, 2016 |
| Total revenues                                          | \$939,960          | \$863,841       | \$936,917    | \$493,105         |
| Net revenues                                            | 741,769            | 654,450         | 719,408      | 298,987           |
| Earnings (loss) before income taxes                     | 96,529             | 80,722          | 102,597      | (249,876)         |
| Net earnings (loss) attributable to Jefferies Group LLC | 87,180             | 41,169          | 53,898       | (166,813)         |



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JEFFERIES GROUP LLC AND SUBSIDIARIES

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of November 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of November 30, 2017 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Internal Control over Financial Reporting

Management's annual report on internal control over financial reporting is contained in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended November 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Omitted pursuant to General Instruction I(2)(c) to Form 10-K.

Item 11. Executive Compensation

Omitted pursuant to General Instruction I(2)(c) to Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Omitted pursuant to General Instruction I(2)(c) to Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Omitted pursuant to General Instruction I(2)(c) to Form 10-K.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Item 14. Principal Accountant Fees and Services

For the fiscal year ended November 30, 2017, fees for services provided by Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu Limited and PricewaterhouseCoopers LLP and for the fiscal year ended November 30, 2016, fees for services provided by PricewaterhouseCoopers LLP were as follows:

|                    | Year Ended November<br>30, |             |
|--------------------|----------------------------|-------------|
|                    | 2017                       | 2016        |
| Audit Fees         | \$6,378,737                | \$6,685,689 |
| Audit-Related Fees | 674,400                    | 410,000     |
| Tax Fees           | 994,961                    | 514,359     |
| All Other Fees     | —                          | —           |
| Total All Fees     | \$8,048,098                | \$7,610,048 |

**Audit Fees** — The Audit Fees reported above reflect fees for services provided during fiscal 2017 and 2016. These amounts include fees for professional services rendered as our principal accountant for the audit of our consolidated financial statements included in this Annual Report on Form 10-K, the audits of various affiliates and investment funds managed by Jefferies or its affiliates, the audit of internal controls over financial reporting required by Section 404 of Sarbanes-Oxley, reviews of the interim consolidated financial statements included in our quarterly reports on Form 10-Q, the issuance of comfort letters, consents and other services related to SEC and other regulatory filings, audit fees related to other services that are normally provided in connection with statutory and regulatory filings or engagements. The Audit Committee preapproves all auditing services and permitted non-audit services to be performed for us by our independent registered public accounting firm, which are approved by the Audit Committee prior to the completion of the audit. In 2017, the Audit Committee preapproved all auditing services performed for us by the independent registered public accounting firm.

**Audit-Related Fees** — The Audit-Related Fees reported above reflect fees for services provided during fiscal 2017 and 2016. These amounts include fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees” above. Specifically, the Audit-Related services included the preparation of our SOC1 report, performing agreed upon procedures related to specific matters at our request, accounting consultations, and other services that are normally provided in connection with statutory and regulatory filings or engagements.

**Tax Fees** — Tax Fees includes fees for services provided during fiscal 2017 and 2016 related to tax compliance, tax advice and tax planning.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)1. Financial Statements

The financial statements required to be filed hereunder are listed on page S-1.

(a)2. Financial Statement Schedules

The financial statement schedules required to be filed hereunder are listed on page S-1.

(a)3. Exhibits

Exhibit

No. Description

- 3.1 Certificate of Formation of Jefferies Group LLC effective as of March 1, 2013 is incorporated herein by reference to Exhibit 3.2 of Registrant's Form 8-K filed on March 1, 2013.
- 3.2 Certificate of Conversion of Jefferies Group LLC effective as of March 1, 2013 is incorporated herein by reference to Exhibit 3.1 of Registrant's Form 8-K filed on March 1, 2013.
- 3.3 Limited Liability Company Agreement of Jefferies Group LLC dated as of March 1, 2013 is incorporated herein by reference to Exhibit 3.3 of Registrant's Form 8-K filed on March 1, 2013.
- 4.1 Senior Debt Indenture, by and among Jefferies Group LLC and Jefferies Group Capital Finance Inc. and The Bank of New York Mellon, as Trustee, dated May 26, 2016 is incorporated herein by reference to Exhibit 4.1 of the Registrant's Form 8-A filed on January 17, 2017.
- 4.2 Indenture, dated as of March 12, 2002, by and between Jefferies Group LLC (formerly Jefferies Group, Inc.) and The Bank of New York Mellon, as Trustee, is incorporated herein by reference to Exhibit 4.3 of the Registrant's Form 10-K for the fiscal year ended December 31, 2002 filed on March 28, 2003.
- 4.3 First Supplemental Indenture, dated as of July 15, 2003, to Indenture dated as of March 12, 2002 by and between Jefferies Group LLC (formerly Jefferies Group, Inc.) and The Bank of New York Mellon, as Trustee, is incorporated herein by reference to Exhibit 4.2 of the Registrant's Form S-3 Registration Statement filed on July 15, 2003 (No. 333-107032).
- 4.4 Second Supplemental Indenture, dated as of December 19, 2012, to the Indenture dated as of March 12, 2002, by and between Jefferies Group LLC (formerly Jefferies Group, Inc.) and The Bank of New York Mellon, as trustee, is incorporated herein by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on December 20, 2012.
- 4.5 Third Supplemental Indenture, dated as of March 1, 2013, to the Indenture dated as of March 12, 2002 by and between Jefferies Group LLC (formerly Jefferies Group, Inc.) and The Bank of New York Mellon, as Trustee, is incorporated herein by reference to Exhibit 4.3 of the Registrant's Form 8-K filed on March 1, 2013.
- 4.6 Other instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the Commission upon request.
- 10 Purchase Agreement dated January 9, 2017 between Jefferies Group LLC, Jefferies Group Capital Finance Inc. and Jefferies LLC, as representative of the several underwriters identified in Schedule A thereto, relating to the \$750 million aggregate principal amount of 4.850% Senior Notes due 2027 is incorporated herein by reference to Exhibit 1.1 of the Registrant's Form 8-K filed on January 10, 2017.
- 12\* Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends.
- 23.1\* Consent of Deloitte & Touche LLP.
- 23.2\* Consent of PricewaterhouseCoopers LLP.
- 23.3\* Consent of Deloitte & Touche LLP.
- 31.1\* Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.

32\* Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Exhibit  
No.      Description

101\*      Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of November 30, 2017 and November 30, 2016; (ii) the Consolidated Statements of Earnings for the years ended November 30, 2017, 2016 and 2015; (iii) the Consolidated Statements of Comprehensive Income for the years ended November 30, 2017, 2016 and 2015; (iv) the Consolidated Statements of Changes in Equity for the years ended November 30, 2017, 2016 and 2015; (v) the Consolidated Statements of Cash Flows for the years ended November 30, 2017, 2016 and 2015; and (vi) the Notes to Consolidated Financial Statements.

\*      Filed herewith.

(c) Financial Statement Schedules

Jefferies Finance LLC financial statements as of November 30, 2017 and 2016, and for the years ended November 30, 2017, 2016 and 2015

Item 16. Form 10-K Summary

None.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## JEFFERIES GROUP LLC

/s/ RICHARD B. HANDLER

Richard B. Handler

Chairman of the Board of Directors,

Chief Executive Officer

Dated: January 26, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

|     | Name                                             | Title                                                                                     | Date             |
|-----|--------------------------------------------------|-------------------------------------------------------------------------------------------|------------------|
| /s/ | RICHARD B. HANDLER<br>Richard B. Handler         | Chairman of the Board of Directors,<br>Chief Executive Officer                            | January 26, 2018 |
| /s/ | PEREGRINE C. BROADBENT<br>Peregrine C. Broadbent | Executive Vice President and<br>Chief Financial Officer<br>(Principal Accounting Officer) | January 26, 2018 |
| /s/ | BRIAN P. FRIEDMAN<br>Brian P. Friedman           | Director and Chairman,<br>Executive Committee                                             | January 26, 2018 |
| /s/ | W. PATRICK CAMPBELL<br>W. Patrick Campbell       | Director                                                                                  | January 26, 2018 |
| /s/ | BARRY J. ALPERIN<br>Barry J. Alperin             | Director                                                                                  | January 26, 2018 |
| /s/ | RICHARD G. DOOLEY<br>Richard G. Dooley           | Director                                                                                  | January 26, 2018 |
| /s/ | MARYANNE GILMARTIN<br>MaryAnne Gilmartin         | Director                                                                                  | January 26, 2018 |
| /s/ | JOSEPH S. STEINBERG<br>Joseph S. Steinberg       | Director                                                                                  | January 26, 2018 |
| /s/ | JACOB M. KATZ<br>Jacob M. Katz                   | Director                                                                                  | January 26, 2018 |

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Jefferies Group LLC

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Financial Statement Schedules

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JEFFERIES GROUP LLC  
(PARENT COMPANY ONLY)  
CONDENSED STATEMENTS OF FINANCIAL CONDITION  
(In thousands)

|                                                                                                                                 | November 30,  |               |
|---------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                                                                 | 2017          | 2016          |
| <b>ASSETS</b>                                                                                                                   |               |               |
| Cash and cash equivalents                                                                                                       | \$ 1,959,536  | \$ 1,178,475  |
| Cash and securities segregated and on deposited for regulatory purposes or deposited with clearing and depository organizations | 57,817        | 36,148        |
| Financial instruments owned, at fair value                                                                                      | 52,641        | 130,116       |
| Investments in managed funds                                                                                                    | 21,246        | 34,170        |
| Loans to and investments in related parties                                                                                     | 638,551       | 473,912       |
| Investment in subsidiaries                                                                                                      | 5,084,726     | 4,757,824     |
| Advances to subsidiaries                                                                                                        | 1,801,573     | 1,262,211     |
| Subordinated notes receivable                                                                                                   | 2,708,685     | 2,802,440     |
| Other assets                                                                                                                    | 610,555       | 569,291       |
| Total assets                                                                                                                    | \$ 12,935,330 | \$ 11,244,587 |
| <b>LIABILITIES AND EQUITY</b>                                                                                                   |               |               |
| Short-term borrowings                                                                                                           | \$ 131,567    | \$ 96,456     |
| Financial instruments sold, not yet purchased, at fair value                                                                    | 18,061        | 7,285         |
| Accrued expenses and other liabilities                                                                                          | 610,036       | 287,545       |
| Long-term debt                                                                                                                  | 6,416,844     | 5,483,355     |
| Total liabilities                                                                                                               | 7,176,508     | 5,874,641     |
| <b>EQUITY</b>                                                                                                                   |               |               |
| Member's paid-in capital                                                                                                        | 5,895,601     | 5,538,103     |
| Accumulated other comprehensive loss:                                                                                           |               |               |
| Currency translation adjustments                                                                                                | (98,909)      | (152,305)     |
| Changes in instrument specific credit risk                                                                                      | (27,888)      | (6,494)       |
| Cash flow hedges                                                                                                                | (936)         | —             |
| Additional minimum pension liability                                                                                            | (9,046)       | (9,358)       |
| Total accumulated other comprehensive loss                                                                                      | (136,779)     | (168,157)     |
| Total member's equity                                                                                                           | 5,758,822     | 5,369,946     |
| Total liabilities and equity                                                                                                    | \$ 12,935,330 | \$ 11,244,587 |
| See accompanying notes to condensed financial statements.                                                                       |               |               |

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## JEFFERIES GROUP LLC

## (PARENT COMPANY ONLY)

## CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands)

|                                                                       | Year Ended November 30, |              |           |
|-----------------------------------------------------------------------|-------------------------|--------------|-----------|
|                                                                       | 2017                    | 2016         | 2015      |
| Revenues:                                                             |                         |              |           |
| Principal transactions                                                | \$ 12,410               | \$ 952       | \$ 68,720 |
| Asset management fees and investment income (loss) from managed funds | (10,568 )               | 1,222        | (20,889 ) |
| Interest                                                              | 241,357                 | 226,781      | 201,632   |
| Other                                                                 | 78,812                  | (8,156 )     | 33,193    |
| Total revenues                                                        | 322,011                 | 220,799      | 282,656   |
| Interest expense                                                      | 276,727                 | 235,556      | 250,919   |
| Net revenues                                                          | 45,284                  | (14,757 )    | 31,737    |
| Non-interest expenses:                                                |                         |              |           |
| Total non-interest expenses                                           | 13,598                  | 5,187        | 5,984     |
| Earnings (loss) before income taxes                                   | 31,686                  | (19,944 )    | 25,753    |
| Income tax expense (benefit)                                          | (21,292 )               | (9,574 )     | 3,958     |
| Net earnings (loss) before undistributed earnings of subsidiaries     | 52,978                  | (10,370 )    | 21,795    |
| Undistributed earnings of subsidiaries                                | 304,520                 | 25,804       | 71,739    |
| Net earnings                                                          | 357,498                 | 15,434       | 93,534    |
| Other comprehensive income (loss), net of tax:                        |                         |              |           |
| Currency translation and other adjustments                            | 53,396                  | (115,494 )   | (27,157 ) |
| Change in instrument specific credit risk                             | (21,394 )               | (6,494 )     | —         |
| Cash flow hedges                                                      | (936 )                  | —            | —         |
| Minimum pension liability adjustments, net of tax                     | 312                     | (1,223 )     | (3,116 )  |
| Total other comprehensive income (loss), net of tax                   | 31,378                  | (123,211 )   | (30,273 ) |
| Comprehensive income (loss)                                           | \$ 388,876              | \$ (107,777) | \$ 63,261 |

See accompanying notes to condensed financial statements.

