

Jefferies Group LLC  
Form 10-K  
January 29, 2019  
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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, 2018  
Commission file number 1-14947

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

Delaware (State or other jurisdiction of incorporation or organization)	95-4719745 (I.R.S. Employer Identification No.)
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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:
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5.125% Senior Notes Due 2023	New York Stock Exchange
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4.850% Senior Notes Due 2027	New York Stock Exchange
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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 every Interactive Data File required to be submitted 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 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 filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

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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, 2018.

The Registrant is a wholly-owned subsidiary of Jefferies Financial Group Inc. 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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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 investment banking and securities firm. Our largest subsidiary, Jefferies LLC, was founded in the U.S. in 1962 and our first international operating subsidiary, Jefferies International Limited, was established in the U.K. in 1986. On March 1, 2013, we combined with and became an indirect wholly owned subsidiary of publicly traded Jefferies Financial Group Inc. (“Jefferies”), formerly known as Leucadia National Corporation. Richard Handler, our Chief Executive Officer and Chairman, is Chief Executive Officer of Jefferies and Brian P. Friedman, our Chairman of the Executive Committee, is President of Jefferies. Messrs. Handler and Friedman are also Directors of Jefferies.

At November 30, 2018, we had 3,596 employees in the Americas, Europe 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 221-284-2550 or by sending an email to 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 operate across the spectrum of equities, fixed income and foreign exchange products. Related services include, among other things, prime brokerage and equity finance, research and strategy, corporate lending and real estate finance, as well as other principal and corporate investing activities.

Asset Management provides investment management services to investors in the U.S. and overseas and makes capital investments in managed funds and accounts.

Financial information regarding our reportable business segments for the years ended November 30, 2018, 2017 and 2016 is set forth in Note 19, 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 Investment Banking, Equities and Fixed Income. We primarily serve institutional investors, corporations and government entities.



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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 900 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; Media, Communications & Information Services; Real Estate, Gaming & Lodging; Technology; 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, Sydney, Tokyo and Zurich.

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.

Corporate Lending

Jefferies Finance LLC (“Jefferies Finance”), our 50/50 joint venture with Massachusetts Mutual Life Insurance Company, is a commercial finance company that structures, underwrites and syndicates primarily senior secured loans to corporate borrowers and manages proprietary and third-party investments in middle market and broadly syndicated loans. Since its inception in 2004, Jefferies Finance has served as lead arranger of over 950 transactions representing over \$195 billion in arranged volume. Jefferies Finance conducts its operations primarily through two business lines, Leveraged Finance Arrangement and Portfolio and Asset Management. Its Leveraged Finance Arrangement business line participates in transactions typically ranging from \$250 million to \$1.5 billion for borrowers generating between \$50 million and \$300 million of annual Earnings before interest, taxes, depreciation and amortization. Jefferies Finance typically syndicates to third party investors substantially all of its arranged volume. Its Portfolio and Asset Management business line manages a broad portfolio comprised of portions of loans it has arranged as well as loan positions that it has purchased in the primary and secondary markets. The Portfolio and Asset Management business is comprised of three registered Investment Advisers: Jefferies Finance, Apex Credit Partners LLC and JFIN Asset Management LLC. Jefferies Finance manages its investments in cash flow and traditional asset-based revolving credit. Apex Credit Partners LLC manages collateralized loan obligations which invest in predominately broadly syndicated loans. JFIN Asset Management LLC manages proprietary and third-party investments in middle market loans held in private funds and separately managed accounts.

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; and Asia Pacific. Our clients are primarily institutional market participants such as mutual funds, hedge funds, investment advisers, 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 which we maintain alliances.



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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 and credit derivative products, as well as foreign exchange trade execution and securitization capabilities. Jefferies LLC 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.

Other

We also make principal investments in private equity and hedge funds managed by third parties as well as, from time to time, take on strategic investment positions. Additionally, on October 1, 2018 Jefferies transferred to us its investment in Berkadia Commercial Mortgage Holding LLC ("Berkadia"). Berkadia is our 50/50 joint venture with Berkshire Hathaway, Inc. that provides capital solutions, investment sales advisory and mortgage servicing for multifamily and commercial real estate. Berkadia originates commercial real estate loans, primarily in respect of multifamily housing units, for Fannie Mae, Freddie Mac and the Federal Housing Authority using their underwriting guidelines and will typically sell the loans to such entities shortly after the loans are funded with Berkadia retaining the mortgage servicing rights. For loans sold to Fannie Mae, Berkadia assumes a shared loss position throughout the term of each loan, with a maximum loss percentage of approximately one-third of the original principal balance. Berkadia also originates and brokers commercial/multifamily mortgage loans, which are not part of the government agency programs.

In addition, Berkadia originates loans for its own balance sheet. These loans provide interim financing to borrowers who intend to refinance the loan with longer-term loans from an eligible government agency or other third party. Berkadia also provides services related to the acquisition and disposition of multifamily real estate projects, including brokerage services, asset review, market research, financial analysis and due diligence support and is a servicer of U.S. commercial real estate loans, performing primary, master and special servicing functions for U.S. government agency programs, commercial mortgage-backed securities transactions, banks, insurance companies and other

financial institutions. Berkadia is required under its servicing agreements to maintain certain minimum servicer ratings or qualifications from the rating agencies. These ratings currently exceed the minimum ratings required by the related servicing agreements.

#### Asset Management

We manage, invest in and provide services to a diverse group of alternative asset management platforms across a spectrum of investment strategies and asset classes, many of these under the Leucadia Asset Management (“LAM”) umbrella. We are supporting and developing focused strategies managed by distinct management teams. Our products are currently offered by Jefferies investment advisers to pension funds, insurance companies, sovereign wealth funds, and other institutional investors through various platforms.

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We continue to expand our asset management efforts, including the formation of strategic relationships with Weiss Multi-Strategy Advisers LLC and Schonfeld Strategic Advisors LLC. We invested \$250 million in Weiss' strategy and own a profit share in the firm for the first year and a revenue share thereafter. In addition, we entered into an agreement with Schonfeld to merge the business of Folger Hill Asset Management with Schonfeld's fundamental equities business, under the Schonfeld brand. In connection with the transaction, LAM agreed to make a \$250 million investment in the combined strategy, and will receive a revenue share in the combined ongoing fundamental equity business. This transaction closed on January 1, 2019.

On October 1, 2018, Jefferies transferred to us capital investments in certain separately managed accounts and funds.

**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, commodity options and swaps). In addition, the Financial Industry Regulatory Authority, Inc. ("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 LLC's activities as a broker-dealer is FINRA, and the designated self-regulatory organization for Jefferies LLC's non-clearing FCM activities is the NFA. Financial services businesses are also subject to regulation and examination by state securities commissions and attorneys general in those states in which they do business.

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 and requirements, anti-money laundering efforts, recordkeeping and the conduct of broker-dealer personnel including officers and employees. Registered investment advisers are subject to, among other requirements, SEC regulations concerning marketing, transactions with affiliates, custody of client assets, disclosures to clients, conflict of interest, insider trading and recordkeeping; and investment advisers 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 commodity options, 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, commodity trading advisors, commodity pool operators 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 LLC, its affiliates, including affiliated investment advisers, as well as its and their officers and employees (including, without limitation, injunctions, censures, fines, suspensions, directives that impact business operations (including proposed expansions), 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, swap execution facilities 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 LLC 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 LLC is

subject to the SEC's Uniform Net Capital Rule (the "Net Capital Rule"). Jefferies LLC 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 LLC's 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 LLC is required to maintain minimum adjusted net capital of \$1.0 million.