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JEFFERIES GROUP LLC  
(PARENT COMPANY ONLY)  
CONDENSED STATEMENTS OF CASH FLOWS  
(In thousands)

|                                                                                                                               | Year Ended November 30, |             |           |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------|-----------|
|                                                                                                                               | 2017                    | 2016        | 2015      |
| Cash flows from operating activities:                                                                                         |                         |             |           |
| Net earnings                                                                                                                  | \$357,498               | \$15,434    | \$93,534  |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:                                 |                         |             |           |
| Amortization                                                                                                                  | (61,634)                | (63,681)    | (76,945)  |
| Undistributed earnings of subsidiaries                                                                                        | (304,520)               | (25,804)    | (71,739)  |
| (Income) loss on loans to and investments in related parties                                                                  | (90,724)                | 10,251      | (40,460)  |
| Distributions received on investments in related parties                                                                      | —                       | 17,050      | 40,500    |
| Other adjustments                                                                                                             | 39,513                  | (34,496)    | (98,870)  |
| Net change in assets and liabilities:                                                                                         |                         |             |           |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations | (21,669)                | 30,055      | (4,714)   |
| Financial instruments owned                                                                                                   | 77,475                  | 8,704       | 53,290    |
| Investments in managed funds                                                                                                  | 12,924                  | 763         | 19,907    |
| Other assets                                                                                                                  | (29,031)                | 21,475      | 77,813    |
| Financial instruments sold, not yet purchased                                                                                 | 10,776                  | (13,739)    | (8,802)   |
| Accrued expenses and other liabilities                                                                                        | 324,446                 | 15,125      | (36,397)  |
| Net cash provided by (used in) operating activities                                                                           | 315,054                 | (18,863)    | (52,883)  |
| Cash flows from investing activities:                                                                                         |                         |             |           |
| Investments in, advances to and subordinated notes receivable from subsidiaries                                               | (415,100)               | 327,110     | 420,797   |
| Loans to and investments in related parties                                                                                   | (73,915)                | 19,337      | (19,301)  |
| Cash received from contingent consideration                                                                                   | 1,342                   | 2,617       | 4,444     |
| Net cash provided by (used in) investing activities                                                                           | (487,673)               | 349,064     | 405,940   |
| Cash flows from financing activities:                                                                                         |                         |             |           |
| Proceeds from short-term borrowings                                                                                           | 555,652                 | 102,238     | 750,000   |
| Payments on short-term borrowings                                                                                             | (532,326)               | (5,786)     | (750,000) |
| Proceeds from issuance of long-term debt, net of issuance costs                                                               | 1,116,798               | 277,583     | —         |
| Repayment of long-term debt                                                                                                   | (186,444)               | (350,000)   | (500,000) |
| Net cash provided by (used in) financing activities                                                                           | 953,680                 | 24,035      | (500,000) |
| Net increase (decrease) in cash and cash equivalents                                                                          | 781,061                 | 354,236     | (146,943) |
| Cash and cash equivalents at beginning of period                                                                              | 1,178,475               | 824,239     | 971,182   |
| Cash and cash equivalents at end of period                                                                                    | \$1,959,536             | \$1,178,475 | \$824,239 |
| Supplemental disclosures of cash flow information:                                                                            |                         |             |           |
| Cash paid (received) during the period for:                                                                                   |                         |             |           |
| Interest                                                                                                                      | \$332,135               | \$300,680   | \$329,926 |
| Income taxes, net                                                                                                             | 2,494                   | (8,654)     | (5,859)   |
| See accompanying notes to condensed financial statements.                                                                     |                         |             |           |

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JEFFERIES GROUP LLC

(PARENT COMPANY ONLY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1. Introduction and Basis of Presentation

The accompanying condensed financial statements (the “Parent Company Financial Statements”), including the notes thereto, should be read in conjunction with the consolidated financial statements of Jefferies Group LLC (the “Company”) and the notes thereto found in the Company’s Annual Report on Form 10-K for the year ended November 30, 2017. For purposes of these condensed non-consolidated financial statements, the Company’s wholly owned and majority owned subsidiaries are accounted for using the equity method of accounting (“equity method subsidiaries”).

The Parent Company is an indirect wholly owned subsidiary of Leucadia National Corporation (“Leucadia”). Leucadia does not guarantee any of our outstanding debt securities. Our 3.875% Convertible Senior Debentures due 2029 (principal amount of \$345.0 million) (the “debentures”) were convertible into Leucadia common shares. At November 1, 2017, \$20.2 million of these debentures were called. At November 22, 2017, all of the remaining convertible debentures were called for optional redemption, with a redemption date of January 5, 2018. All of these remaining convertible debentures were redeemed on January 5, 2018. For further information, refer to Note 12, Long-Term Debt, in the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the year ended November 30, 2017.

The Parent Company Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for financial information. The significant accounting policies of the Parent Company Financial Statements are those used by the Company on a consolidated basis, to the extent applicable. For further information regarding the significant accounting policies refer to Note 2, Summary of Significant Accounting Policies in the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the year ended November 30, 2017.

The Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. The most important of these estimates and assumptions relate to fair value measurements, goodwill and intangible assets, the ability to realize deferred tax assets and the recognition and measurement of uncertain tax positions. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Note 2. Transactions with Subsidiaries

The Parent Company has transactions with its consolidated subsidiaries, Leucadia and certain other affiliated entities determined on an agreed upon basis and has guaranteed certain unsecured lines of credit and contractual obligations of certain equity method subsidiaries.

Note 3. Guarantees

In the normal course of its business, the Parent Company issues guarantees in respect of obligations of certain of its wholly owned subsidiaries under trading and other financial arrangements, including guarantees to various trading counterparties and banks. The Parent Company records all derivative contracts and Financial instruments owned and Financial instruments sold, not yet purchased at fair value in its Consolidated Statements of Financial Condition. Certain of the Parent Company’s equity method subsidiaries are members of various exchanges and clearing houses. In the normal course of business, the Parent Company provides guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Parent Company’s obligations under such guarantees could exceed the collateral amounts posted. The maximum potential liability under these arrangements cannot be quantified; however, the potential for the Parent Company to be required to make payments under such

guarantees is deemed remote. Accordingly no liability has been recognized for these arrangements. The Parent Company had provided a guarantee in respect of certain obligations of Jefferies Finance LLC that would have matured in January 2021, whereby the Parent Company was required to make certain payments to an SPE sponsored by Jefferies Finance in the event that Jefferies Finance was unable to meet its obligations to the SPE and a guarantee of a credit agreement for a fund owned by employees. These guarantees were terminated during 2017.

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The Parent Company guarantees certain financing arrangements of subsidiaries. At November 30, 2017, there were no open guarantees.

Structured Notes. Structured notes of \$614.1 million at November 30, 2017 were jointly and severally co-issued by our wholly-owned subsidiary Jefferies Group Capital Finance Inc.

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Jefferies Finance LLC and Subsidiaries

Consolidated Financial Statements as of November 30, 2017 and 2016 and  
for the Years Ended November 30, 2017, 2016 and 2015

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Jefferies Finance LLC and Subsidiaries  
New York, NY

We have audited the accompanying consolidated financial statements of Jefferies Finance LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of November 30, 2017 and 2016, and the related consolidated statements of earnings, changes in members' equity, and cash flows for the years ended November 30, 2017, 2016 and 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jefferies Finance LLC and Subsidiaries as of November 30, 2017 and 2016, and the results of their operations and their cash flows for the years ended November 30, 2017, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company adopted a new accounting pronouncement which requires the presentation of debt issue costs as a direct deduction from that debt liability. Our opinion is not modified with respect to this matter.

/s/ DELOITTE & TOUCHE LLP

New York, NY  
January 24, 2018

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CONSOLIDATED FINANCIAL STATEMENTS

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Consolidated Balance Sheets

As of November 30, 2017 and 2016

(Dollars in thousands)

|                                                                                 | NOVEMBER 30,<br>2017 | NOVEMBER 30,<br>2016 |
|---------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                   |                      |                      |
| Cash                                                                            | \$ 1,555,484         | \$ 656,556           |
| Restricted cash                                                                 | 875,270              | 975,891              |
| Loans receivable, net of deferred loan fees                                     | 4,813,182            | 4,490,158            |
| Less allowance for loan losses                                                  | (61,788)             | (65,897)             |
| Loans receivable, net                                                           | 4,751,394            | 4,424,261            |
| Loans held for sale, net                                                        | 712,546              | 930,462              |
| Accrued interest receivable                                                     | 32,393               | 32,794               |
| Investments (includes restricted investments of \$156,780 at November 30, 2016) | 46,148               | 179,216              |
| Other assets                                                                    | 191,708              | 94,151               |
| <b>TOTAL ASSETS</b>                                                             | <b>\$ 8,164,943</b>  | <b>\$ 7,293,331</b>  |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>                                          |                      |                      |
| <b>LIABILITIES:</b>                                                             |                      |                      |
| Credit facilities, net                                                          | \$ 318,103           | \$ 342,841           |
| Secured notes payable, net                                                      | 3,882,817            | 3,877,569            |
| Interest payable                                                                | 46,686               | 34,122               |
| Other liabilities                                                               | 525,403              | 434,297              |
| Due to affiliates                                                               | 46,130               | 23,971               |
| Long-term debt, net                                                             | 2,073,479            | 1,639,472            |
| Total liabilities                                                               | 6,892,618            | 6,352,272            |
| <b>MEMBERS' EQUITY</b>                                                          | <b>1,272,325</b>     | <b>941,059</b>       |
| <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>                                    | <b>\$ 8,164,943</b>  | <b>\$ 7,293,331</b>  |

See notes to consolidated financial statements.

(Continued)

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Consolidated Balance Sheets (Continued)

As of November 30, 2017 and 2016

(Dollars in thousands)

The table below presents the carrying amount and classification of assets of consolidated variable interest entities ("VIEs") that can be used only to settle obligations of the consolidated VIEs and the liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to Jefferies Finance LLC assets. The assets and liabilities of these consolidated VIEs are included in the Consolidated Balance Sheets and are presented net of intercompany eliminations.

|                                                                                 | NOVEMBER 30,<br>2017 | NOVEMBER 30,<br>2016 |
|---------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                   |                      |                      |
| Restricted cash                                                                 | \$ 817,890           | \$ 925,969           |
| Loans receivable, net of deferred loan fees                                     | 4,226,943            | 3,825,255            |
| Less allowance for loan losses                                                  | (47,364)             | ) (56,089 )          |
| Loans receivable, net                                                           | 4,179,579            | 3,769,166            |
| Loans held for sale, net                                                        | —                    | 4,034                |
| Accrued interest receivable                                                     | 18,788               | 20,867               |
| Investments (includes restricted investments of \$156,780 at November 30, 2016) | 27,452               | 164,670              |
| Other assets                                                                    | 105,042              | 85,946               |
| <b>TOTAL ASSETS</b>                                                             | <b>\$ 5,148,751</b>  | <b>\$ 4,970,652</b>  |
| <b>LIABILITIES</b>                                                              |                      |                      |
| Credit facilities, net                                                          | \$ 154,772           | \$ 124,151           |
| Secured notes payable, net                                                      | 3,882,817            | 3,877,569            |
| Interest payable                                                                | 18,772               | 16,839               |
| Other liabilities                                                               | 278,155              | 256,601              |
| Due to affiliates                                                               | 11,249               | 181                  |
| <b>TOTAL LIABILITIES</b>                                                        | <b>\$ 4,345,765</b>  | <b>\$ 4,275,341</b>  |

See notes to consolidated financial statements.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Consolidated Statements of Earnings

For the Years Ended November 30, 2017, 2016 and 2015

(Dollars in thousands)

|                                                             | NOVEMBER 30,<br>2017 | NOVEMBER 30,<br>2016 | NOVEMBER 30,<br>2015 |
|-------------------------------------------------------------|----------------------|----------------------|----------------------|
| NET FEE AND INTEREST INCOME:                                |                      |                      |                      |
| Fee income, net                                             | \$ 270,023           | \$ 130,356           | \$ 170,679           |
| Interest income                                             | 356,533              | 292,457              | 256,032              |
| Total interest and net fee income                           | 626,556              | 422,813              | 426,711              |
| Interest expense                                            | 341,143              | 273,833              | 232,841              |
| Net interest and net fee income                             | 285,413              | 148,980              | 193,870              |
| Provision for loan losses                                   | 33,854               | 37,880               | 29,900               |
| Net interest and fee income after provision for loan losses | 251,559              | 111,100              | 163,970              |
| OTHER GAINS (LOSSES), NET                                   | 6,680                | (75,548              | ) (16,640            |
| OTHER EXPENSES:                                             |                      |                      |                      |
| Compensation and benefits                                   | 28,806               | 24,533               | 32,620               |
| General, administrative and other                           | 41,464               | 32,148               | 27,850               |
| Total other expenses                                        | 70,270               | 56,681               | 60,470               |
| EARNINGS (LOSSES) BEFORE INCOME TAX EXPENSE                 | 187,969              | (21,129              | ) 86,860             |
| INCOME TAX EXPENSE (BENEFIT)                                | 6,300                | (1,514               | ) 3,421              |
| NET EARNINGS (LOSS)                                         | \$ 181,669           | \$ (19,615           | ) \$ 83,439          |

See notes to consolidated financial statements.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

Consolidated Statements of Changes in Members' Equity

For the Years Ended November 30, 2017, 2016 and 2015

(Dollars in thousands)

|                            | CLASS A<br>MEMBERS | CLASS B<br>MEMBERS | TOTAL<br>MEMBERS'<br>EQUITY |
|----------------------------|--------------------|--------------------|-----------------------------|
| BALANCE--November 30, 2015 | \$916,109          | \$ 78,665          | \$994,774                   |
| Distributions              | (27,280 )          | (6,820 )           | (34,100 )                   |
| Net loss                   | (15,693 )          | (3,922 )           | (19,615 )                   |
| BALANCE--November 30, 2016 | \$873,136          | \$ 67,923          | \$941,059                   |
| Contributions              | 149,597            | —                  | 149,597                     |
| Net earnings               | 145,335            | 36,334             | 181,669                     |
| BALANCE--November 30, 2017 | \$1,168,068        | \$ 104,257         | \$1,272,325                 |

See notes to consolidated financial statements.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the Years Ended November 30, 2017, 2016 and 2015

(Dollars in thousands)

|                                                                                                      | NOVEMBER 30,<br>2017 | NOVEMBER 30,<br>2016 | NOVEMBER 30,<br>2015 |
|------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                         |                      |                      |                      |
| Net earnings (loss)                                                                                  | \$ 181,669           | \$ (19,615           | ) \$ 83,439          |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities: |                      |                      |                      |
| Amortization of deferred loan fees and discounts                                                     | (81,050              | ) (50,022            | ) (46,518            |
| Amortization of deferred structuring fees                                                            | 21,281               | 19,797               | 18,430               |
| Amortization of discount on secured notes                                                            | 12,671               | 9,611                | 7,418                |
| Issuance costs associated with extinguishment of debt                                                | 14,122               | —                    | —                    |
| Provision for loan losses                                                                            | 33,854               | 37,880               | 29,900               |
| Realized (gain) loss on sale of loans held for sale                                                  | (6,467               | ) 34,545             | 9,610                |
| Change in fair value of loans held for sale                                                          | 4,634                | 8,267                | 1,552                |
| Realized (gain) loss on sales of investments                                                         | (1,047               | ) 24,597             | 2,437                |
| Unrealized (gain) loss on investments                                                                | (1,863               | ) 8,139              | 5,218                |
| Deferred income tax expense (benefit)                                                                | 550                  | 55                   | (604                 |
| (Increase) decrease in operating assets:                                                             |                      |                      |                      |
| Origination of loans held for sale                                                                   | (27,330,698          | ) (9,570,812         | ) (13,616,750        |
| Proceeds from sales of loans held for sale                                                           | 27,398,380           | 8,842,177            | 14,392,732           |
| Principal collections on loans held for sale                                                         | 65,904               | 3,215                | 1,651                |
| Accrued interest receivable                                                                          | 401                  | (445                 | ) (3,796             |
| Other assets                                                                                         | (15,522              | ) (12,051            | ) (989               |
| Increase (decrease) in operating liabilities:                                                        |                      |                      |                      |
| Interest payable                                                                                     | 12,563               | 6,297                | 307                  |
| Other liabilities                                                                                    | 12,183               | 4,679                | 275,142              |
| Due to affiliates                                                                                    | 22,159               | 15,796               | (38,391              |
| Net cash provided by (used in) operating activities                                                  | 343,724              | (637,890             | ) 1,120,788          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                         |                      |                      |                      |
| Origination and purchases of loans receivable                                                        | (4,209,182           | ) (3,824,179         | ) (4,450,748         |
| Principal collections of loans receivable                                                            | 3,190,000            | 2,714,137            | 3,088,609            |
| Proceeds from sales of loans held for sale                                                           | 799,869              | 790,602              | 576,147              |
| Net change in restricted cash                                                                        | 100,621              | 300,009              | (605,886             |
| Purchases of investments                                                                             | (159,379             | ) (661,896           | ) (475,235           |
| Proceeds from sales of investments                                                                   | 317,235              | 690,183              | 464,887              |
| Net cash provided by (used in) investing activities                                                  | 39,164               | 8,856                | (1,402,226           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                         |                      |                      |                      |
| Distributions to members                                                                             | —                    | (34,100              | ) (81,000            |
| Contributions from members                                                                           | 149,597              | —                    | —                    |
| Repayments of secured notes payable                                                                  | (1,779,088           | ) (454,780           | ) (91,317            |
| Proceeds from secured notes, net of issuance costs                                                   | 1,749,986            | 326,478              | 1,275,970            |
| Purchases of secured notes                                                                           | —                    | (3,263               | ) —                  |
| Proceeds from long-term debt, net of issuance costs                                                  | 637,191              | —                    | 208,949              |
| Repayment of long-term debt                                                                          | (212,313             | ) (2,150             | ) (537               |

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|                                                               |              |               |               |
|---------------------------------------------------------------|--------------|---------------|---------------|
| Proceeds from borrowings on credit facilities                 | 9,900,244    | 1,108,814     | 4,831,095     |
| Repayments on credit facilities                               | (9,929,577)  | ) (1,147,242) | ) (4,946,111) |
| Net cash provided by (used in) financing activities           | 516,040      | (206,243)     | ) 1,197,049   |
| NET INCREASE (DECREASE) IN CASH                               | 898,928      | (835,277)     | ) 915,611     |
| CASH--Beginning of the year                                   | 656,556      | 1,491,833     | 576,222       |
| CASH--End of the year                                         | \$ 1,555,484 | \$ 656,556    | \$ 1,491,833  |
| SUPPLEMENTAL INFORMATION:                                     |              |               |               |
| Cash paid for interest                                        | \$ 277,348   | \$ 237,719    | \$ 208,498    |
| Cash paid for income taxes, net                               | \$ 193       | \$ 279        | \$ 3,316      |
| NONCASH ITEMS:                                                |              |               |               |
| Transfer of loans held for sale, net to loans receivable, net | \$ 44,136    | —             | —             |
| Restructuring of loans receivable to investments              | \$ 54,028    | \$ 24,414     | \$ 7,880      |

See notes to consolidated financial statements.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

November 30, 2017 and 2016

**1. ORGANIZATION AND BASIS OF PRESENTATION**

Organizational Structure--Jefferies Finance LLC ("JFIN"), a limited liability company, was organized under the laws of Delaware and commenced operations on October 7, 2004. JFIN will continue in perpetuity unless dissolved as provided in the Amended and Restated Limited Liability Company Agreement (LLC Agreement), dated May 31, 2011, as amended, modified and/or supplemented from time to time, among JFIN and its members: Massachusetts Mutual Life Insurance Company ("Mass Mutual"), Babson Capital Management LLC ("BCM"), and Jefferies Group LLC ("JGL" and, together with Mass Mutual and BCM, the "Members"). On June 1, 2016, the LLC Agreement was amended to transfer BCM's share of the Class B interest to Mass Mutual and BCM ceased to be a Member.

JFIN is a commercial finance company that structures, underwrites and syndicates primarily senior secured loans to corporate borrowers. JFIN's operations are primarily conducted through two business lines, Leveraged Finance Arrangement and Portfolio & Asset Management. JFIN also purchases performing loans in the syndicated markets. JFIN may also originate second lien term loans, bridge loans, mezzanine loans as well as related equity co-investments and purchase stressed and distressed loans in the secondary markets. In addition, JFIN is a Registered Investment Adviser ("RIA") under the Investment Advisers Act of 1940, and each of Apex Credit Partners LLC and JFIN Asset Management LLC ("JFAM") are relying advisers of JFIN under the Advisers Act (each a RIA) since March 1, 2012, November 19, 2014 and February 5, 2016, respectively.

The accompanying consolidated financial statements refer to JFIN and all its subsidiaries (the "Company"), which includes entities in which the Company has a controlling interest or is the primary beneficiary, including collateralized loan obligation funds ("CLOs"). See Note 8, Variable Interest Entities, for more information related to the CLOs. JFIN's capital structure consists of Class A members and Class B members, owning 80% and 20% of JFIN, respectively. Net earnings and losses are allocated on a pro rata basis to the Members, unless a loss allocation would cause a negative capital account.

Subsequent Events--The Company has evaluated events and transactions that occurred subsequent to November 30, 2017 through January 24, 2018, the date that these consolidated financial statements were issued. The Company determined that there were no events or transactions, during such period that would require recognition or disclosure in these consolidated financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Use of Estimates--The preparation of the consolidated financial statements is in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP").

U.S. GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and the accompanying notes. The most significant of these estimates relate to the allowance for loan losses and fair value measurements. These estimates reflect management's best judgment about current economic and market conditions and their effects based on information available as of the date of these consolidated financial statements. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

At November 30, 2017, the Company corrected the classification of certain deferred fees related to undrawn revolvers from Loans receivable, net to Other liabilities. The effect on the consolidated balance sheet at November 30, 2016 was to increase Loans receivable, net and Other liabilities by \$80.6 million. The Company has evaluated the effect of this change and concluded that it did not have a material impact on, nor require amendment of, any previously issued consolidated financial statements.

Principles of Consolidation--The accompanying consolidated financial statements reflect the Company's consolidated accounts, including the subsidiaries and the related consolidated results of operations with intercompany balances and transactions eliminated in consolidation. In addition, the Company consolidates entities which meet the definition of a

VIE for which the Company is the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

Revenue Recognition Policies

Interest and Fee Income--Interest and fee income are recorded on an accrual basis to the extent that such amounts are earned and expected to be collected. Premiums and discounts are amortized into interest income using a level yield over the contractual life of the loan.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

November 30, 2017 and 2016

Deferred Loan Fees, Net--Direct loan underwriting fees, net of specific costs, are deferred and amortized using a level yield as adjustments to the related loan's yield over the contractual life of the loan. Direct loan fees, net of specific costs, related to revolving credit facilities are amortized on a straight-line basis over the contractual life of the revolving credit facility as fee income.

Underwriting fees are recognized on a pro-rata basis as the corresponding loan is syndicated. If the Company retains a portion of the syndicated loan, a portion of the fee is deferred to produce a yield that is not less than the average yield on the portion of the syndicated loans that is held by the other syndicate members. In the event that a loan is prepaid or a revolving credit facility is terminated before the scheduled maturity, all remaining deferred loan fees are recorded to interest income or fee income, respectively.

Cash and Restricted Cash--Cash and restricted cash represents overnight deposits. The Company maintained its cash and restricted cash balances of \$2,430.8 million and \$1,632.4 million at November 30, 2017 and 2016, respectively, at several financial institutions.

Restricted cash on deposit in respect of the Company's credit facilities and CLOs represents the amount of principal and interest collections received as well as amounts in reserve to fund revolver draws. The use of principal cash is limited to purchasing eligible loans or the potential reduction of debt. Cash on deposit in the interest account is limited to the payment of interest, fees and other expenses as outlined in the governing documents.

Loans Receivable, Net--Loans receivable are recorded at cost, adjusted for unamortized premiums or discounts, net of unamortized deferred underwriting fees and net of allowance for loan losses. The Company intends to hold the majority of its loans until maturity. Loans for which the Company has the intent and ability to hold for the foreseeable future or until maturity are classified as held for investment.

Allowance for Loan Losses--The allowance for loan losses is a reserve established through a charge to provision for loan losses. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses inherent in the loan portfolio. The allowance for loan losses includes reserves calculated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, Receivables and allowance allocations calculated in accordance with ASC Topic 450, Contingencies. Further information regarding the Company's policies and methodology used to estimate the allowance for loan losses is presented in Note 4.

Loans Held for Sale, Net--The Company's business includes the structuring and underwriting of loan products with the intent to syndicate the majority of the loan to third parties. During the primary syndication process, loans that have been committed to be purchased by third parties but not yet settled are classified as Loans held for sale, net. The Company may invest in a percentage of an originated loan based upon the management of risk with respect to the entire portfolio. When the Company's position is larger than originally intended, the excess hold is also classified to Loans held for sale, net, on the Consolidated Balance Sheets.

Syndication activities and sales of loans held for sale are accounted for as sales based on the Company's satisfaction of the criteria for such accounting which provides that, as transferor, among other requirements, the Company has surrendered control over the loans. The sale of loans transferred from loans receivable to loans held for sale of approximately \$799.9 million, \$790.6 million and \$576.1 million for the years ended November 30, 2017, 2016 and 2015, respectively, are included in proceeds from sales of loans held for sale in investing activities in the Consolidated Statements of Cash Flows.

Loans held for sale, net are carried at the lower of cost or fair value, as determined on an individual loan basis, net of unamortized deferred underwriting fees and valuation allowances. Net unrealized losses or gains, if any, are recognized in a valuation allowance through charges to earnings in Other gains (losses), net in the Consolidated Statements of Earnings.

Unamortized premiums, discounts, origination fees and direct costs on loans held for sale are recognized as a component of the gain or loss on sale. Gains and losses on sales of loans held for sale are recognized on trade dates and are determined by the difference between the sale proceeds and the carrying value of the loans and are recorded in Other gains (losses), net, in the Consolidated Statements of Earnings.

Investments--Investments are recorded on a trade date basis. Investments, including financial derivative instruments are recorded on the Consolidated Balance Sheets at fair value with changes in value recorded as a component of Other gains (losses), net, in the Consolidated Statements of Earnings.

The Company has elected to carry its investments at fair value under the fair value option election in accordance with ASC Topic 825, Financial Instruments. The Company elected the fair value option as the Company manages these investments at fair value, which is reflective of the Company's intent and best reflects the operations of the Company's business. The Company's election is done on an instrument-by-instrument basis. The election is made upon the acquisition of the eligible financial asset. The fair value election may not be revoked once an election is made.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

November 30, 2017 and 2016

The Company presents derivatives on the Consolidated Balance Sheets within Investments, with resulting gains or losses recognized in Other gains (losses), net in the Consolidated Statements of Earnings. Fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation. Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions, benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. Derivative contracts are valued using techniques and inputs to such models that reflect the assumptions the Company believes market participants would use in valuing the derivative in a current period transaction. Inputs to valuation techniques are appropriately calibrated to market data. Deferred Structuring Fees--Deferred structuring fees are presented net against Credit facilities, Secured notes payable and Long-term debt on the Consolidated Balance Sheets and are amortized to Interest expense in the Consolidated Statements of Earnings over the contractual term of the borrowing using a level yield.

Fair Value Hierarchy--In determining fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources.

If unobservable inputs are used, the Company will use assumptions that reflect the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The Company applies a hierarchy to categorize its fair value measurements broken down into three levels based on the transparency of inputs as follows:

Level 1--Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2--Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments include cash instruments, for which quoted prices are available but traded less frequently; derivative instruments whose fair values have been derived using a model where inputs to the model are directly observable in the market or can be derived principally from or corroborated by observable market data; and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3--Instruments that have little to no pricing observability as of the reported date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The valuation of financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management's judgment, the features of the financial instrument, such as its complexity or the market in which the financial instrument is traded and risk uncertainties about market conditions, require that an adjustment be made to the value derived from the models.

The Company's fair value measurements involve third party pricing for the majority of its assets and liabilities. If third party pricing is unavailable, the Company may employ various valuation techniques and models, which involve inputs that are observable, when available. The Company's valuation policies and procedures are reviewed at least annually and are updated as necessary. Further, the Company tracks the fair values of significant assets and liabilities using a

variety of methods including third party vendors, comparison to previous trades and an assessment for overall reasonableness. See Note 7 for further information on fair value measurements.

#### New Accounting Developments

Revenue Recognition--In May 2014, the FASB issued Accounting Standards Update ("ASU"), No. 2014-09, Revenue from Contracts with Customers which defines how companies report revenues from contracts with customers, and also require enhanced disclosures. The guidance is effective beginning in the first quarter of fiscal year 2019. FASB issued ASU, No. 2015-14 which deferred the effective date by one year. Subsequently, it was updated with ASU No. 2016-10, ASU No. 2016-12, ASU No. 2017-13 and ASU No. 2017-14. The Company is currently evaluating the impact of the new guidance on the Company's consolidated financial statements.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

**Presentation of Financial Statements**--In August 2014, the FASB issued ASU, No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern which requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The guidance was effective beginning in the first quarter of fiscal year 2017. The Company adopted this guidance in the first quarter of 2017. The adoption of this guidance did not have an impact on the Company's consolidated balance sheets, statements of earnings or cash flows.

**Presentation of Debt Issuance Costs**--In April 2015, the FASB issued ASU, No. 2015-03, Amendments to Simplifying the Presentation of Debt Issuance Costs which requires companies to present debt issue costs as a direct deduction from that debt liability. The Company adopted this guidance in the first quarter of 2017 on a retrospective basis, wherein the accompanying balance sheets have been adjusted to reflect the period specific effects of applying the guidance. Refer to Notes 10 and 11 for additional information regarding the impact of ASU 2015-03 on the Company's consolidated financial statements.

**Financial Instruments**--In January 2016, the FASB issued ASU, No. 2016-01, Financial Instruments--Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance affects the accounting for equity investments, financial liabilities accounted for under the fair value option and the presentation and disclosure requirements of financial instruments. The guidance is effective in the first quarter of fiscal year 2019. Early adoption is permitted for the accounting guidance on financial liabilities accounted for under the fair value option. The Company is currently evaluating the impact of the new guidance on the Company's consolidated financial statements.