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Our subsidiaries that are provisionally registered swap dealers will become subject to capital requirements under Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act (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 18, 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, German Federal Financial Supervisory Authority, Investment Industry Regulatory Organization of Canada, 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.

Legislation and new and pending regulation may significantly affect our business.

There is significant legislation and 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.

The Dodd-Frank Act and the rules and regulations already adopted by the CFTC and still 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 derivatives. Two of our subsidiaries are provisionally registered as swap dealers with the CFTC and are members of the NFA. We may also be required in the future to register one or more additional subsidiaries as security-based swap dealers with the SEC. In this regard, a number of key rules applicable to security-based swap dealers, such as those relating to capital, margin, and segregation, have not yet been adopted by the SEC and, depending on the final rules relating thereto, may require substantial costs and impose significant burdens. Title VII and related impending regulations subject certain swaps and security-based swaps to mandatory clearing and exchange trading requirements and subject swap dealers and security-based swap dealers to significant entity and transaction requirements. Pursuant to regulations adopted by the CFTC and bank regulations, swap dealers are required to post and collect variation margin (comprised of specified liquid instruments and subject to a haircut) in connection with the trading of un-cleared swaps. We have already incurred significant compliance and operational costs as a result of the Dodd-Frank Act swap business conduct rules and mandatory variation margin, and when all the final rules contemplated by Title VII have been implemented, our swap dealer entities will also be subject to mandatory capital

requirements that will likely have an effect on our business. The CFTC has adopted many regulations relating to swap dealers and swaps transactions, but a number of them have only recently become effective and certain requirements remain to be finalized. 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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

The European Market Infrastructure Regulation (“EMIR”) relating to derivatives entered into force during August 2012 and 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 (“GDPR”) came into force replacing the EU Data Protection Directive. The changes imposed by the GDPR 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.

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

We are subject to extensive laws, rules and regulations in the countries in which we operate. Firms that engage in providing financial services 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 many aspects of providing financial services.

Our regulators supervise our business activities to monitor compliance with applicable laws, rules and regulations. In addition, if there are instances in which our regulators question our compliance with laws, rules, or 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 investigations 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, or that such investigations and similar reviews will not result in significant or material adverse regulatory requirements, regulatory enforcement actions, fines or other adverse impact to the operation of our business.

Additionally, violations of 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 investment advisers 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.



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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. In particular, the increasing trend toward sovereign protectionism and deglobalization resulting from the current populist political movement has resulted or could result in decreases in free trade, erosion of traditional international coalitions, the imposition of sanctions and tariffs, governmental closures and no-confidence votes, domestic and international strife, and general market upheaval in response to such results, all of which could negatively impact our business.

• 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.

• Adverse changes in the market could lead to regulatory restrictions that may limit or halt certain of our business activities.

• 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.

• 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 implementing plans to ensure our continued ability to operate in the U.K. and the EU beyond the expected exit date.

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

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted. This 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 remains unclear in certain respects and will require final interpretations and 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 remains unclear and could have an adverse impact on our financial condition, results of operations and cash flows. If our tax filing positions were to be challenged by federal, state and local foreign tax jurisdictions, we may not be wholly successful in defending our tax filing positions.

We record reserves for unrecognized tax benefits based on our assessment of the probability of successfully sustaining tax filing positions. Management exercises significant judgment when assessing the probability of successfully sustaining tax filing positions, and in determining whether a contingent tax liability should be recorded and, if so, estimating the amount. If our tax filing positions are successfully challenged, payments could be required that are in excess of reserved amounts or we may be required to reduce the carrying amount of our net deferred tax asset, either of which result could be significant to our financial condition or results of operations.

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.

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, derivative contracts 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.

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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.

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.

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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 and complexity 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.

Any cyber attack or other security breach of our technology systems, or those of our clients or other third-party vendors we rely on, could subject us to significant liability and harm our reputation.

Our operations rely heavily on the secure processing, storage and transmission of sensitive and confidential financial, personal and other information in our computer systems and networks. There have been several highly publicized cases involving financial services companies reporting the unauthorized disclosure of client or other confidential information in recent years, as well as cyber attacks involving theft, dissemination and destruction of corporate information or other assets, in some cases as a result of failure to follow procedures by employees or contractors or as a result of actions by third parties. Like other financial services firms, we have been the target of attempted cyber attacks. Cyber attacks can originate from a variety of sources, including third parties affiliated with foreign governments, organized crime or terrorist organizations. Third parties may also attempt to place individuals within our firm or induce employees, clients or other users of our systems to disclose sensitive information or provide access to our data, and these types of risks may be difficult to detect or prevent. Although cybersecurity incidents among financial services firms are on the rise, we are not aware of any material losses relating to cyber attacks or other information security breaches. However, the techniques used in these attacks are increasingly sophisticated, change

frequently and are often not recognized until launched. Although we seek to maintain a robust suite of authentication and layered information security controls, these controls could fail to detect, mitigate or remediate these risks in a timely manner. Despite our implementation of protective measures and endeavoring to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to human error, natural disasters, power loss, spam attacks, unauthorized access, distributed denial of service attacks, computer viruses and other malicious code, and other events that could result in significant liability and damage to our reputation, and have an ongoing impact on the security and stability of our operations.



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We also rely on numerous third-party service providers to conduct other aspects of our business operations, and we face similar risks relating to them. While we regularly conduct security assessments on these third-party vendors, we cannot be certain that their information security protocols are sufficient to withstand a cyber attack or other security breach. In addition, in order to access our products and services, our customers may use computers and other devices that are beyond our security control systems and processes.

Notwithstanding the precautions we take, if a cyber attack or other information security breach were to occur, this could jeopardize the information we confidentially maintain, or otherwise cause interruptions in our operations or those of our clients and counterparties, exposing us to liability. As attempted attacks continue to evolve in scope and sophistication, we may be required to expend substantial additional resources to modify or enhance our protective measures, to investigate and remediate vulnerabilities or other exposures or to communicate about cyber attacks to our customers. Though we have insurance against some cyber risks and attacks, we may be subject to litigation and financial losses that exceed our policy limits or are not covered under any of our current insurance policies. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to potential disciplinary action by regulators. Additionally, the SEC issued guidance in February 2018 stating that, as a public company, we are expected to have controls and procedures that relate to cybersecurity disclosure, and are required to disclose information relating to certain cyber attacks or other information security breaches in disclosures required to be made under the federal securities laws. Further, successful cyber attacks at other large financial institutions or other market participants, whether or not we are affected, could lead to a general loss of customer confidence in financial institutions that could negatively affect us, including harming the market perception of the effectiveness of our security measures or the financial system in general, which could result in a loss of business.

Further, in light of the high volume of transactions we process, the large number of our clients, partners and counterparties, and the increasing sophistication of malicious actors, a cyber attack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber attack would take substantial amounts of time, and that there may be extensive delays before we obtain full and reliable information. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered. All of which would further increase the costs and consequences of such an attack.

We may also be subject to liability under various data protection laws. In providing services to clients, we manage, utilize and store sensitive or confidential client or employee data, including personal data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as U.S. federal, state and international laws governing the protection of personally identifiable information. These laws and regulations are increasing in complexity and number. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to client or employee data, or otherwise mismanages or misappropriates such data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution. In addition, unauthorized disclosure of sensitive or confidential client or employee data, whether through system failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients and related revenue. Potential liability in the event of a security breach of client data could be significant. Depending on the circumstances giving rise to the breach, this liability may not be subject to a contractual limit or an exclusion of consequential or indirect damages.

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.

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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.

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.

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, 2018 (“2018”), November 30, 2017 (“2017”) and November 30, 2016 (“2016”) are discussed below.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Consolidated Results of Operations

## Provisional Tax Charge

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. We incurred a provisional tax charge of \$163.7 million in the three months ended February 28, 2018, as a result of the enactment of the Tax Act. This provisional estimate was slightly adjusted in the subsequent quarters of 2018, which resulted in a total provisional tax charge of \$165.1 million during the year ended November 30, 2018. Of this amount, \$112.7 million relates to the write down of our deferred tax asset, reflecting the impact of a lower federal tax rate of 21% on our deferred tax items. The remaining part of the provisional charge relates to a toll charge on the deemed repatriation of unremitted foreign earnings. Additionally, income tax expense for the year ended November 30, 2018 has been impacted due to certain tax planning actions taken with respect to our non-U.S. subsidiaries as a result of the Tax Act. We continue to obtain and analyze additional information and guidance as it becomes available to complete our accounting for the tax impact related to the Tax Act. The provisional accounting charge may change until the accounting analysis is finalized, which will occur in the first quarter of fiscal 2019, as permitted by Staff Accounting Bulletin No. 118 (“SAB 118”), which was issued by the Securities and Exchange Commission (“SEC”) staff on December 22, 2017. Refer to Note 16, Income Taxes, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the Tax Act and SAB 118.

## Overview

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

	2018	2017	2016	% Change from Prior Year	
				2018	2017
Net revenues	\$3,183,376	\$3,198,109	\$2,414,614	(0.5 )%	32.4 %
Non-interest expenses	2,773,709	2,693,185	2,384,642	3.0 %	12.9 %
Earnings before income taxes	409,667	504,924	29,972	(18.9 )%	1,584.7 %
Income tax expense	250,650	147,340	14,566	70.1 %	911.5 %
Net earnings	159,017	357,584	15,406	(55.5 )%	2,221.1 %
Net earnings (loss) attributable to noncontrolling interests	256	86	(28 )	197.7 %	N/M
Net earnings attributable to Jefferies Group LLC	158,761	357,498	15,434	(55.6 )%	2,216.3 %
Effective tax rate	61.2	% 29.2	% 48.6	% 109.6 %	(39.9 )%

N/M — Not Meaningful

## Impact of Adopting Revenue Recognition Guidance

On December 1, 2017, we adopted Accounting Standards Update No. 2014-9, Revenue from Contracts with Customers (the “new revenue standard”), which provides accounting guidance on the recognition of revenues from contracts with customers and impacts the presentation of certain revenues and expenses in our Consolidated Statements of Earnings. The new revenue standard has been applied prospectively from December 1, 2017 and reported financial information for historical comparable periods have not been revised. The adoption of the new revenue standard resulted in a reduction of beginning Member’s paid in capital of \$6.1 million after-tax as a cumulative effect of adoption of an accounting change. The impact of adoption is primarily related to investment banking expenses that were deferred at November 30, 2017 under the previously existing accounting guidance, which would have been expensed in prior periods under the new revenue standard, and investment banking revenues that were previously recognized in prior periods, which would have been deferred at November 30, 2017 under the new revenue standard.

The new revenue guidance does not apply to revenue associated with financial instruments, including loans and securities, 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 transactions revenues, Interest income and Interest expense.

There is no significant impact as a result of applying the new revenue standard to our results of operations for the year ended November 30, 2018, except as it relates to the presentation of certain investment banking expenses. Investment banking revenues had historically been recorded net of related out-of-pocket deal expenses directly related to investment banking engagements. Under the new revenue standard, all investment banking expenses are recognized within their respective expense category in our Consolidated Statement of Earnings and any expense reimbursements are recognized as Investment banking revenues (i.e., revenues are no longer presented net of the related out-of-pocket deal expenses). Expenses directly associated with underwriting activities are recorded to a new non-compensation expense line item: "Underwriting costs". The impact of this change in presentation is an identical increase in both Investment banking revenues and Total non-compensation expenses for the year ended November 30, 2018 of \$131.8 million. This change in presentation has no impact on Net earnings.

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Refer to Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K, for further information.

Executive Summary

2018 Compared with 2017

Consolidated Results

Net revenues for 2018 were \$3,183.4 million, compared with \$3,198.1 million for 2017, a decrease of \$14.7 million, or 0.5%. A decline in our fixed income sales and trading and other net revenues was offset by an increase of \$129.8 million in investment banking revenues, although our investment banking net revenues in 2018 included \$131.8 million in net revenues as a result of the new revenue standard. (Refer to “Impact of Adopting Revenue Recognition Guidance” herein and Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the new revenue standard.)

Our results for 2018 reflect record equity capital markets and advisory net revenues.

Our 2017 results included a net gain of \$93.4 million from our investment in KCG Holdings, Inc. (“KCG”), which was sold in July 2017.

We continued to maintain strong leverage ratios and liquidity and a strong capital base throughout 2018. See the “Liquidity, Financial Condition and Capital Resources” section herein for further information.

Business Results

Our equities net revenues had a slight decline of 1.3% for 2018 compared to 2017, as record results posted in 2018 for our overall global core sales and trading business and within the U.S., Europe and Asia Pacific regions were offset by losses in certain block positions in 2018 compared with gains in 2017.

Our fixed income net revenues for 2018 were below those for 2017, primarily due to difficult market conditions in our global investment grade credit businesses predominately in the fourth quarter of 2018. Further, performance in the first quarter of 2017 was bolstered by robust trading activity following the 2016 U.S. Presidential election, which was not repeated in the current year.

Our investment banking revenues for 2018 reflect continued strong performance in both our equity capital markets and advisory businesses, as we increased our fee market share in both businesses, as well as an increase of \$131.8 million in investment banking net revenues during the year ended November 30, 2018, as a result of the new revenue standard. Refer to “Impact of Adopting Revenue Recognition Guidance” herein and Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the new revenue standard.

Net revenues from our other business category for 2018 were \$45.3 million, compared with \$93.0 million for 2017.

Results in 2017 included a net gain of \$93.4 million from our investment in KCG, which was sold in July 2017.

Net revenues for 2018 also included losses from asset management of \$1.1 million, compared with asset management revenues of \$28.2 million for 2017.

Expenses

Non-interest expenses for 2018 increased \$80.5 million, or 3.0%, to \$2,773.7 million, compared with \$2,693.2 million for 2017, reflecting an increase in Non-compensation expenses, partially offset by a decrease in Compensation and benefits expense.

Compensation and benefits expense for 2018 was \$1,736.3 million, a decrease of \$92.8 million, or 5.1%, from 2017.

Compensation and benefits expense as a percentage of Net revenues was 54.5% for 2018, compared with 57.2% in 2017.

Non-compensation expenses for 2018 increased \$173.4 million, or 20.1%, to \$1,037.4 million, compared with \$864.1 million for 2017, primarily due to an increase of \$131.8 million mostly across Business development expenses and Underwriting costs, as a result of applying the new revenue standard to our results of operations for 2018. Refer to “Impact of Adopting Revenue Recognition Guidance” herein and Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on

Form 10-K, for further details on the new revenue standard.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Headcount

At November 30, 2018, we had 3,596 employees globally, an increase of 146 employees from our headcount of 3,450 at November 30, 2017. Our headcount increased primarily as a result of continued hiring in investment banking, as well as additions in our asset management and equities businesses.

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 then record investment banking revenues and higher equities net revenues, partially offset by lower fixed income net revenues.

Business Results

Then record investment banking revenues for 2017 reflect record debt capital markets revenues, previous 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. Our investment banking revenues also included income of \$90.8 million from our joint venture investment in Jefferies Finance LLC (“Jefferies Finance”) in 2017, compared with a loss of \$9.3 million in 2016.