**Financial Instruments--Credit Losses**--In June 2016, the FASB issued ASU, No. 2016-13, Financial Instruments--Credit Losses: Measurement of Credit Losses on Financial Instruments. The guidance replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective in the first quarter of fiscal year 2021 and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on the Company's consolidated financial statements.

**Statement of Cash Flows**--In August 2016, the FASB issued ASU, No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The guidance provides specific guidance on eight cash flow classification issues.

The guidance is effective in the first quarter of fiscal year 2019 and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on the Company's consolidated financial statements. In November 2016, the FASB issued ASU, No. 2016-18, Statement of Cash Flows: Restricted Cash. The guidance provides specific guidance on classification and presentation of changes in restricted cash on the statement of cash flows. The guidance is effective in the first quarter of fiscal year 2019 and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on the Company's consolidated financial statements.

**3. RESTRICTED CASH**

The following is a summary of restricted cash as of November 30, 2017 and 2016 (in thousands):

|                                                                           | 2017       | 2016       |
|---------------------------------------------------------------------------|------------|------------|
| Principal and interest collections on loans held in credit facilities and | \$ 265,064 | \$ 217,146 |

## CLOs

Reserves held in  
credit facilities and  
CLOs to support  
future operations

610,206

758,745

Total restricted  
cash

\$ 875,270

\$ 975,891

As of November 30, 2017 and 2016, there was \$421.7 million and \$765.0 million, respectively, of cash in revolver CLOs to support future drawdowns. The CLOs require the cash on deposit in interest accounts to be used to pay senior management fees, interest to note holders, subordinate management fees and any residual to the subordinate note holders, providing the structure is in compliance with the collateralization tests. In the event the CLOs were not in compliance with the collateralization tests, cash in the interest accounts would be used to pay senior management fees, interest to the note holders and the residual could be diverted to reduce the secured notes outstanding.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

## 4. LOANS RECEIVABLE, NET

The Company's loan receivable portfolio consists primarily of senior secured loans in various industries. The portfolio is segmented into originated and secondary loans which reflect how the portfolio is managed. Originated is a designation that indicates that the Company has had a major role in underwriting the loan either as an arranger or related role. Secondary is a designation that indicates that the Company acquired the loans through primary syndications conducted by other arrangers or purchased in the open market.

The following is a summary of outstanding loan balances as of November 30, 2017 and 2016 (in thousands):

|                                                        | 2017        | 2016        |
|--------------------------------------------------------|-------------|-------------|
| Loans receivable:                                      |             |             |
| Originated                                             | \$1,687,531 | \$1,991,214 |
| Secondary                                              | 3,203,298   | 2,572,418   |
| Total loans receivable                                 | 4,890,829   | 4,563,632   |
| Less: original issue discount                          | (68,650)    | (64,964)    |
| Total loans receivable, net of original issue discount | 4,822,179   | 4,498,668   |
| Less: deferred loan fees <sup>(1)</sup>                | (8,997)     | (8,510)     |
| Total loans receivable, net of deferred loan fees      | 4,813,182   | 4,490,158   |
| Less: allowance for loan losses                        | (61,788)    | (65,897)    |
| Total loans receivable, net                            | \$4,751,394 | \$4,424,261 |

(1)As of November 30, 2016, there was \$89.1 million of deferred loans fees of which \$80.6 million were reclassified to Other liabilities on the Consolidated Balance Sheets in order to reflect the nature of the deferred fees.

Unamortized deferred underwriting fees on revolvers related to loans receivable, net are classified within Other liabilities on the Consolidated Balance Sheets.

As of November 30, 2017 there was \$43.6 million and \$25.1 million of original issue discount included in originated and secondary loans, respectively. As of November 30, 2016 there was \$33.3 million and \$31.7 million of original issue discount included in originated and secondary loans, respectively.

As of November 30, 2017 and 2016, \$4.6 billion and \$4.3 billion of loans receivable, respectively, were pledged as collateral against the Company's credit facilities and secured notes.

**Nonaccrual Loans**--If a loan is 90 days or more past due or the borrower is not able to service its debt and other obligations, the loan is placed on nonaccrual status. When a loan is placed on nonaccrual status, interest previously recognized as interest income but not yet received is reversed and the recognition of interest income on that loan will cease until factors indicating doubtful collection no longer exist and the loan has been brought current. Exceptions to this policy will be made if the loan is well secured and in the process of collection. Payments received on nonaccrual loans are typically applied to principal outstanding unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. On the date the borrower pays in full all overdue amounts, the borrower's loan will emerge from nonaccrual status and all overdue interest will be recognized as interest income in the current period.

The following is an analysis of past due loans, net of original issue discount at November 30, 2017 (in thousands):

| LOANS<br>30-89 DAYS | LOANS<br>90 OR MORE | TOTAL<br>PAST DUE | CURRENT<br>LOANS | TOTAL<br>LOANS |
|---------------------|---------------------|-------------------|------------------|----------------|
|---------------------|---------------------|-------------------|------------------|----------------|

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|            | PAST DUE | DAYS PAST<br>DUE | LOANS      |             |              |
|------------|----------|------------------|------------|-------------|--------------|
| Originated | \$ 8,098 | \$               | — \$ 8,098 | \$1,635,842 | \$ 1,643,940 |
| Secondary  | —        | —                | —          | 3,178,239   | 3,178,239    |
| Total      | \$ 8,098 | \$               | — \$ 8,098 | \$4,814,081 | \$ 4,822,179 |

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

The following is an analysis of past due loans, net of original issue discount at November 30, 2016 (in thousands):

|            | LOANS<br>30-89 DAYS<br>PAST DUE | LOANS<br>90 OR MORE<br>DAYS PAST<br>DUE | TOTAL<br>PAST DUE<br>LOANS | CURRENT<br>LOANS | TOTAL<br>LOANS |
|------------|---------------------------------|-----------------------------------------|----------------------------|------------------|----------------|
| Originated | \$ 21,214                       | \$ 6,003                                | \$ 27,217                  | \$ 1,930,723     | \$ 1,957,940   |
| Secondary  | —                               | 8,797                                   | 8,797                      | 2,531,931        | 2,540,728      |
| Total      | \$ 21,214                       | \$ 14,800                               | \$ 36,014                  | \$ 4,462,654     | \$ 4,498,668   |

Impaired Loans--Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's effective rate or at the fair value of collateral if repayment is expected solely from the collateral.

Payments received on impaired loans are typically applied to principal outstanding unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Loans will be charged off against the allowance when full collection of the principal from the sale of collateral, if applicable, or the enforcement of guarantees is remote. The Company does not necessarily wait until the final resolution of a loan to charge off the uncollectible balance.

The following is a summary of impaired loans as of November 30, 2017 (in thousands):

|                          | RECORDED<br>INVESTMENT | UNPAID<br>PRINCIPAL<br>BALANCE | RELATED<br>ALLOWANCE | AVERAGE<br>RECORDED<br>INVESTMENT |
|--------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
| With allowance recorded: |                        |                                |                      |                                   |
| Originated               | \$ 108,386             | \$ 143,295                     | \$ 20,363            | \$ 85,344                         |
| Secondary                | 12,277                 | 30,146                         | 9,590                | 12,595                            |
| Total                    | \$ 120,663             | \$ 173,441                     | \$ 29,953            | \$ 97,938                         |

The following is a summary of impaired loans as of November 30, 2016 (in thousands):

|                          | RECORDED<br>INVESTMENT | UNPAID<br>PRINCIPAL<br>BALANCE | RELATED<br>ALLOWANCE | AVERAGE<br>RECORDED<br>INVESTMENT |
|--------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
| With allowance recorded: |                        |                                |                      |                                   |
| Originated               | \$ 61,948              | \$ 66,848                      | \$ 20,816            | \$ 50,375                         |
| Secondary                | 12,912                 | 26,512                         | 10,243               | 28,211                            |
| Total                    | \$ 74,860              | \$ 93,360                      | \$ 31,059            | \$ 78,586                         |

The average recorded investment reflects the change in the balance of impaired loans as of November 30, 2017 and 2016.

As of November 30, 2017 and 2016, each individual impaired loan had a specific allowance recorded.

Interest income was not recognized on impaired and nonaccrual loans during the years ended November 30, 2017, 2016 and 2015. If the impaired and nonaccrual loans had been performing, an additional \$4.4 million, \$3.9 million and \$1.5 million of interest income would have been recorded for the years ended November 30, 2017, 2016 and 2015, respectively.

Allowance for Loan Losses--The Company's allowance for loan losses reflects management's estimate of net loan losses inherent in the loan portfolio. The allowance for general loan losses is calculated as the aggregate loan loss reserve for losses inherent in the portfolio that have not yet been identified.

Reserve factors are assigned to the loans in the portfolio, which dictate the percentage of the total outstanding loan balance that is reserved. The loan portfolio information is regularly reviewed to determine whether it is necessary to revise the reserve factors.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

The reserve factors used in the calculation are determined by analyzing the following elements:

the types of loans;  
the expected loss with regard to the loan type;  
the internal credit rating assigned to the loans; and  
type of industry for a given loan.

The Company has a policy to reserve for impaired loans based on a comparison of the recorded carrying value of the loan to either the present value of the loan's expected cash flow or the estimated fair value of the underlying collateral where applicable. The Company considers market value of the loan in its determination of the loan losses for impaired loans. There is no threshold when evaluating for impaired loans. Loans will be charged off against the allowance when full collection of the principal from the sale of collateral or the enforcement of guarantees is remote. The Company does not necessarily wait until the final resolution of a loan to charge off the uncollectible balance.

The Company regularly tests the allowance for loan losses for reasonableness. In determining reasonableness, trends in the elements analyzed in establishing the reserve factors described above are reviewed. In addition, the Company continues to monitor the market to corroborate the reserve levels on similar loan products. The Company also computes an allowance for unfunded loan commitments using a methodology that is similar to that used for loans. The table below summarizes the Company's reporting of its allowance for loan losses:

|                           | CONSOLIDATED<br>BALANCE SHEETS | CONSOLIDATED<br>STATEMENTS OF EARNINGS |
|---------------------------|--------------------------------|----------------------------------------|
| Allowance for losses on:  |                                |                                        |
| Loans                     | Allowance for loan losses      | Provision for loan losses              |
| Unfunded loan commitments | Other liabilities              | General, administrative and other      |

The following is a summary of the activity in the allowance for loan losses for the year ended November 30, 2017 (in thousands):

|                                                  | ORIGINATED   | SECONDARY    | TOTAL        |
|--------------------------------------------------|--------------|--------------|--------------|
| Balance, November 30, 2016                       | \$ 35,603    | \$ 30,294    | \$ 65,897    |
| (Recovery of) provision for loan losses--general | (5,788       | ) 2,778      | (3,010 )     |
| Provision for loan losses--specific              | 33,301       | 3,563        | 36,864       |
| Transfers to loans held for sale, net            | (2,240       | ) (500       | ) (2,740 )   |
| Charge-offs                                      | (31,507      | ) (3,716     | ) (35,223 )  |
| Balance, November 30, 2017                       | 29,369       | 32,419       | 61,788       |
| Balance, end of period--general                  | \$ 9,006     | \$ 22,829    | \$ 31,835    |
| Balance, end of period--specific                 | \$ 20,363    | \$ 9,590     | \$ 29,953    |
| Loans receivable:                                |              |              |              |
| Loans collectively evaluated--general            | \$ 1,535,554 | \$ 3,165,962 | \$ 4,701,516 |
| Loans individually evaluated--specific           | 108,386      | 12,277       | 120,663      |
| Total                                            | \$ 1,643,940 | \$ 3,178,239 | \$ 4,822,179 |

The following is a summary of the activity in the allowance for loan losses for the year ended November 30, 2016 (in thousands):

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

|                                        | ORIGINATED   | SECONDARY    | TOTAL        |
|----------------------------------------|--------------|--------------|--------------|
| Balance, November 30, 2015             | \$ 17,454    | \$ 36,516    | \$ 53,970    |
| Provision for loan losses--general     | 3,751        | 5,857        | 9,608        |
| Provision for loan losses--specific    | 15,045       | 13,227       | 28,272       |
| Transfers to loans held for sale, net  | —            | (12,654)     | (12,654)     |
| Charge-offs                            | (647)        | (12,652)     | (13,299)     |
| Balance, November 30, 2016             | 35,603       | 30,294       | 65,897       |
| Balance, end of period--general        | \$ 14,787    | \$ 20,051    | \$ 34,838    |
| Balance, end of period--specific       | \$ 20,816    | \$ 10,243    | \$ 31,059    |
| Loans receivable:                      |              |              |              |
| Loans collectively evaluated--general  | \$ 1,895,992 | \$ 2,527,816 | \$ 4,423,808 |
| Loans individually evaluated--specific | 61,948       | 12,912       | 74,860       |
| Total                                  | \$ 1,957,940 | \$ 2,540,728 | \$ 4,498,668 |

The following is a summary of the activity in the allowance for loan losses for the year ended November 30, 2015 (in thousands):

|                                                  | ORIGINATED   | SECONDARY    | TOTAL        |
|--------------------------------------------------|--------------|--------------|--------------|
| Balance, November 30, 2014                       | \$ 10,373    | \$ 17,597    | \$ 27,970    |
| Provision for (recovery of) loan losses--general | 2,243        | (2)          | 2,241        |
| Provision for loan losses--specific              | 8,738        | 18,921       | 27,659       |
| Charge-offs                                      | (3,900)      | —            | (3,900)      |
| Balance, November 30, 2015                       | 17,454       | 36,516       | 53,970       |
| Balance, end of period--general                  | \$ 11,036    | \$ 14,195    | \$ 25,231    |
| Balance, end of period--specific                 | \$ 6,418     | \$ 22,321    | \$ 28,739    |
| Loans receivable:                                |              |              |              |
| Loans collectively evaluated--general            | \$ 2,034,097 | \$ 1,888,245 | \$ 3,922,342 |
| Loans individually evaluated--specific           | 38,801       | 43,509       | 82,310       |
| Total                                            | \$ 2,072,898 | \$ 1,931,754 | \$ 4,004,652 |

The allowance balances related to losses on unfunded commitments were \$5.8 million and \$5.1 million as of November 30, 2017 and 2016, respectively. In addition, the Company increased the allowance related to losses on unfunded commitments by \$0.7 million, \$1.5 million and \$0.1 million during the years ended November 30, 2017, 2016 and 2015, respectively. The changes in allowance were recognized in General, administrative and other in the Consolidated Statements of Earnings and the respective year end allowance was included in Other liabilities on the Consolidated Balance Sheets.

Credit Quality Indicators--As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks credit quality indicators. Management regularly reviews the performance of its loans receivable to evaluate the credit risk.