Our equities net revenues improved 12.9% for 2017 compared to 2016 primarily due to gains in certain block positions in 2017 compared with losses 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.

Net revenues from our other business category for 2017 were \$93.0 million, compared with \$1.0 million for 2016.

The increase in net revenues from our other business category was primarily attributable to a net gain of \$93.4 million recognized during 2017 from our investment in KCG, compared with a net gain of \$19.6 million in 2016. KCG was sold in full on July 20, 2017.

Net revenues for 2017 also included asset management revenues of \$28.2 million, compared with \$76.3 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 expenses 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.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

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 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.

In connection with the adoption of the new revenue standard in the first quarter of 2018, we have made changes to the presentation of our “Revenues by Source” to better align the manner in which we describe and present the results of our performance with the manner in which we manage our business activities and serve our clients. We believe that the reorganization of our revenue reporting will enable us to describe our business mix more clearly and provide greater transparency in the communication of our results.

The “Results of our Operations” has historically been presented on a product basis. Prior to the first quarter of 2018, we presented “Revenues by Source” as follows: equities, fixed income, investment banking and asset management. As of the first quarter of 2018, we are reporting our “Revenues by Source” along the following business lines: equities, fixed income, investment banking, asset management and other. Additionally, the results of the investment banking business now includes a new subcategory “Other investment banking”, which contains our share of net earnings from our corporate lending joint venture, Jefferies Finance, as well as any gains and losses from any securities or loans received or acquired in connection with our investment banking efforts. Previously reported results are presented on a comparable basis in the tables below.

The following is a description of the changes that have been made:

Equities revenues now represent the activities of our core equities sales and trading, securities finance, prime brokerage and wealth management businesses. Revenues from other activities previously presented within the Equities business have been disaggregated as follows:

Our share of net earnings from our Jefferies Finance joint venture, as well as any revenues from securities and loans received or acquired in connection with our investment banking efforts, are now presented as part of our investment banking business.

Our share of net earnings from our historic Jefferies LoanCore LLC (“Jefferies LoanCore”) joint venture is presented as part of our fixed income business through its sale in October 2017.

Revenues related to our principal investments in certain private equity funds and hedge funds managed by third parties or related parties, investments in strategic ventures (including KCG through its sale in July 2017), certain other securities owned, and investments held as part of obligations under employee benefit plans, including deferred compensation arrangements, are now presented as part of our other business.

Revenue related to our capital invested in asset management funds that are managed by us is now presented within our asset management business.

Revenues from our legacy futures business and revenues associated with structured notes issued by us are now presented as part of our other business. Additionally, revenues derived from securities or loans received or acquired in connection with our investment banking efforts are now presented as part of our investment banking revenues.

Revenues from principal investments in certain private equity and asset management funds managed by related parties, which were previously presented within our asset management revenue, are now presented as part of our other business.

The changes to the manner in which we describe and disclose the performance of our business activities has no effect on our historical consolidated results of operation. This reorganization does not impact our reportable segments and we will continue to report our activities in two business segments: Capital Markets and Asset Management.

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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 “Net Revenues by Source” (dollars in thousands):

	2018		2017		2016		% Change from Prior Year	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	2018	2017
Equities	\$665,557	20.9 %	\$674,424	21.1 %	\$597,445	24.8 %	(1.3 )%	12.9 %
Fixed income	559,712	17.6	618,388	19.3	654,337	27.1	(9.5 )%	(5.5 )%
Total sales and trading	1,225,269	38.5	1,292,812	40.4	1,251,782	51.9	(5.2 )%	3.3 %
Equity (1)	454,555	14.3	344,973	10.8	235,207	9.7	31.8 %	46.7 %
Debt (1)	635,606	19.9	649,220	20.3	304,576	12.6	(2.1 )%	113.2 %
Capital markets	1,090,161	34.2	994,193	31.1	539,783	22.3	9.7 %	84.2 %
Advisory (1)	820,042	25.8	770,092	24.1	654,190	27.1	6.5 %	17.7 %
Other investment banking	3,638	0.1	19,776	0.6	(108,487 )	(4.5 )	(81.6)%	N/M
Total investment banking	1,913,841	60.1	1,784,061	55.8	1,085,486	44.9	7.3 %	64.4 %
Other	45,316	1.4	92,987	2.9	999	—	(51.3)%	9,208.0 %
Total Capital Markets	3,184,426	100.0	3,169,860	99.1	2,338,267	96.8	0.5 %	35.6 %
Asset management fees	21,214	0.7	19,224	0.6	23,711	1.0	10.4 %	(18.9 )%
Investment return	(22,264 )	(0.7 )	9,025	0.3	52,636	2.2	N/M	(82.9 )%
Total Asset Management	(1,050 )	—	28,249	0.9	76,347	3.2	N/M	(63.0 )%
Net revenues	\$3,183,376	100.0 %	\$3,198,109	100.0 %	\$2,414,614	100.0 %	(0.5 )%	32.4 %

N/M — Not Meaningful

As a result of the new revenue standard, investment banking net revenues for the year ended November 30, 2018 reflect changes to the presentation of investment banking expenses and reimbursements thereof. Prior to the first quarter of 2018, certain investment banking expenses have been presented net against investment banking revenues. This change in presentation resulted in an increase of \$131.8 million in investment banking net revenues (1) during the year ended November 30, 2018, as compared to the years ended November 30, 2017 and 2016. Refer to “Impact of Adopting Revenue Recognition Guidance” herein and Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the new revenue standard.

## Equities Net Revenue

Equities is comprised of net revenues from:

- services provided to our clients from which we earn commissions or spread revenue by executing, settling and clearing transactions for clients;
- advisory services offered to clients;
- financing, securities lending and other prime brokerage services offered to clients; and
- wealth management services, which includes providing clients access to all of our institutional execution capabilities.

2018 Compared with 2017

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In April 2018, our core U.S. sales and trading business received top ranks from Greenwich Associates for our 2017 performance. This includes ranking #1 in electronic trading service and product quality, #1 in small and mid-cap equities trading, #3 in healthcare research and #4 in sales capability. In September 2018, we ranked #2 in U.S. Convertibles from Greenwich Associates.

Total equities net revenues were \$665.6 million for 2018, a decrease of \$8.8 million, compared with \$674.4 million for 2017.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Equities posted record results in 2018 for our overall global core sales and trading business and within the U.S., Europe and Asia Pacific regions. Our results include records for our electronic trading, equity derivatives and prime brokerage businesses. The increase in equities net revenues from our core equities sales and trading businesses was offset by losses in certain block positions in 2018 compared with gains in 2017.

The results in equities net revenues during 2018 reflect improved performance in various core global equities businesses, primarily driven by higher revenues in our equity derivatives, electronic trading and prime brokerage businesses, primarily due to higher equity volatility, overall improved market trading volumes and an increase in our commissions. This was partially offset by a decrease in our U.S. and European cash equities, convertibles and securities finance businesses, primarily due to lower customer activity. European revenues were also lower as a result of the delay in advisory payments and the impact of unbundling due to the Market in Financial Instruments Directive (“MiFID II”) regulation.

2017 Compared with 2016

Total equities net revenues were \$674.4 million for 2017, an increase of \$77.0 million compared with \$597.4 million for 2016.

Equities net revenues increased with higher revenues in our electronic trading, prime brokerage 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 derivatives and Europe cash equities businesses, primarily due to reduced market making activities and lower equity volatility. In addition, results in 2017 included certain strategic investment gains compared with losses in 2016.

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.

Fixed Income Net Revenues

Fixed income is comprised of net revenues from:

- executing transactions for clients and making markets in securitized products, investment grade, high-yield, emerging markets, municipal and sovereign securities and bank loans;
- foreign exchange execution on behalf of clients; and
- interest rate derivatives and credit derivatives (used primarily for hedging activities).

Fixed income net revenues in 2017 and 2016 also included our share of the net earnings from our joint venture investment in Jefferies LoanCore, which was 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 four years in the event Jefferies LoanCore’s yearly return on equity exceeds certain thresholds.

2018 Compared with 2017

Fixed income net revenues totaled \$559.7 million for 2018, a decrease of \$58.7 million compared with net revenues of \$618.4 million in 2017, primarily due to difficult market conditions in our global investment grade credit businesses predominately in the fourth quarter of 2018. Further, performance in the first quarter of 2017 was bolstered by robust trading activity following the 2016 U.S. Presidential election, which was not repeated in the current year.

The following highlights the main components of the results:

Revenues in our U.S. securitized markets group were significantly improved, primarily as our business continues to focus on the securitization of non-commoditized products.

Revenues in our leveraged credit business were strong as we enhanced our trading and coverage team across loans, bonds and distressed products, as well as increased results from secondary trading of floating rate loans, while balancing market risk.

Revenues declined in our global investment grade credit business as lack of volatility and higher interest rates reduced trading volumes resulting in increased competition chasing limited opportunities. During the fourth quarter, credit spreads widened and new issue activity slowed, further reducing client trading activity.

Revenues in our international securitized markets group were down due to limited market opportunities as the European Central Bank's quantitative easing program comes to an end.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Global rates revenues in 2018 declined due to uncertainty over Brexit and international economic concerns. In addition, the opportunities in the prior year, primarily in the first quarter of 2017, from volatility from the U.S. Presidential Election and European election cycles were not replicated in the current year.

Revenues in our municipal trading business were lower on reduced market activity driven by changes in federal tax legislation and the backdrop of increased interest rates dampened investor interest. The business outperformed in the prior year, as macro events drove a more favorable trading environment.

The prior year also included revenues from our share of Jefferies LoanCore, which was sold in October 2017, as well as revenues from non-core fixed income products that have now been deemphasized.

2017 Compared with 2016

Fixed income net revenues were \$618.4 million for 2017, a decrease of \$35.9 million, compared with net revenues of \$654.3 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 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.

Net revenues from our share of Jefferies LoanCore, which was sold in October 2017, increased slightly during 2017 as compared to 2016 due to an increase in loan closings and syndications.

Investment Banking Revenues

Investment banking is comprised of revenues from:

• capital markets services, which include underwriting and placement services related to corporate debt, municipal bonds, mortgage-and asset-backed securities and equity and equity-linked securities and loan syndication;

• advisory services with respect to mergers and acquisitions and restructurings and recapitalizations;

• our share of net earnings from our corporate lending joint venture Jefferies Finance; and

• securities and loans received or acquired in connection with our investment banking activities.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

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

	2018	2017	2016	% Change from	
				2018	2017
Equity (1)	\$454,555	\$344,973	\$235,207	31.8 %	46.7 %
Debt (1)	635,606	649,220	304,576	(2.1) %	113.2 %
Capital markets	1,090,161	994,193	539,783	9.7 %	84.2 %
Advisory (1)	820,042	770,092	654,190	6.5 %	17.7 %
Other investment banking	3,638	19,776	(108,487)	(81.6) %	N/M
Total investment banking	\$1,913,841	\$1,784,061	\$1,085,486	7.3 %	64.4 %

N/M — Not Meaningful

As a result of the new revenue standard, investment banking revenues for the year ended November 30, 2018 reflect changes to the presentation of investment banking expenses and reimbursements thereof. Prior to the first quarter of 2018, certain investment banking expenses have been presented net against investment banking revenues. This change in presentation resulted in an increase of \$131.8 million in investment banking net revenues (1) during the year ended November 30, 2018, as compared to the years ended November 30, 2017 and 2016. Refer to “Impact of Adopting Revenue Recognition Guidance” herein and Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the new revenue standard.

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

	Deals Completed			Aggregate Value		
	2018	2017	2016	2018	2017	2016
Public and private debt financings	969	1,121	892	\$270.1	\$292.1	\$188.6
Public and private equity and convertible offerings (1)	193	173	129	43.3	59.7	24.4
Advisory transactions (2)	195	181	179	193.9	180.6	135.2

(1) We acted as sole or joint bookrunner on 179, 164 and 125 offerings during 2018, 2017 and 2016, respectively.

(2) The number of advisory deals completed includes 15, 10 and 18 restructuring and recapitalization transactions during 2018, 2017 and 2016, respectively.

2018 Compared with 2017

Total investment banking revenues were \$1,913.8 million for 2018, including an increase of \$131.8 million in investment banking net revenues as a result of the new revenue standard. Refer to “Impact of Adopting Revenue Recognition Guidance” herein and Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the new revenue standard. Our results reflect continued strong performance in both our equity capital markets and advisory businesses, as we increased our fee market share in both businesses.

From equity and debt capital raising activities, we generated \$454.6 million and \$635.6 million in revenues, respectively, for 2018, compared with \$345.0 million and \$649.2 million in revenues, respectively, in 2017.

Other investment banking revenues were \$3.6 million for 2018, compared with \$19.8 million in 2017. The results reflect net revenues of \$98.6 million and \$90.8 million in 2018 and 2017, respectively, from our share of the profits of the Jefferies Finance joint venture, which were offset by the amortization of costs and allocated interest expense related to our investment in the Jefferies Finance business.

2017 Compared with 2016

Total investment banking revenues were a then record \$1,784.1 million for 2017, 64.4% 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.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

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.

Other investment banking revenues were \$19.8 million for 2017, compared with a loss of \$108.5 million in 2016. The results reflect net revenues of \$90.8 million and a net loss of \$9.3 million in 2017 and 2016, respectively, from our share of the profits of the Jefferies Finance joint venture, which were offset by the amortization of costs and allocated interest expense related to our investment in the Jefferies Finance business.

Other

Other is comprised of revenues from:

- strategic investments other than Jefferies Finance (such as KCG through its sale in July 2017);
- principal investments in private equity and hedge funds managed by third parties or related parties;
- investments held as part of employee benefit plans, including deferred compensation plans (for which we incur corresponding compensation expenses); and
- our legacy Futures business.

Other also includes our share of the income from Berkadia Commercial Mortgage Holding LLC (“Berkadia”) for the months of October and November 2018. On October 1, 2018, Jefferies Financial Group Inc. (“Jefferies”) transferred to us its 50% interest in Berkadia. See Note 1, Organization and Basis of Presentation and Note 9, Investments for further details on this transfer.

2018 Compared with 2017

- Net revenues from our other business category totaled \$45.3 million for 2018, a decrease of \$47.7 million compared with \$93.0 million in 2017. Results for 2017 included a net gain of \$93.4 million from our investment in KCG, which was sold in July 2017, partially offset by foreign currency gains. The results in 2018 include net revenues of \$20.0 million due to our share of income from Berkadia.

2017 Compared with 2016

Net revenues from our other business category totaled \$93.0 million for 2017, an increase of \$92.0 million compared with \$1.0 million in 2016. Results for 2017 included a net gain of \$93.4 million from our investment in KCG, compared with a net gain of \$19.6 million for 2016.

Asset Management

Asset management revenue includes the following:

- management and performance fees from funds and accounts managed by us; and
- investment income from capital invested in and managed by our asset management business and other asset managers.