The Company evaluates each loan using six weighted credit risk grade categories that have both qualitative and quantitative components that differentiate the level of risk. Credit risk categories are assigned weights based on the characteristics of issuers.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

November 30, 2017 and 2016

For each borrower, the Company evaluates the following credit risk categories:

Industry segment  
Position within the industry  
Earnings / Operating Cash Flows  
Asset / Liability  
values  
Financial flexibility / debt capacity  
Management and controls

The Company utilizes a risk grading matrix to assign an internal credit grade ("ICG") to each of its loans. Loans are individually rated on a tiered scale of one to ten, with each rating further divided into three levels of .2, .5 and .8. A description of the general characteristics of the ICGs is as follows:

Grade 1--Issuers assigned this grade are characterized as substantially risk free and having an extremely strong capacity to meet all financial obligations.

Grade 2--Issuers assigned this grade are characterized as representing minimal risk.

Grade 3--Issuers assigned this grade are characterized as representing modest risk.

Grade 4--Issuers assigned this grade are characterized as representing better than average risk.

Grade 5--Issuers assigned this grade are characterized as representing average risk.

Grade 6--Issuers assigned this grade are characterized as representing acceptable risk.

Grade 7--Issuers assigned this grade are currently vulnerable to adverse business, financial and economic conditions and are characterized by increasing credit risk. They possess potential weakness that may, if not checked or corrected, weaken the asset or result in a likelihood of default at some future date. The increasing risk has or may result in discounted pricing levels or decreased trading liquidity.

Grade 8--Issuers assigned this grade are characterized by inadequate repayment capacity and / or recovery of the obligor or of the collateral pledged resulting in potential loss if deficiencies are not corrected.

Grade 9--Issuers assigned this grade are in (a) payment default at any level in its debt structure or (b) bankruptcy. In addition, asset weaknesses may make collection or liquidation in full, on the basis of existing facts, highly questionable and improbable.

Grade 10--Issuers assigned this grade are charged-off.



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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

The following is a summary of credit risk profile by ICG as of November 30, 2017 (in thousands):

| ICG   | ORIGINATED   | SECONDARY    | TOTAL       |
|-------|--------------|--------------|-------------|
| 5.2   | —            | \$ 4,460     | \$4,460     |
| 5.5   | —            | 60,891       | 60,891      |
| 5.8   | 17,709       | 351,776      | 369,485     |
| 6.2   | 132,084      | 785,241      | 917,325     |
| 6.5   | 681,244      | 1,119,830    | 1,801,074   |
| 6.8   | 430,524      | 690,347      | 1,120,871   |
| 7.2   | 165,412      | 82,632       | 248,044     |
| 7.5   | 106,642      | 40,148       | 146,790     |
| 7.8   | 37,379       | 17,756       | 55,135      |
| 8.2   | 53,403       | 11,474       | 64,877      |
| 8.5   | 1,266        | —            | 1,266       |
| 9.2   | 18,277       | 13,684       | 31,961      |
| Total | \$ 1,643,940 | \$ 3,178,239 | \$4,822,179 |

The following is a summary of credit risk profile by ICG as of November 30, 2016 (in thousands):

| ICG   | ORIGINATED   | SECONDARY    | TOTAL       |
|-------|--------------|--------------|-------------|
| 5.2   | —            | \$ 14,863    | \$14,863    |
| 5.5   | —            | 70,043       | 70,043      |
| 5.8   | 23,007       | 264,545      | 287,552     |
| 6.2   | 202,016      | 579,886      | 781,902     |
| 6.5   | 896,859      | 1,022,226    | 1,919,085   |
| 6.8   | 466,248      | 400,933      | 867,181     |
| 7.2   | 119,092      | 131,383      | 250,475     |
| 7.5   | 131,136      | 16,666       | 147,802     |
| 7.8   | 9,840        | 12,102       | 21,942      |
| 8.2   | 89,310       | 16,288       | 105,598     |
| 8.5   | 15,694       | —            | 15,694      |
| 9.2   | 4,738        | 11,793       | 16,531      |
| Total | \$ 1,957,940 | \$ 2,540,728 | \$4,498,668 |

Troubled Debt Restructurings (TDRs)--The Company periodically modifies or participates in the modification of the terms of a loan receivable in response to a borrower's difficulties. Modifications that include a significant financial concession(s) to the borrower that likely reflect a current view that the repayment on the original terms is unlikely are accounted for as TDRs. The Company uses a consistent methodology across all loans to determine if a modification granted to a borrower, determined to be in financial difficulty, is a TDR.



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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

The Company's policies on TDR identification include the following examples of indicators used to determine whether the borrower is in financial difficulty:

Payment default of principal and/or interest  
 Bankruptcy declaration  
 Going concern opinion issued by accountants  
 Insufficient cash flow to service debt with low likelihood of turnaround in the short term  
 Securities (public) are de-listed  
 Refinancing sources are unlikely  
 Financial covenants breach is unlikely to be amended

If the borrower is determined to be in financial difficulty, then the Company utilizes the following criteria to determine whether a concession has been granted to the borrower:

Modification of interest rate below market rate  
 The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms  
 Capitalization of interest  
 Delaying principal and/or interest for a period of year or more  
 Forgiveness of some or all of the principal balance

Below is a summary of the Company's loans which were determined to be TDRs as of November 30, 2017 (in thousands):

|           | PRE-MODIFICATION<br>OUTSTANDING<br>RECORDED<br>AMOUNT | POST-MODIFICATION<br>OUTSTANDING<br>RECORDED<br>AMOUNT | INVESTMENT IN<br>TDR<br>SUBSEQUENTLY<br>DEFAULTED |
|-----------|-------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------|
| Primary   | \$ 118,923                                            | \$ 92,546                                              | \$ —                                              |
| Secondary | \$ 68,982                                             | \$ 38,371                                              | \$ —                                              |
| Total     | \$ 187,905                                            | \$ 130,917                                             | \$ —                                              |



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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

Below is a summary of the Company's loans which were determined to be TDRs as of November 30, 2016 (in thousands):

|           | PRE-MODIFICATION<br>OUTSTANDING<br>RECORDED<br>AMOUNT | POST-MODIFICATION<br>OUTSTANDING<br>RECORDED<br>AMOUNT | INVESTMENT IN<br>TDR<br>SUBSEQUENTLY<br>DEFAULTED |
|-----------|-------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------|
| Primary   | \$ 40,613                                             | \$ 35,889                                              | \$ —                                              |
| Secondary | \$ 58,340                                             | \$ 37,660                                              | \$ —                                              |
| Total     | \$ 98,953                                             | \$ 73,549                                              | \$ —                                              |

All restructured loans that remain outstanding are initially placed on non-accrual status and subsequently evaluated to determine satisfactory payment performance and ultimate collectability. There were no payment defaults on loans restructured in troubled debt restructurings during the years ended November 30, 2017 and 2016.

Modified loans that are determined to be TDRs are individually evaluated and measured for impairment. Modified loans that meet the definition of a TDR are subject to the Company's standard impaired loan policy, namely that non-accrual loans are individually reviewed for impairment.

Other Liabilities--Included in Other liabilities are amounts payable for loans pending settlement. As of November 30, 2017 and 2016 there were \$379.9 million and \$307.4 million, respectively, of pending purchases.

**5. LOANS HELD FOR SALE, NET**

Below is a summary of Loans held for sale, net, as of November 30, 2017 and 2016 (in thousands):

|                          | 2017      | 2016      |
|--------------------------|-----------|-----------|
| Loans held for sale      | \$722,551 | \$966,425 |
| Less:                    |           |           |
| Original issue discount  | (2,636 )  | (13,124 ) |
| Valuation allowance      | —         | (16,041 ) |
| Deferred loan fees, net  | (7,369 )  | (6,798 )  |
| Loans held for sale, net | \$712,546 | \$930,462 |

Included in the Loans held for sale were \$435.3 million and \$739.2 million of loans that funded prior to but the completion of the settlement process occurred after November 30, 2017 and November 30, 2016, respectively. As of November 30, 2017, no loans held for sale were pledged as collateral against the Company's credit facilities and secured notes issued by CLOs. As of November 30, 2016, loans held for sale of \$7.3 million were pledged as collateral against the Company's credit facilities and secured notes issued by CLOs. As of November 30, 2016, the Company had one impaired / non-accrual loan in the amount of \$1.2 million in Loans held for sale, net.

Other Assets--included in Other assets are amounts receivable for sales of loans pending settlement. As of November 30, 2017 and 2016, there were \$143.0 million and \$60.4 million, respectively, of pending sales.

**6. INVESTMENTS**

Under the fair value option as of November 30, 2017 and 2016, the Company held investments of \$46.1 million and \$22.4 million, respectively, in a corporate bond, interest rate swaps, secured and unsecured notes and other investments which were accounted for at fair value. As of November 30, 2016, one of the CLOs held \$156.8 million of U.S. Treasury securities which had short-term maturities and are restricted under the terms as stated in the CLO indenture. As of November 30, 2017, all U.S. Treasury securities have been either redeemed or sold.

#### DERIVATIVE FINANCIAL INSTRUMENTS

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

As part of certain CLOs' risk management strategy to protect against the effect of fluctuations in London Interbank Offered Rate ("LIBOR") rates associated with its loan commitments, interest rate swaps were purchased and currently have a notional value of \$1,080.9 million with remaining maturities ranging from one to three years. Additionally, JFIN entered into a Total Return Swap ("TRS") with Jefferies Financial Products, LLC ("JFP"), a wholly owned subsidiary of JGL, with a \$23.0 million Variable Funding Note for one of the CLOs as the underlying asset. The TRS has a remaining maturity of approximately four years.

As of November 30, 2017 and 2016, the interest rate swaps and the TRS had a combined fair value of \$6.5 million and \$6.1 million, respectively and were included within Investments on the Consolidated Balance Sheets. The net gain (loss) on the interest rate swaps and TRS was \$0.4 million, \$(3.3) million and \$(10.4) million for the years ended November 30, 2017, 2016, and 2015 respectively, and was included in Other gains (losses), net in the Consolidated Statements of Earnings. As of November 30, 2017 and 2016 the counterparty credit quality with respect to the interest rate swaps was between A+ and BBB.

The following table sets forth the remaining contractual maturities of the interest rate swaps and total return swap at their notional value as of November 30, 2017 (in thousands):

|                     | 1-5 YEARS    | TOTAL        |
|---------------------|--------------|--------------|
| Interest rate swaps | \$ 1,080,889 | \$ 1,080,889 |
| Total return swap   | \$ 3,442     | \$ 3,442     |

The following table sets forth the remaining contractual maturities of the interest rate swaps and total return swap at their notional value as of November 30, 2016 (in thousands):

|                     | 1-5 YEARS    | GREATER THAN<br>5 YEARS | TOTAL        |
|---------------------|--------------|-------------------------|--------------|
| Interest rate swaps | \$ 1,184,472 | \$ —                    | \$ 1,184,472 |
| Total return swap   | \$ —         | \$ 8,723                | \$ 8,723     |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE

The following table presents the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of November 30, 2017 and 2016 by level within the fair value hierarchy (in thousands):

| NOVEMBER 30, 2017           | LEVEL 1 | LEVEL 2    | LEVEL 3   | TOTAL      |
|-----------------------------|---------|------------|-----------|------------|
| Assets, nonrecurring basis: |         |            |           |            |
| Loans held for sale, net    | \$ —    | \$ 712,546 | \$ —      | \$ 712,546 |
| Assets, recurring basis:    |         |            |           |            |
| Investments                 |         |            |           |            |
| Bonds                       | \$ —    | \$ 4,145   | \$ —      | \$ 4,145   |
| Notes                       | —       | —          | 2,351     | 2,351      |
| Interest rate swaps         | —       | 1,698      | —         | 1,698      |
| Corporate equity securities | —       | 631        | 32,511    | 33,142     |
| Total return swap           | —       | —          | 4,812     | 4,812      |
| Total Investments           | \$ —    | \$ 6,474   | \$ 39,674 | \$ 46,148  |



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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

| NOVEMBER 30, 2016           | LEVEL 1    | LEVEL 2    | LEVEL 3   | TOTAL      |
|-----------------------------|------------|------------|-----------|------------|
| Assets, nonrecurring basis: |            |            |           |            |
| Loans held for sale, net    | \$ —       | \$ 930,462 | \$ —      | \$ 930,462 |
| Assets, recurring basis:    |            |            |           |            |
| Investments                 |            |            |           |            |
| U.S. treasury securities    | \$ 156,780 | \$ —       | \$ —      | \$ 156,780 |
| Bonds                       | —          | 4,188      | —         | 4,188      |
| Notes                       | —          | —          | 2,370     | 2,370      |
| Interest rate swaps         | —          | 2,741      | —         | 2,741      |
| Corporate equity securities | —          | 951        | 8,877     | 9,828      |
| Total return swap           | —          | —          | 3,309     | 3,309      |
| Total Investments           | \$ 156,780 | \$ 7,880   | \$ 14,556 | \$ 179,216 |

For loans held for sale, net, the Company uses observable market data when available, including pricing on recent trades, third party pricing, or when appropriate, the recovery value of underlying collateral. Included within Loans held for sale, net are loans recorded at lower of cost or fair value.

For corporate equity securities, bonds, interest rate swaps and other investments, the Company primarily uses broker quotes for non-exchange traded investments based upon the observability of the inputs.

U.S. Treasury securities are measured based on quoted market prices.