In the fourth quarter of 2018, Jefferies transferred to us capital investments in certain separately managed accounts and funds. Due to this transfer, we have made changes to the presentation of our “Revenues by Source” in the fourth quarter of 2018 and are including investment income from capital invested in these separately managed accounts and funds within asset management revenues. Previously reported results are presented on a comparable basis. See Note 1, Organization and Basis of Presentation, and Note 20, Related Party Transactions, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on this transfer.

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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

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

	2018	2017	2016	% Change from Prior Year	
				2018	2017
Asset management fees:					
Equities	\$1,900	\$2,718	\$1,757	(30.1)%	54.7 %
Multi-asset	19,314	16,506	21,954	17.0 %	(24.8)%
Total asset management fees	21,214	19,224	23,711	10.4 %	(18.9)%
Investment return	(22,264)	9,025	52,636	N/M	(82.9)%
Total Asset Management	\$(1,050)	\$28,249	\$76,347	N/M	(63.0)%

N/M — Not Meaningful

## Assets under Management

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

	November 30,	
	2018	2017
Assets under management (1):		
Equities	\$130	\$218
Multi-asset	1,180	1,271
Total	\$1,310	\$1,489

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):

	2018	2017	2016	% Change from Prior Year	
				2018	2017
Compensation and benefits	\$1,736,264	\$1,829,096	\$1,568,948	(5.1 )%	16.6 %
Non-compensation expenses:					
Floor brokerage and clearing fees	189,068	179,478	167,205	5.3 %	7.3 %
Underwriting costs	64,317	—	—	N/M	N/M
Technology and communications	305,655	279,242	262,396	9.5 %	6.4 %
Occupancy and equipment rental	100,952	102,904	101,133	(1.9 )%	1.8 %
Business development	163,756	99,884	93,105	63.9 %	7.3 %
Professional services	139,885	114,711	112,562	21.9 %	1.9 %
Other	73,812	87,870	79,293	(16.0)%	10.8 %
Total non-compensation expenses	1,037,445	864,089	815,694	20.1 %	5.9 %
Total non-interest expenses	\$2,773,709	\$2,693,185	\$2,384,642	3.0 %	12.9 %

N/M — Not Meaningful

## Compensation and Benefits

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

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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 and cash-based expense for senior executive awards, 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 15, Compensation Plans, included in this Annual Report on Form 10-K, for further details on compensation and benefits.

2018 Compared with 2017

Compensation and benefits expense was \$1,736.3 million for 2018 compared with \$1,829.1 million for 2017.

Compensation and benefits expense as a percentage of Net revenues was 54.5% for 2018 and 57.2% for 2017.

Compensation expense related to the amortization of share- and cash-based awards amounted to \$302.0 million for 2018 compared with \$278.2 million for 2017.

Employee headcount was 3,596 globally at November 30, 2018, an increase of 146 employees from our headcount of 3,450 at November 30, 2017. Our headcount increased, primarily as a result of continued hiring in investment banking, as well as additions in our asset management and equities businesses.

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.

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 has 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.

Non-Compensation Expenses

2018 Compared with 2017

Non-compensation expenses were \$1,037.4 million for 2018, an increase of \$173.4 million, or 20.1%, compared with \$864.1 million for 2017.

The increase in non-compensation expenses was primarily due to a \$131.8 million increase mostly across Business development expenses and Underwriting costs, as a result of applying the new revenue standard to our results of operations for 2018. Refer to “Impact of Adopting Revenue Recognition Guidance” herein and Note 2, Summary of Significant Accounting Policies, and Note 3, Accounting Developments, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the new revenue standard. The increase was also due to an increase in Technology and communication expenses due to higher costs associated with the development of the various trading systems and our efforts to provide our professionals with modern digital tools to help them better serve our clients. The increase also includes higher Professional service expenses due to an increase in legal and consulting fees.

Non-compensation expenses as a percentage of Net revenues was 32.6% and 27.0% for 2018 and 2017, respectively.

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.



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The increase in non-compensation expenses 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.

Income Taxes

On December 22, 2017, 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 complex in their application. In addition, on December 22, 2017, the SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. Refer to Note 16, Income Taxes, in our consolidated financial statements included in this Annual Report on Form 10-K, for further details on the Tax Act and SAB 118.

2018 Compared with 2017

For 2018, the provision for income taxes was \$250.7 million, an effective tax rate of 61.2%, compared with a provision for income taxes of \$147.3 million, an effective tax rate of 29.2%, for 2017.

The increase in the effective tax rate during 2018 as compared with 2017 is primarily due to the \$165.1 million provisional tax charge related to the enactment of the Tax Act recorded in 2018. This increase in our 2018 effective tax rate was partially offset by net tax benefits arising from the expiration of certain federal and state statutes of limitations. Additionally, the effective tax rate for 2017 included net tax benefits arising from the repatriation of earnings from certain foreign subsidiaries during the year, along with their associated foreign tax credits. Excluding the provisional tax charge related to the enactment of the Tax Act, our adjusted annual effective tax rate would have been approximately 20.9%.

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.

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 discussions 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.

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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 transactions 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.

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, 2018, goodwill recorded in our Consolidated Statement of Financial Condition is \$1,642.2 million (4.0% 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, 2018.

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.

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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.

The carrying values of goodwill by reporting unit at November 30, 2018 are as follows: \$563.6 million in Investment Banking, \$160.0 million in Equities and Wealth Management, \$915.2 million in Fixed Income and \$3.4 million in Asset Management.

The results of our assessment on August 1, 2018 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 and Fixed Income reporting units 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 (“CFO”) 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.

We maintain modest leverage to support our investment grade ratings. The growth of our balance sheet is supported by our equity and we have quantitative metrics in place to monitor leverage and double leverage. Our capital plan is robust, in order to sustain our operating model through stressed conditions. We maintain adequate financial resources to support business activities in both normal and stressed market conditions, including a buffer in excess of our regulatory, or other internal or external, requirements. Our access to funding and liquidity is stable and efficient to ensure that there is sufficient liquidity to meet our financial obligations in normal and stressed market conditions.

## 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 are valued on a daily basis and we monitor and employ balance sheet limits for our various businesses.

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

	November 30,		
	2018	2017	% Change
Total assets	\$41,168.8	\$39,705.7	3.7 %
Cash and cash equivalents	5,145.9	5,164.5	(0.4 )%
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	708.0	578.0	22.5 %
Financial instruments owned	16,399.5	14,193.4	15.5 %
Financial instruments sold, not yet purchased	9,478.9	8,171.9	16.0 %
Total Level 3 assets	336.7	327.7	2.7 %
Securities borrowed	\$6,538.2	\$7,721.8	(15.3)%
Securities purchased under agreements to resell	2,785.8	3,689.6	(24.5)%
Total securities borrowed and securities purchased under agreements to resell	\$9,324.0	\$11,411.4	(18.3)%
Securities loaned	\$1,838.7	\$2,843.9	(35.3)%
Securities sold under agreements to repurchase	8,643.1	8,660.5	(0.2 )%
Total securities loaned and securities sold under agreements to repurchase	\$10,481.8	\$11,504.4	(8.9 )%

Total assets at November 30, 2018 and 2017 were \$41.2 billion and \$39.7 billion, respectively, an increase of 3.7%.

During 2018, average total assets were approximately 19.0% higher than total assets at November 30, 2018.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

Our total Financial instruments owned inventory at November 30, 2018 was \$16.4 billion, an increase of 15.5% from inventory of \$14.2 billion at November 30, 2017. Financial instruments sold, not yet purchased inventory was \$9.5 billion at November 30, 2018, an increase of 16.0% from \$8.2 billion at November 30, 2017. The increase in our total Financial instruments owned inventory and Financial instruments sold, not yet purchased inventory was primarily due to increases in corporate debt and equities securities due to the transfer to us, from Jefferies, of capital investments in certain separately managed accounts. See Note 1, Organization and Basis of Presentation and Note 20, Related Party Transactions for further details on this transaction. Excluding this transfer, the increase in Financial instruments owned inventory was due to higher mortgage- and asset-backed securities, government, federal agency and sovereign obligations and loans, partially offset by a decrease in corporate debt and equities securities within our sales and trading businesses. Excluding the increase due to the transfer, the remaining increase in Financial instruments sold, not yet purchased inventory was driven by higher derivative contracts inventory, sovereign obligations and loans, partially offset by lower corporate debt and equities securities. Our overall net inventory position was \$6.9 billion and \$6.0 billion at November 30, 2018 and 2017, respectively. Our Level 3 financial instruments owned as a percentage of total financial instruments owned declined to 2.1% at November 30, 2018 from 2.3% at November 30, 2017. 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 18.3% from November 30, 2017 to November 30, 2018, primarily due to a decrease in our matched book activity, partially offset by a decrease in the netting benefit for our collateralized financing transactions. The outstanding balance of our securities loaned and securities sold under agreements to repurchase decreased by 8.9% from November 30, 2017 to November 30, 2018, primarily due to a decrease in our match book activity, partially offset by a decrease in the netting benefit for our collateralized financing transactions. Our average month end balance of total reverse repos and stock borrows during 2018 were 57.5% higher than the November 30, 2018 balance. Our average month end balance of total repos and stock loans during 2018 were 46.6% higher than the November 30, 2018 balance.

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	
	2018	2017
Securities Purchased Under Agreements to Resell:		
Year end	\$2,786	\$3,690
Month end average	5,232	6,195
Maximum month end	7,593	7,814
Securities Sold Under Agreements to Repurchase:		
Year end	\$8,643	\$8,661
Month end average	12,704	11,273
Maximum month end	15,579	13,679

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 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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,	
	2018	2017
Total assets	\$41,168,773	\$39,705,691
Total equity	\$6,182,404	\$5,759,559
Total Jefferies Group LLC member's equity	\$6,180,493	\$5,758,822
Deduct: Goodwill and intangible assets	(1,824,638 )	(1,842,882 )
Tangible Jefferies Group LLC member's equity	\$4,355,855	\$3,915,940
Leverage ratio (1)	6.7	6.9
Tangible gross leverage ratio (2)	9.0	9.7

(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.

## 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.

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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 \$11.8 billion at November 30, 2018 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.

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

- 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

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, 2018, we had 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 our business mix.

## 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 30, 2018	Average Balance Quarter ended November 30, 2018 (1)	November 30, 2017	
Cash and cash equivalents:				
Cash in banks	\$2,333,476	\$2,367,239	\$2,244,207	
Money market investments	2,812,410	2,023,884	2,920,285	
Total cash and cash equivalents	5,145,886	4,391,123	5,164,492	
Other sources of liquidity:				
Debt securities owned and securities purchased under agreements to resell (2)	958,539	966,541	1,031,252	
Other (3)	499,576	531,030	513,293	
Total other sources	1,458,115	1,497,571	1,544,545	
Total cash and cash equivalents and other liquidity sources	\$6,604,001	\$5,888,694	\$6,709,037	
Total cash and cash equivalents and other liquidity sources as % of Total assets	16.0	%	16.9	%
Total cash and cash equivalents and other liquidity sources as % of Total assets less goodwill and intangible assets	16.8	%	17.7	%

(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, 2018, we had the ability to readily obtain repurchase financing for 74.4% 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, 2018 and 2017 (in thousands):

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

	November 30, 2018		2017	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	\$1,907,064	\$ 317,189	\$1,718,617	\$ 272,380
Corporate debt securities	1,775,721	104,685	2,475,291	57,290
U.S. government, agency and municipal securities	2,648,843	294,030	1,954,697	185,481
Other sovereign obligations	2,626,212	840,578	2,050,942	996,421
Agency mortgage-backed securities (1)	2,972,638	—	1,742,977	—
Loans and other receivables	272,201	—	243,664	—
Total	\$12,202,679	\$ 1,556,482	\$10,186,188	\$ 1,511,572

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, 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 \$13.0 billion and \$11.9 billion for 2018 and 2017, respectively. Average unencumbered liquid financial instruments were \$1.6 billion for both 2018 and 2017.

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, 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 69.5% of our cash and noncash 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 clearing house 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 noncash repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months at November 30, 2018.

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, 2018, 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 \$387.5 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 \$472.6 million and \$482.4 million for 2018 and 2017, respectively.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

Our short-term borrowings include the following facility:

Intraday Credit Facility. The Bank of New York Mellon has agreed to make revolving intraday credit advances (“Intraday Credit Facility”) for an aggregate committed amount of \$150.0 million. The Intraday Credit Facility contains financial covenants, which includes a minimum regulatory net capital requirement for our U.S. broker-dealer, Jefferies LLC. Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. At November 30, 2018, 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 within Other secured financings in our Consolidated Statements of Financial Condition. At November 30, 2018, the outstanding notes were \$881.5 million, bear interest at a spread over London Interbank Offered Rate (“LIBOR”) and mature from April 2019 to September 2019.

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, 2018 and 2017, we had total long-term capital of \$11.8 billion and \$11.2 billion resulting in a long-term debt to equity capital ratio of 0.92:1 and 0.94:1, respectively. See “Equity Capital” herein for further information on our change in total equity. Our total long-term capital base at November 30, 2018 and 2017 was as follows (in thousands):

	November 30,	
	2018	2017
Long-Term Debt (1)	\$5,657,420	\$5,402,590
Total Equity	6,182,404	5,759,559
Total Long-Term Capital	\$11,839,824	\$11,162,149

Long-term debt at November 30, 2018 excludes \$5.7 million of our structured notes, as these notes mature on February 26, 2019, \$699.7 million of our 8.500% senior notes, as these notes mature on July 15, 2019, and \$183.5 million of our outstanding borrowings under our senior secured revolving credit facility (“Revolving Credit Facility”). Long-term debt at November 30, 2017 excludes \$7.1 million of our structured notes, as these notes (1) matured 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 matured on April 13, 2018. The \$324.8 million of our convertible debentures 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.

**Long-Term Debt**

During 2018, long-term debt increased \$129.4 million. This amount includes the issuance of 4.150% senior notes on January 23, 2018 with a total principal amount of \$1.0 billion, due 2030. Additionally, structured notes with a total principal amount of approximately \$173.2 million, net of retirements, were issued during the year. At November 30, 2018, all 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 transactions revenues. The fair value of all of our structured notes at November 30, 2018 was \$686.2 million. For further information, see Note 12, Long-Term Debt, in our consolidated financial statements included in this Annual Report on Form 10-K. During 2017, our debentures were called for redemption at a redemption price equal to 100% of the principal amount of the debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Debentures of \$20.2 million and \$324.8 million were redeemed on November 1, 2017 and January 5, 2018, respectively. In addition, our 5.125% senior notes with a principal of \$668.3 million were redeemed in April 2018. For further information, see

Note 12, Long-Term Debt, and Note 20, Related Party Transactions, in our consolidated financial statements included in this Annual Report on Form 10-K.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

During 2018, we entered into a Revolving Credit Facility with a group of commercial banks for an aggregate principal amount of at \$185.0 million. At November 30, 2018, borrowings under the Revolving Credit Facility amounted to \$183.5 million. Interest is based on an annual alternative base rate or an adjusted LIBOR, as defined in the Revolving Credit Facility agreement. The Revolving Credit Facility contains certain covenants that, among other things, requires Jefferies Group LLC to maintain specified level of tangible net worth and liquidity amounts, and imposes certain restrictions on future indebtedness of and requires specified levels of regulated capital for certain of our subsidiaries. Throughout the year and at November 30, 2018, no instances of noncompliance with the Revolving Credit Facility covenants occurred and we expect to remain in compliance given our current liquidity, and anticipated funding requirements given our business plan and profitability expectations. For further information, see Note 12, Long-Term Debt, in our consolidated financial statements included in this Annual Report on Form 10-K.