The following table presents the changes in Level 3 assets measured on a recurring and nonrecurring basis as of November 30, 2017 (in thousands):

|                             | BALANCE<br>AT<br>DECEMBER<br>2016 | PURCHASES/<br>ADDITIONS | SETTLEMENTS/<br>NET | TOTAL<br>GAINS/<br>LOSSES<br>(REALIZED<br>AND<br>UNREALIZED) | NET<br>TRANSFERS<br>IN AND<br>OUT OF<br>LEVEL 3 <sup>(2)</sup> | BALANCE<br>AT<br>NOVEMBER<br>30, 2017 | NET CHANGE IN<br>UNREALIZED<br>GAINS/LOSSES<br>RELATING<br>TO<br>INSTRUMENTS<br>STILL<br>HELD AT<br>NOVEMBER 30,<br>2017 |
|-----------------------------|-----------------------------------|-------------------------|---------------------|--------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Corporate equity securities | \$ 8,877                          | \$ 20,802               | \$ —                | \$ 2,832                                                     | \$ —                                                           | \$ 32,511                             | \$ 2,832                                                                                                                 |
| Notes                       | \$ 2,370                          | \$ —                    | \$ —                | \$ (19 )                                                     | \$ —                                                           | \$ 2,351                              | \$ (19 )                                                                                                                 |
| Total return swap           | \$ 3,309                          | \$ 456                  | \$ —                | \$ 1,047                                                     | \$ —                                                           | \$ 4,812                              | \$ 1,047                                                                                                                 |



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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

The following table presents the changes in Level 3 assets measured on a recurring and nonrecurring basis as of November 30, 2016 (in thousands):

|                              | BALANCE<br>AT<br>DECEMBER<br>2015 | PURCHASES<br>ADDITIONS | SETTLEMENTS<br>NET | TOTAL<br>GAINS/<br>LOSSES<br>(REALIZED<br>AND<br>UNREALIZED) | NET<br>TRANSFERS<br>IN AND<br>OUT OF<br>LEVEL 3<br>(2) | BALANCE AT<br>NOVEMBER 30,<br>2016 | NET CHANGE IN<br>UNREALIZED<br>GAINS/LOSSES<br>RELATING<br>TO<br>INSTRUMENTS<br>STILL<br>HELD AT<br>NOVEMBER 30,<br>2016 |
|------------------------------|-----------------------------------|------------------------|--------------------|--------------------------------------------------------------|--------------------------------------------------------|------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Corporate equity securities  | \$ 11,675                         | \$ 524                 | \$ —               | \$ (3,322 )                                                  | \$ —                                                   | \$ 8,877                           | \$ (3,322 )                                                                                                              |
| Notes                        | \$ —                              | \$ 262,992             | \$ (220,386 )      | \$ (23,992 )                                                 | \$ (16,244 )                                           | \$ 2,370                           | \$ —                                                                                                                     |
| Loans held for sale, net (1) | \$ 55,104                         | \$ 560,034             | \$ (483,763 )      | \$ (49,660 )                                                 | \$ (81,715 )                                           | \$ —                               | \$ —                                                                                                                     |
| Total return swap            | \$ 2,544                          | \$ —                   | \$ 2,280           | \$ (1,515 )                                                  | \$ —                                                   | \$ 3,309                           | \$ (1,515 )                                                                                                              |

(1) Loans held for sale, net are measured on a non-recurring basis.

(2) Total gains and losses (realized and unrealized) are recorded in Other gains (losses), net on the Consolidated Statements of Earnings.

For the year ended November 30, 2017, \$44.1 million was transferred from loans held for sale, net to loans receivable, net. For the year ended November 30, 2016, \$98.0 million, was transferred from Level 3 to Level 2 due to an increase in the observability of inputs. There were no transfers between level 1 and level 2 for assets measured on a recurring basis for the years ended November 30, 2017 and 2016.

The table below presents information on the valuation techniques, significant unobservable inputs and their ranges for the Company's Level 3 financial assets and liabilities, subject to threshold levels related to the market value of the positions held, measured at fair value on a recurring basis. The range of unobservable inputs could differ significantly across different firms given the range of products across different firms in the financial services sector. The inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument (i.e., the input used for valuing one financial instrument within a particular class of financial instruments may not be appropriate for valuing other financial instruments within that given class).

Additionally, the ranges of inputs presented below should not be construed to represent uncertainty regarding the fair values of the Company's financial instruments; rather the range of inputs is reflective of the differences in the underlying characteristics of the financial instruments in each category.



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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

| FINANCIAL INSTRUMENTS OWNED    | FAIR VALUE<br>(IN THOUSANDS) | VALUATION<br>TECHNIQUE | SIGNIFICANT<br>UNOBSERVABLE<br>INPUT(S) | INPUT<br>RANGE     | WEIGHTED<br>AVERAGE |
|--------------------------------|------------------------------|------------------------|-----------------------------------------|--------------------|---------------------|
| Corporate equity securities    |                              |                        |                                         |                    |                     |
| Non-exchange traded securities | \$ 32,511                    |                        | EBITDA multiple                         | 5.6x-10.7x         | 7.8x                |
|                                |                              | Market Approach        |                                         |                    |                     |
|                                |                              | Discounted Cash Flows  | Revenue multiple                        | 0.5x-2.0x          | 1.3 x               |
| Investments                    |                              |                        |                                         |                    |                     |
| Notes                          | \$ 2,351                     | Asset Approach         | Collateral Liquidation Values           | N/A <sup>(1)</sup> | N/A <sup>(1)</sup>  |
| Derivatives                    |                              |                        |                                         |                    |                     |
| Total return swap              | \$ 4,812                     | Discounted Cash Flows  | —                                       | —                  | —                   |
|                                |                              |                        | Constant prepayment rate                | 20.0               | % 20.0 %            |
|                                |                              |                        | Constant default rate                   | 2.0                | % 2.0 %             |
|                                |                              |                        | Loss severity                           | 25.0               | % 25.0 %            |
|                                |                              |                        | Yield                                   | 26.0               | % 26.0 %            |

(1) There is no meaningful quantitative information to provide as the methods of valuation are investment specific. Below is a summary of financial instruments not measured at fair value on a recurring or non-recurring basis as of November 30, 2017 and 2016, but for which fair value is required to be disclosed (in thousands):

|                                      | NOVEMBER 30, 2017 |             | NOVEMBER 30, 2016 |             |
|--------------------------------------|-------------------|-------------|-------------------|-------------|
|                                      | Carrying Value    | Fair Value  | Carrying Value    | Fair Value  |
| Financial assets:                    |                   |             |                   |             |
| Cash                                 | \$1,555,484       | \$1,555,484 | \$656,556         | \$656,556   |
| Restricted cash                      | 875,270           | 875,270     | 975,891           | 975,891     |
| Loans receivable, net <sup>(1)</sup> | 4,751,394         | 4,688,556   | 4,424,261         | 4,368,982   |
| Total                                | \$7,182,148       | \$7,119,310 | \$6,056,708       | \$6,001,429 |
| Financial liabilities:               |                   |             |                   |             |
| Credit facilities, net               | \$318,103         | \$323,806   | \$342,841         | \$346,862   |
| Secured notes payable, net           | 3,882,817         | 3,976,732   | 3,877,569         | 3,915,716   |
| Long-term debt, net                  | 2,073,479         | 2,152,397   | 1,639,472         | 1,613,927   |
| Total                                | \$6,274,399       | \$6,452,935 | \$5,859,882       | \$5,876,505 |

(1) As of November 30, 2016, \$80.6 million were reclassified to Other liabilities on the Consolidated Balance Sheets in order to reflect the nature of the deferred fees.

Cash and restricted cash--The carrying value of cash and restricted cash approximates fair value and are considered Level 1 measurements.

Loans receivable, net--A significant portion of the Company's loans receivable are measured primarily using broker quotations and using pricing service data from external providers. When pricing data is unavailable and there are no observable inputs, valuations are based on models involving projected cash flows of the issuer and market prices for comparable issuers and are considered Level 2 measurements since there is no open exchange for loan assets.

Credit facilities, net--Due to the adjustable rate nature of the borrowings, the fair value of the credit facilities is estimated to be their carrying values less deferred structuring fees and are considered Level 2 measurements. Rates currently are comparable to those offered to the Company for similar debt instruments of comparable maturities by the Company's lenders.

Secured notes payable, net--The Company uses broker quotes for non-exchange traded secured notes payable and are considered Level 2 measurements.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

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Long-term debt, net--Fair value of long-term debt is based on broker quotations, which are Level 2 inputs. When broker quotes are not available, values are estimated using a discounted cash flow analysis with a discount rate approximating current market interest rates for issuances of similar term debt.

**8. VARIABLE INTEREST ENTITIES**

VIEs are entities in which equity investors lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

Variable interests in VIEs include debt and equity interests, commitments and management and performance fees. Involvement with VIEs by the Company includes involvement as a portfolio manager of collateralized loan obligations ("CLOs") or pre-CLO Warehouses ("CLO WHs") acting as sponsor of CLOs funding the underlying loans prior to the close of a CLO and owns notes issued by the CLOs.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with the VIE and reassess whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether the Company is the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment. Considerations in determining the VIE's most significant activities and whether the Company has the power to direct those activities include, but are not limited to, the VIE's purpose and design and the risks passed through to investors, the voting interests of the VIE, management, service and/or other agreements of the VIE, involvement in the VIE's initial design and the existence of explicit or implicit financial guarantees.

Variable interests in a VIE are assessed both individually and in aggregate to determine whether the Company has an obligation to absorb losses of or a right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of whether the Company's variable interest is significant to the VIE requires significant judgment. In determining the significance of the Company's variable interest, the Company considers the terms, characteristics and size of the variable interests, the design and characteristics of the VIE, the Company's involvement in the VIE and the Company's market-making activities related to the variable interests.

The Company is the primary beneficiary of CLOs and CLO WHs to which the Company transfers or directs the transfer of bank loans, securities and participation interests in the form of senior secured loans, second lien loans, unsecured loans, senior secured bonds, senior secured floating notes, unsecured bonds and revolving credit loans to corporate entities. The Company also retained a portion of the secured notes issued by the CLOs or has first loss collateral of the CLO WHs. In the creation of the CLOs, the Company was involved in the decisions made during the establishment and design of the entity. The Company acts as the portfolio manager for the CLOs and holds variable interests consisting of the retained notes in the CLOs and first loss collateral in the CLO WHs that could potentially be significant. The assets of the CLOs and CLO WHs consist of loans, bonds and notes to corporate entities, which are available for the benefit of the vehicle's beneficial interest holders. The creditors of the VIEs do not have recourse to the assets of the Company and the assets of the VIEs are not available to satisfy any debt other than those specific to the VIE.

**9. CREDIT FACILITIES, NET**

As of November 30, 2017 and 2016, the Company had secured credit facilities totaling \$1.7 billion and \$1.6 billion, respectively, which were used to fund loans. The interest rates related to the credit facilities are primarily variable interest rates based on LIBOR plus a spread as stated in the respective agreements. The credit facilities are secured by the underlying loans funded with the proceeds of the respective facility.

During the years ended November 30, 2017, 2016 and 2015, the Company entered into revolving credit agreements for \$0.6 billion, \$0.5 billion, and \$0.5 billion, respectively. During the years ended November 30, 2017, 2016 and

2015, \$0.6 billion, 0.3 billion and \$1.8 billion of outstanding commitments matured or terminated and any outstanding amounts were repaid, respectively.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

Below is a summary of the Credit Facilities and Members' Fronting Line as of and for the year ended November 30, 2017 (in millions):

|                                                  | THIRD<br>PARTY<br>FRONTING<br>LINE | MEMBERS' APEX<br>FRONTING LINE | CLO 2017<br>CLO 2016 II<br>WH | CLO 2016 II<br>WH | JFIN<br>BUSINESS<br>CREDIT<br>FUND I<br>LLC | JFUND III<br>LLC         | JFUND V<br>LLC | TOTAL                |
|--------------------------------------------------|------------------------------------|--------------------------------|-------------------------------|-------------------|---------------------------------------------|--------------------------|----------------|----------------------|
| Total availability under the facility            | \$ 500.0                           | \$ 500.0                       | \$ 250.0                      | \$ —              | \$ 100.0                                    | \$ 300.0                 | \$ —           | \$1,650.0            |
| Outstanding balance                              | —                                  | —                              | 154.8                         | —                 | 23.4                                        | 145.6                    | —              | 323.8 <sup>(1)</sup> |
| Current availability                             | \$ 500.0                           | \$ 500.0                       | \$ 95.2                       | \$ —              | \$ 76.6                                     | \$ 154.4                 | \$ —           | \$1,326.2            |
| Principal balance of loans pledged as collateral | \$ —                               | \$ —                           | \$ 246.6                      | \$ —              | \$ 32.0                                     | \$ 251.1                 | \$ —           | \$529.7              |
| Largest outstanding amounts during the periods   | 500.0                              | 1100.0 <sup>(2)</sup>          | 154.8                         | 325.3             | 43.9                                        | 193.1                    | 345.6          | 2,662.7              |
| Interest expense incurred                        | 4.4                                | 5.1                            | 0.9                           | 1.6               | 0.7                                         | 6.7                      | 3.1            | 22.5                 |
| Undrawn facility fees incurred                   | 3.0                                | 1.7                            | —                             | —                 | 0.3                                         | 1.2                      | 1.0            | 7.2                  |
| Variable interest rate based on LIBOR            | 4.19                               | % 4.92                         | % 3.34                        | % 2.98            | % 2.88                                      | % 3.75                   | % 3.05         | —                    |
| Maturity Date                                    | 2/26/2018 <sup>(3)</sup>           | 3/1/2018 <sup>(4)</sup>        | 8/4/2018                      | Terminated        | 4/12/2021                                   | 2/10/2022 <sup>(5)</sup> | Terminated     |                      |

(1) Outstanding balance does not include \$5.7 million of deferred structuring fees.

(2) Each Member, at their discretion may make available additional advances in excess of its committed amount.

(3) On February 27, 2016, the Third Party Fronting Line was increased to \$500.0 million from \$481.7 million.

(4) After March 1 2016, the Members' Fronting Line contains annual automatic one-year extensions, absent a 60-day termination notice by either party.

(5) On February 10, 2017, the maturity of the facility was extended until February 10, 2022.

Below is a summary of the Credit Facilities and Members' Fronting Line as of and for the year ended November 30, 2016 (in millions):

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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|                                                  | THIRD<br>PARTY<br>FRONTING<br>LINE | MEMBERS'<br>FRONTING<br>LINE | JFIN<br>CLO<br>2016-II<br>WH | JFIN<br>CLO<br>2016<br>WH | JFIN<br>BUSINESS<br>CREDIT<br>FUND I<br>LLC | JFIN<br>FUND III<br>LLC | TOTAL                |
|--------------------------------------------------|------------------------------------|------------------------------|------------------------------|---------------------------|---------------------------------------------|-------------------------|----------------------|
| Total availability under the facility            | \$ 500.0                           | \$ 500.0                     | \$ 200.0                     | \$ —                      | \$ 100.0                                    | \$ 300.0                | \$ 1,600.0           |
| Outstanding balance                              | —                                  | —                            | 124.2                        | —                         | 33.4                                        | 189.3                   | 346.9 <sup>(1)</sup> |
| Current availability                             | \$ 500.0                           | \$ 500.0                     | \$ 75.8                      | \$ —                      | \$ 66.6                                     | \$ 110.7                | \$ 1,253.1           |
| Principal balance of loans pledged as collateral | \$ —                               | \$ —                         | \$ 219.4                     | \$ —                      | \$ 45.0                                     | \$ 312.1                | \$ 576.5             |
| Largest outstanding amounts during the periods   | 218.6                              | 300.0                        | 124.2                        | 227.8                     | 50.1                                        | 247.3                   | 1,168.0              |
| Interest expense incurred                        | 0.3                                | 0.1                          | 0.3                          | 1.3                       | 0.7                                         | 7.1                     | 9.8                  |
| Undrawn facility fees incurred                   | 4.5                                | 2.7                          | —                            | —                         | 0.2                                         | 0.4                     | 7.8                  |
| Variable interest rate based on LIBOR            | 3.88                               | % 4.19                       | % 2.88                       | % 1.95%                   | 2.39                                        | % 3.22                  | % —                  |
| Maturity Date                                    | 2/25/2017                          | 3/1/2017                     | 6/30/2017                    | Terminated                | 9/12/2021                                   | 2/12/2019               |                      |

(1) Outstanding balance does not include \$4.1 million of deferred structuring fees.

Below is a summary of the Credit Facilities and Members' Fronting Line as of and for the year ended November 30, 2015 (in millions):

|                                                  | THIRD<br>PARTY<br>FRONTING<br>LINE | MEMBERS'<br>FRONTING<br>LINE | JFIN FUND<br>IV 2014 LLC | CLO 2015-II<br>WH | JFIN<br>BUSINESS<br>CREDIT<br>FUND I LLC | JFIN FUND III<br>LLC | TOTAL      |
|--------------------------------------------------|------------------------------------|------------------------------|--------------------------|-------------------|------------------------------------------|----------------------|------------|
| Total availability under the facility            | \$ 481.7                           | \$ 500.0                     | —                        | —                 | \$ 100.0                                 | \$ 300.0             | \$ 1,381.7 |
| Outstanding balance                              | 67.2                               | 38.6                         | —                        | —                 | 45.1                                     | 231.1                | 382.0      |
| Current availability                             | \$ 414.5                           | \$ 461.4                     | —                        | —                 | \$ 54.9                                  | \$ 68.9              | \$ 999.7   |
| Principal balance of loans pledged as collateral | \$ 67.2                            | \$ 38.6                      | —                        | —                 | \$ 67.2                                  | \$ 380.5             | \$ 553.5   |
| Largest outstanding amounts during the periods   | 386.7                              | 530.0                        | 350.2                    | 170.9             | 47.2                                     | 231.1                | 1,716.1    |
| Interest expense incurred                        | 1.0                                | 1.9                          | 1.8                      | 0.6               | 0.4                                      | 5.7                  | 11.4       |
| Undrawn facility fees incurred                   | 2.0                                | 3.0                          | —                        | —                 | 0.3                                      | 0.6                  | 5.9        |
| Variable interest rate based on LIBOR            | 3.38                               | % 5.36                       | % 2.26                   | % 1.85            | % 1.83                                   | % 2.66               | % —        |

|               |           |          |            |            |           |           |   |
|---------------|-----------|----------|------------|------------|-----------|-----------|---|
| Maturity Date | 2/27/2016 | 3/1/2016 | Terminated | Terminated | 9/12/2018 | 2/12/2019 | — |
|---------------|-----------|----------|------------|------------|-----------|-----------|---|

Natixis LC Facility--On August 17, 2011, JFIN entered into a letter of credit and reimbursement agreement with Natixis, New York Branch for a \$50.0 million letter of credit commitment (the "LC Facility"). The LC Facility was established for the purpose of issuing letters of credit to borrowers under credit facilities originated by JFIN. In June 2015, the Company extended its availability under the LC Facility until June 26, 2018. Natixis may request the Company to post cash collateral not less than 105% of the outstanding face amount of issued letters of credit if certain events of default occur or 30 days prior to the termination of the LC Facility. Interest is charged on issued letters of credit at a rate of LIBOR plus a margin of 2.5%. As of November 30, 2017 and 2016, there were \$42.7 million and \$40.5 million, respectively, of letters of credit borrowed under the LC Facility. Interest expense for the years ended November 30, 2017, 2016 and 2015 was \$1.0 million, \$1.0 million and \$1.1 million, respectively, and is included in Interest expense in the Consolidated Statements of Earnings.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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**Wells Fargo LC Facility**--On March 10, 2016, the Company's wholly-owned subsidiary JFIN LC Fund LLC ("LC Fund"), which was formed on February 1, 2016, entered into a Standby Letter of Credit Facility with Wells Fargo Bank, National Association ("Wells Fargo"), as issuing bank, pursuant to which the issuing bank has committed to provide a revolving letter of credit facility in an aggregate principal amount of up to \$50.0 million. LC Fund's obligations under the facility mature on the third anniversary of the closing date, and are secured by a first lien perfected security interest in a specified segregated deposit account held at Wells Fargo into which the Company is required to deposit 102% of the outstanding face amount of issued letters of credit. The Company guarantees the payment obligations of LC Fund under the facility. As of November 30, 2017 and 2016, there were \$22.6 million and \$18.1 million, respectively, of letters of credit borrowed under the LC Facility. Interest expense for the years ended November 30, 2017 and 2016 was \$0.5 million and \$0.2 million, respectively, and is included in Interest expense in the Consolidated Statements of Earnings.

**Deferred Structuring Fees**--Deferred structuring fees in aggregate were \$5.7 million and \$4.0 million at November 30, 2017, and November 30, 2016, respectively, and are included in Credit facilities, net on the Consolidated Balance Sheets. Amortization of deferred structuring fees expense for the years ended November 30, 2017, 2016 and 2015 was \$4.6 million, 4.8 million and \$7.6 million, respectively, and is included in Interest expense in the Consolidated Statements of Earnings. In connection with ASU, No. 2015-03, the Company reclassified approximately \$4.0 million in deferred financing fees as of November 30, 2016 previously included within Other assets to Credit facilities, net in the accompanying consolidated Balance Sheets.

**Undrawn Facility Fees**--Undrawn facility fees in aggregate were \$7.2 million, \$7.8 million and \$5.9 million for the years ended November 30, 2017, 2016 and 2015, respectively, and are included in Interest expense in the Consolidated Statements of Earnings.

**10. SECURED NOTES PAYABLE, NET**

CLOs consolidated by the Company are funded by the issuance of notes, which are included in Secured notes payable, net on the Consolidated Balance Sheets. Each of the CLOs' respective assets are pledged as collateral against the secured notes issued by the respective CLO. The cash held by the term loan CLOs is used first to pay interest due to note holders or to be reinvested in loans as prescribed by the indentures. Three revolver CLOs contain \$510.3 million variable funding notes (VFN) that contractually binds the holder to fund the notes upon certain events outlined in the indenture. As of November 30, 2017, these outstanding balance of the VFNs is zero. JFIN is entitled to the residual interest of all CLOs after all claims to note holders have been paid.

Following are the remaining maturities of the secured notes payable, net (in thousands):

|                      | NOVEMBER 30,<br>2017 | NOVEMBER 30,<br>2016 |
|----------------------|----------------------|----------------------|
| Due in 2018 \$ —     | \$ —                 |                      |
| Due in 2019 —        | —                    |                      |
| Due in 2020 37,378   | 99,113               |                      |
| Due in 2021 —        | 313,246              |                      |
| Due in 2022 137,141  | 324,042              |                      |
| Thereafter 3,708,298 | 3,141,168            |                      |
| Total \$ 3,882,817   | \$ 3,877,569         |                      |

For the years ended November 30, 2017, 2016 and 2015, the Company repaid \$1,779.1 million, \$454.8 million and \$91.3 million of outstanding secured notes payable.

Interest rates related to the secured notes are variable interest rates based on LIBOR plus a spread as stated in the respective note agreements ranging from 0.700% to 9.500%.

In connection with the refinancing of two of the Company's CLOs, \$4.4 million of original issue discount and \$6.4 million of structuring fees were accelerated for the year ended November 30, 2017 and are included in interest expense in the Consolidated Statements of Earnings.

Deferred Structuring Fees--Deferred structuring fees in aggregate were \$42.4 million and \$39.2 million as of November 30, 2017 and 2016, respectively, and are included in Secured notes payable, net on the Consolidated Balance Sheets. Deferred structuring fee expense was \$17.5 million, \$9.8 million and \$5.9 million for the years ended November 30, 2017, 2016 and 2015, respectively, and is included in Interest expense in the Consolidated Statements of Earnings. After retrospectively applying ASU, No. 2015-03, the Company reclassified approximately \$39.2 million in deferred financing fees as of November 30, 2016 previously included within Other assets to Secured notes payable, net in the accompanying consolidated Balance Sheets.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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Original Issue Discount--The unamortized original issue discount of \$47.5 million and \$58.8 million as of November 30, 2017 and November 30, 2016, respectively, was included within Secured notes payable, net on the Consolidated Balance Sheets. The amortization of the original issue discount was \$16.9 million, \$9.2 million and \$7.2 million for the years ended November 30, 2017, 2016 and 2015, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

## 11. LONG-TERM DEBT, NET

Below is a summary of JFIN's long-term debt as of November 30, 2017 (in millions):

| DESCRIPTION                      | ISSUE DATE | OUTSTANDING<br>PRINCIPAL<br>AMOUNT | MATURITY                      | INTEREST<br>RATE | INTEREST<br>PAYMENT<br>DATES                |
|----------------------------------|------------|------------------------------------|-------------------------------|------------------|---------------------------------------------|
| 2020 Notes <sup>(1)</sup>        | 3/26/2013  | \$ 600.0                           | April 1, 2020                 | 7.375%           | April and October 1                         |
| 2021 Notes <sup>(1)</sup>        | 10/14/2014 | \$ 425.0                           | April 15, 2021                | 7.500%           | April and October 15                        |
| 2022 Notes <sup>(1)</sup>        | 3/31/2014  | \$ 425.0                           | April 15, 2022                | 6.875%           | April and October 15                        |
| 2024 Notes <sup>(1)</sup>        | 8/3/2017   | \$ 400.0                           | August 15, 2024               | 7.250%           | February and August 15                      |
| Secured Term Loan <sup>(2)</sup> | 8/3/2017   | \$ 250.0                           | August 3, 2024 <sup>(3)</sup> | Libor+3.000%     | Last business day of each<br>fiscal quarter |

(1)Collectively, the 2020 Notes, 2021 Notes, 2022 Notes and the 2024 Notes are referred to as the "Senior Notes".

(2)Issued with a Libor floor of 1%.

(3)The Secured Term Loan matures on August 3, 2024, or December 31, 2019 if the amount outstanding on the 2020 Notes, 2021 Notes, 2022 Notes exceeds \$100.0 million on such date.

In August 2017, JFIN and JFIN Co-Issuer Corporation (collectively, the "Issuers"), issued \$400.0 million of senior unsecured notes ("2024 Notes") to third party investors intended to be used for general corporate purposes.

The Senior Notes are not guaranteed by any of the Company's subsidiaries, however, its subsidiaries may be required to guarantee the Senior Notes in the future pursuant to certain covenants as defined in the applicable Senior Notes offering memorandum. At any time prior to August 15, 2020, the Company may redeem the 2024 Notes, in whole or in part, at the Company's option, at a redemption price equal to 100% of the principal amount of such 2024 Notes, plus the relevant Applicable Premium, as defined in the applicable offering memorandum as of, and accrued and unpaid interest, if any, to but not including the applicable redemption date. The 2020 Notes, 2021 Notes, 2022 Notes are redeemable (and on or after August 15, 2020, the 2024 Notes shall be redeemable), in whole or in part, at the Company's option, at a redemption price equal to the respective percentage of the principal amount of any Senior Notes being redeemed set forth below during the twelve-month period beginning on the respective year indicated below, plus accrued but unpaid interest, if any, to but not including the applicable redemption date.

The table below summarizes the respective redemption prices for the Senior Notes within the twelve-month period after the respective redemption dates, plus accrued but unpaid interest:

| YEAR | 2020<br>NOTES<br>PERCENTAGE | 2021<br>NOTES<br>PERCENTAGE | 2022<br>NOTES<br>PERCENTAGE | 2024<br>NOTES<br>PERCENTAGE |
|------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2018 | 101.844 %                   | 103.750 %                   | 103.438 %                   | 107.250 %                   |

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|                     |           |           |           |           |
|---------------------|-----------|-----------|-----------|-----------|
| 2019                | 101.844 % | 101.875 % | 101.719 % | 107.250 % |
| 2020                | 100.000 % | 100.000 % | 100.000 % | 103.625 % |
| 2021                | —         | 100.000 % | 100.000 % | 101.813 % |
| 2022                | —         | —         | 100.000 % | 100.000 % |
| 2023 and thereafter | —         | —         | —         | 100.000 % |

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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Prior to August 15, 2020, the Company may redeem the 2024 Notes with cash proceeds from any equity offering at a redemption price of 107.250%, plus accrued but unpaid interest, if any, up to but not including the applicable redemption date, in an aggregate principal amount for all such redemptions not to exceed 40% of the original aggregate principal amount of such Senior Notes (including any additional notes): provided that (1) in each case the redemption takes place not later than 180 days after the consummation of the related equity offering, and (2) not less than 60% of the original aggregate principal amount of such Senior Notes (including any additional notes) issued under the applicable indenture remains outstanding immediately after such redemption (excluding the aggregate principal amount of all Senior Notes of such series, then held by the Issuers or any of their restricted subsidiaries). If a change of control occurs, the holders of each series of the Senior Notes will have the right to require the Company to repurchase their Senior Notes, in whole or in part, at a purchase price of 101% of the principal amount of such Senior Notes, plus accrued and unpaid interest, if any, to the date of repurchase. If the Company sells certain assets and the net cash proceeds are not applied as permitted under the indenture governing such Senior Notes, the Company may have to use such proceeds to offer to purchase some of such Senior Notes at 100% of the principal, plus accrued and unpaid interest, if any, to the date of repurchase.

On August 3, 2017 JFIN refinanced its \$215.0 million senior secured term loan into a new \$250.0 million senior secured term loan. The debt under the seven-year term loan is secured by a first lien security interest in unrestricted cash and loan receivables not encumbered by other facilities, and is subject to certain negative covenants. As of November 30, 2017 and 2016, \$1.0 billion and \$1.2 billion, respectively, of loans were pledged as collateral to the term loan. In connection with the refinancing, \$1.2 million of original issue discount and \$2.0 million of structuring fees were accelerated for the year ended November 30, 2017 and are included in interest expense in the Consolidated Statements of Earnings.

Interest expense related to Long-term debt was \$125.3 million, \$114.9 million and \$110.7 million for the years ended November 30, 2017, 2016 and 2015, respectively.

Deferred Structuring Fees--Deferred structuring fees in aggregate were \$25.9 million and \$21.4 million as of November 30, 2017 and 2016, respectively and are included in Long-term debt, net on the Consolidated Balance Sheets. Amortization of deferred structuring fee expense was \$7.6 million, \$5.3 million and \$4.9 million for the years ended November 30, 2017, 2016 and 2015, respectively, and is included in Interest expense in the Consolidated Statements of Earnings. After retrospectively applying ASU, No. 2015-03, the Company reclassified approximately \$21.4 million in deferred financing fees as of November 30, 2016 previously included within Other assets to Long-term debt, net in the accompanying consolidated Balance Sheets.

Original Issue Discount--The unamortized original issue discount of \$0.6 million and \$1.5 million as of November 30, 2017 and November 30, 2016, respectively, was included within Long-term debt, net on the Consolidated Balance Sheets. The amortization of the original issue discount was \$1.5 million and \$0.4 million, \$0.2 million for the years ended November 30, 2017, 2016, and 2015, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

**12. FEE INCOME, NET**

The Company presents fee income net of origination, syndication and deferred underwriting fees in the Consolidated Statements of Earnings. The following is a summary of the components of Fee income, net for the years ended November 30, 2017, 2016 and 2015 (in thousands):

|                   | 2017      | 2016      | 2015      |
|-------------------|-----------|-----------|-----------|
| Underwriting fees | \$625,754 | \$262,933 | \$410,611 |

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|                                        |            |           |            |
|----------------------------------------|------------|-----------|------------|
| Administration fees                    | 8,399      | 9,508     | 8,745      |
| Other fees                             | 61,024     | 52,104    | 44,056     |
|                                        | 695,177    | 324,545   | 463,412    |
| Less:                                  |            |           |            |
| Deferred underwriting fees             | (113,179 ) | (72,227 ) | (56,026 )  |
| Jefferies LLC fees, net <sup>(1)</sup> | (279,337 ) | (99,013 ) | (130,958 ) |
| Third party fees                       | (32,638 )  | (22,949 ) | (105,749 ) |
| Fee income, net                        | \$270,023  | \$130,356 | \$170,679  |

(1)Jefferies LLC is a wholly owned subsidiary of JGL.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

November 30, 2017 and 2016

## 13. OTHER GAINS (LOSSES), NET

The following summarizes Other gains (losses), net for the years ended November 30, 2017, 2016 and 2015 (in thousands):

|                                                     | 2017     | 2016       | 2015       |
|-----------------------------------------------------|----------|------------|------------|
| Realized gain (loss) on sale of loans held for sale | \$6,467  | \$(34,545) | \$(9,610 ) |
| Change in fair value of loans held for sale         | (4,634 ) | (8,267 )   | (1,552 )   |
| Realized gain (loss) on investments                 | 1,047    | (24,597 )  | (2,437 )   |
| Unrealized gain (loss) on investments               | 1,863    | (8,139 )   | (5,218 )   |
| Dividends                                           | 1,937    | —          | 2,177      |
| Other gains (losses), net                           | \$6,680  | \$(75,548) | \$(16,640) |

## 14. INCOME TAXES

Under current federal and state income tax laws and regulations, the Company is treated as a partnership for tax reporting purposes and is generally not subject to income taxes. Additionally, no provision has been made for federal, state, or local income taxes on the results of operations generated by partnership activities; as such taxes are the responsibility of its Members. However, the Company is subject to certain state and local entity level income taxes, including New York City Unincorporated Business Tax. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The Company follows the provisions of accounting for uncertainty in income taxes which prescribes a recognition threshold under which it is determined whether it is more likely than not that a tax position will be sustained on the basis of the technical merits of the position. For those tax positions that meet the more-likely-than-not recognition threshold, the largest amount of the tax benefit that is more than fifty percent likely to be realized upon ultimate settlement with the tax authority is recognized.

Income tax expense (benefit) for the years ended November 30, 2017, 2016 and 2015 consists of the following (in thousands):

|                 | 2017    | 2016      | 2015    |
|-----------------|---------|-----------|---------|
| Current--local  | \$5,750 | \$(1,569) | \$4,025 |
| Deferred--local | 550     | 55        | (604 )  |

Total income tax expense (benefit) \$6,300 \$(1,514) \$3,421

Deferred income taxes are provided for temporary differences in reporting certain items, principally the allowance for loan losses and deferred loan fees. The Company had a net deferred tax asset of \$4.9 million and \$5.4 million as of November 30, 2017 and 2016, respectively, included in Other assets on the Consolidated Balance Sheets.

For the years ended November 30, 2017 and 2016, the Company concluded, based upon its assessment of positive and negative evidence, that it is more likely than not that the results of future operations will generate sufficient taxable income to realize its deferred tax assets. Accordingly, the Company did not record a valuation allowance as of November 30, 2017 and 2016.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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The Company's effective tax rate was 3.4%, 4.2% and 4.0% for the years ended November 30, 2017, 2016 and 2015, respectively. The Company's effective tax rate for the years ended November 30, 2017 and 2016 differed from the New York City statutory rate of 4.0%, primarily due to the exclusion of foreign income and losses not subject to tax in the United States and the apportioning of revenues for state tax purposes.

The Company had a current income tax payable balance of \$20.2 million and \$14.6 million as of November 30, 2017 and 2016, respectively, included in Other liabilities on the Consolidated Balance Sheets.

The balance of net unrecognized tax benefits was \$23.1 million and \$19.1 million as of November 30, 2017 and 2016, respectively. Interest related to income tax liabilities is recognized in income tax expense (benefit) in the Consolidated Statements of Earnings. Penalties, if any, are recognized in general administrative and other in the Consolidated Statements of Earnings. The Company has interest accrued of approximately \$4.0 million and \$2.4 million as of November 30, 2017 and 2016, respectively. No material penalties have been accrued.

The Company is currently under examination by New York City for the years 2006 to 2009. The Company does not expect that the resolution of this examination will have a material impact on the Consolidated Financial Statements. The Company is subject to examination for the years starting 2010.

15. RELATED PARTY TRANSACTIONS

JGL--On July 20, 2017, JGL increased its capital commitment by \$150.0 million bringing its total equity capital commitment to \$750.0 million. On August 1, 2017, JGL contributed additional capital of \$74.8 million. The undrawn capital commitment available to JFIN from JGL as of November 30, 2017 and 2016 was \$113.8 million and \$106.1 million, respectively.

JFIN owed JGL \$0.4 million as of November 30, 2017 and 2016, related to interest payable on the Members' Fronting Line, which was recorded in Due to affiliates on the Consolidated Balance Sheets. Interest expense on the Members' Fronting Line for JGL was \$3.5 million and \$1.3 million, \$2.5 million for the years ended November 30, 2017, 2016, and 2015, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

JGL provided a guarantee to one of the consolidated CLOs, whereby Jefferies was required to make certain payments to the CLO in the event that JFIN was unable to meet its obligations. As of November 30, 2016 there was \$2.9 million outstanding of the maximum amount payable under the guarantee which matures in January 2021. In October 2017, the related VFN note was redeemed in full and the guaranty terminated.

Mass Mutual--On July 20, 2017, Mass Mutual increased its capital commitment by \$150.0 million bringing its total equity capital commitment to \$750.0 million. On August 1, 2017, Mass Mutual contributed additional capital of \$74.8 million. The undrawn capital commitment available to JFIN from Mass Mutual as of November 30, 2017 and 2016 was \$113.8 million and \$106.1 million, respectively.

JFIN owed Mass Mutual \$0.4 million as of November 30, 2017 and 2016, related to interest payable on the Members' Fronting Line, which was recorded in Due to affiliates on the Consolidated Balance Sheets. Interest expense on the Members' Fronting Line for Mass Mutual was \$3.2 million and \$1.3 million, \$2.5 million for the years ended November 30, 2017, 2016, and 2015, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

Mass Mutual has also provided JFIN's direct lending subsidiary, JFAM access to capital to invest on their behalf and paid \$0.4 million and \$0.2 million for the years ending November 30, 2017 and 2016, respectively, in management fees to JFAM.

BCM--BCM is the subadvisor to one of the Company's CLOs and is entitled to receive management and incentive fees, which are included in General, administrative and other in the Consolidated Statements of Earnings.

Below is a summary of management fees earned by BCM for the years ended November 30, 2017, 2016 and 2015 (in thousands):

|                                          | 2017    | 2016    | 2015    |
|------------------------------------------|---------|---------|---------|
| Babson Service Agreement management fees | \$—     | \$—     | \$2,527 |
| Collateral management fees               | 2,807   | 1,488   | 5,504   |
| Total management fees charged by BCM     | \$2,807 | \$1,488 | \$8,031 |

JFIN owed BCM approximately \$0.2 million related to collateral management fees as of November 30, 2017 and 2016, which is recorded in Due to affiliates on the Consolidated Balance Sheets.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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Jefferies LLC--Under the Jefferies Service Agreement, Jefferies LLC ("Jefferies"), a wholly owned subsidiary of JGL, is required to provide specifically identified staff for the benefit of the Company. Also, under the agreement, JFIN is required to reimburse Jefferies for administration, rent, taxes and origination fees as well as any other services performed in the support of loan origination activities. During March 2016, the Jefferies Service Agreement was amended in conjunction with the restructuring of certain personnel. JFIN shifted underwriting staff to Jefferies and modified the cost sharing arrangement in the service agreement. JFIN continues to retain management of the underwriting process and the approval of any transaction is subject to JFIN's credit committee.

Below is a summary of expenses paid by Jefferies on behalf of JFIN for the years ended November 30, 2017, 2016 and 2015 (in thousands):

|                                           | 2017     | 2016     | 2015     |
|-------------------------------------------|----------|----------|----------|
| Compensation and benefits                 | \$24,222 | \$28,919 | \$39,121 |
| Administration expenses                   | 22,938   | 13,935   | 5,827    |
| Occupancy expenses                        | 2,928    | 2,999    | 2,670    |
| New York City Unincorporated Business Tax | 291      | 347      | 3,362    |
| Expenses charged by Jefferies             | \$50,379 | \$46,200 | \$50,980 |

The Company's operating costs are paid by Jefferies and are included in Compensation and benefits and General, administrative and other in the Consolidated Statements of Earnings. Compensation and benefit costs include salaries, bonuses, retirement and medical insurance plan costs, of which certain amounts are deferred as direct loan origination costs.

All benefit plans that the employees participate in are provided by Jefferies. Therefore, benefit plan expenses are determined based upon participation and are reflected through an allocation from Jefferies to the Company.

Administration and occupancy expenses are included in General, administrative and other. The Company reimburses Jefferies for all compensation, administration, occupancy and other amounts paid by Jefferies on behalf of the Company on a monthly basis.

Under the Jefferies Service Agreement, JFIN receives from and pays to Jefferies fees on certain transactions originated by Jefferies. Net origination fees were \$279.3 million, \$99.0 million and \$131.0 million for the years ended November 30, 2017, 2016 and 2015, respectively, and are recorded in Fee income, net, in the Consolidated Statements of Earnings.

In the regular course of business, JFIN enters into agreements, related to specific transactions, with Jefferies and/or JGL to provide certain operational support, subsidies for loans, reimbursement of expenses, or to mitigate potential losses on transactions.

JFIN owed Jefferies \$34.1 million and \$23.0 million at November 30, 2017 and 2016, respectively, which were recorded in Due to affiliates on the Consolidated Balance Sheets.

Additionally, JFIN had cash on deposit at Jefferies totaling \$14.1 million and \$30.0 million at November 30, 2017 and 2016, respectively.

At November 30, 2017 and November 30, 2016, JGL provides guarantees of the obligations of certain of its subsidiaries that own variable funding notes issued by certain CLOs, whereby such subsidiary is required to make certain payments to such CLO in the event that JFIN is unable to meet its obligations under such CLO. Additionally, JFP and Jefferies Funding LLC (JFL) have entered into derivative contracts or participation agreements with JFIN

whose underlying value is based on certain securities issued by certain CLOs. Under these contracts, JFIN paid approximately \$4.8 million and \$5.7 million to JFP and JFL, respectively. Refer to Note 6, Investments, and Note 7, Financial Instruments at Fair Value.

In connection with the issuance of the Senior Notes, Jefferies acted as underwriter. Jefferies also acted as a placement agent and underwriter for certain CLOs and holds a portion of certain secured notes.

On January 27, 2016, JFIN CLO 2016 entered into a \$250.0 million CLO WH warehouse financing arranged by Jefferies Leveraged Credit Products LLC. The warehouse was terminated on August 10, 2016 when the assets were contributed into the CLO. On September 21, 2016, JFIN CLO 2016-II entered into a \$200.0 million CLO WH warehouse financing arranged by Jefferies Leveraged Credit Products LLC. The warehouse was terminated on February 24, 2017 when the assets were contributed into the CLO. On August 4, 2017, Apex Credit CLO 2017-III WH entered into a \$250.0 million CLO WH warehouse financing arranged by Jefferies Leveraged Credit Products LLC.

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JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

November 30, 2017 and 2016

16. LOAN COMMITMENTS

From time to time, the Company makes commitments to extend revolving lines of credit and delayed draw term loans to borrowers. These commitments are not recorded on the Consolidated Balance Sheets. Once drawn, the funded amounts can be pledged as collateral under the Company's credit facilities. As of November 30, 2017 and 2016, the Company had undrawn commitments of \$1.9 billion and \$1.6 billion, respectively. As of November 30, 2017, the Company, through CLOs, had the capacity to fund \$1.0 billion of revolving commitments. In addition, \$226.8 million of revolving commitments were held in a credit facility subject to equity requirements. As of November 30, 2017 and 2016, these commitments had maturity dates through October 2024 and November 2023, respectively. For the years ended November 30, 2017, 2016 and 2015, the Company earned unfunded fees of \$13.0 million, \$11.5 million and \$12.0 million, respectively. These amounts are included in Fee income, net in the Consolidated Statements of Earnings.

In addition, during the normal course of business, the Company extends commitments to underwrite loan products. As of November 30, 2017, the Company had \$2.6 billion of commitments to these credit facilities, of which \$0.6 billion had been syndicated to third parties. As of November 30, 2016, the Company had \$1.2 billion of commitments to these credit facilities, of which \$0.2 billion had been syndicated to third parties.

17. CONCENTRATIONS OF CREDIT RISK

In the normal course of business, the Company engages in commercial lending activities with borrowers primarily throughout the United States. As of November 30, 2017, there was no borrower whose individual outstanding loan balance represented 5% or more of all loan balances. As of November 30, 2016, there was one borrower whose individual outstanding loan balance represented 7% of all loan balances. As of November 30, 2017, healthcare, business services, retail, and hotel, gaming and leisure were the largest industry concentrations, which made up approximately 13%, 11%, 10%, and 8%, respectively, of all loan balances. As of November 30, 2016, healthcare, retail, automotive and business services were the largest industry concentrations, which made up approximately 20%, 9%, 9% and 7%, respectively, of all loan balances. Loans balances include Loans receivable and Loans held for sale.

\* \* \* \* \*