At November 30, 2018, our long-term debt has a weighted average maturity of approximately 8.6 years.

Our long-term debt ratings at November 30, 2018 are as follows:

	Rating	Outlook
Moody's Investors Service (1)	Baa3	Stable
Standard and Poor's (2)	BBB-	Stable
Fitch Ratings (3)	BBB	Stable

(1) On March 20, 2018, Moody's Investors Services ("Moody's") reaffirmed our long-term debt rating of Baa3 and our rating outlook of stable.

(2) On April 10, 2018, Standard and Poor's ("S&P") reaffirmed our long-term debt rating of BBB- and our rating outlook of stable.

(3) On February 13, 2018, Fitch Ratings upgraded our long-term debt rating from BBB- to BBB and reaffirmed our rating outlook of stable.

At November 30, 2018, the long-term ratings on our principal operating broker-dealers, Jefferies LLC and Jefferies International Limited (a U.K. broker-dealer) are as follows:

	Jefferies			
	Jefferies LLC		International Limited	
	Rating	Outlook	Rating	Outlook
Moody's (1)	Baa2	Stable	Baa2	Stable
S&P (2)	BBB	Stable	BBB	Stable

(1) On January 10, 2018, Moody's reaffirmed our long-term debt rating of Baa2 and our rating outlook of stable.

(2) On April 10, 2018, S&P reaffirmed our long-term debt rating of BBB and our rating outlook 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.

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, 2018, 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 \$55.8 million. For certain foreign clearing organization's 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Equity Capital

As compared to November 30, 2017, the increase to total Jefferies Group LLC member's equity at November 30, 2018 is primarily attributed to net earnings during 2018 and a capital contribution from Jefferies due to Jefferies' transfer of its 50% interest in Berkadia and capital investments in certain separately managed accounts and funds to us on October 1, 2018. See Note 1, Organization and Basis of Presentation, Note 9, Investments and Note 20, Related Party Transactions for further details on this transaction. The increase to total Jefferies Group LLC member's equity at November 30, 2018 is partially offset by dividend distributions to Jefferies from us.

On January 11, 2018, our Board of Directors approved a distribution to our sole limited liability company member, Jefferies, in the amount of \$200.0 million, which was paid on January 31, 2018, and reduced 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 positive Net earnings attributable to Jefferies Group LLC (as adjusted for preceding loss quarters, if any). In addition, during the year ended November 30, 2018, we paid additional dividends of \$48.7 million to Jefferies, based on our results for the nine months ended August 31, 2018. For the three months ended November 30, 2018, we have accrued include a dividend payable in the amount of \$30.7 million, based on our results for the quarter ended November 30, 2018.

## Net Capital

As a broker-dealer registered with the SEC and member firms of the Financial Industry Regulatory Authority ("FINRA"), Jefferies LLC 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 LLC, as a dually-registered U.S. broker-dealer and futures commission merchant ("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.

At November 30, 2018, Jefferies LLC's net capital and excess net capital were as follows (in thousands):

Net Capital	Excess Net Capital
Jefferies LLC	\$1,739,435
	\$1,635,960

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 LLC 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.

On March 29, 2017, the United Kingdom notified the European Council and triggered a two-year period to negotiate its withdrawal from the European Union on March 29, 2019 ("Brexit"), absent any extensions or changes to this time schedule. While, there is ongoing uncertainty as to the terms and any potential transition periods related to Brexit, we

have taken steps to ensure our ability to provide services to our European clients without interruption. As such, we have established a wholly-owned subsidiary of our UK broker-dealer in Germany, which has been approved as an authorized MiFID investment firm by the German regulator and which will enable us to conduct business across all of our European investment banking, fixed income and equity platforms. Our plans contemplate providing sufficient capital pursuant to the regulatory requirements for the planned operations as well pursuant to requirements of relevant clearing organizations.

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## JEFFERIES GROUP LLC AND 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.

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, 2018, 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 16, 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 17, 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, 2018. The table presents principal cash flows with expected maturity dates (in millions):

	Expected Maturity Date					Total
	2019	2020	2021 and 2022	2023 and 2024	2025 and Later	
Contractual obligations:						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums) (1)	\$705.4	\$564.7	\$823.4	\$663.4	\$3,605.9	\$6,362.8
Revolving credit facility	—	—	183.5	—	—	183.5
Interest payment obligations on long term debt (2)	324.1	288.0	470.4	382.9	1,469.7	2,935.1
Operating leases (net of subleases) - premises and equipment (3)	60.5	52.5	112.2	112.6	371.3	709.1
Master sale and leaseback agreement (3)	0.2	—	—	—	—	0.2
Purchase obligations (4)	147.8	101.1	134.3	75.8	110.9	569.9
Total contractual obligations	\$1,238.0	\$1,006.3	\$1,723.8	\$1,234.7	\$5,557.8	\$10,760.6

(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, 2018.

(3)

For additional information on operating leases related to certain premises and equipment and a master sale and leaseback agreement, see Note 17, 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, 2018 reflect the minimum contractual obligations under legally enforceable contracts.

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Subsequent to November 30, 2018 and on or before January 31, 2019, we expect to make cash payments of \$873.1 million related to compensation awards for fiscal 2018. See Note 15, 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. 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 flexible in nature and are subject to ongoing review and modification.

In achieving our strategic business objectives, our risk appetite incorporates keeping our clients' interests at the top of our priority list and ensuring we are in compliance with applicable laws, rules and regulations, as well as adhering to the highest ethical standards. We undertake prudent and conservative risk-taking that protects the capital base and franchise, utilizing risk limits and tolerances that avoid outsized risk-taking. We maintain a diversified business mix and avoid significant concentrations to any sector, product, geography, or activity and set quantitative concentration limits to manage this risk. We consider contagion, second order effects and correlation in our risk assessment process and actively seek out value opportunities of all sizes. We manage the risk of opportunities larger than our approved risk levels through risk sharing and risk distribution, sell-down and hedging as appropriate. We have a limited appetite for illiquid assets and complex derivative financial instruments. We maintain the asset quality of our balance sheet through conducting trading activity in liquid markets and generally ensure high turnover of our inventory. We subject less liquid positions and derivative financial instruments to oversight and use a wide variety of specific metrics, limits, and constraints to manage these risks. We protect our reputation and franchise, as well as our standing within the market. We operate a federated approach to risk management with risk oversight responsibilities assigned to those areas of the business that have the appropriate knowledge.

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 ("Board"). Our Board plays an important role in reviewing our risk management process and risk tolerance. Our Global Chief Risk Officer ("CRO") and Global Treasurer meet with our Board on no less than a quarterly basis to present our risk profile and liquidity profile and to respond to questions. Additionally, our risk management team continuously monitors our various businesses, the level of risk the businesses are taking and the efficacy of potential risk mitigation strategies and presents this information to our senior management and Board.

Our Board also fulfills its risk oversight role through the operations of its various committees, including its Audit Committee. The Audit Committee has responsibility for risk oversight in connection with its review of our financial statements, internal audit function and internal control over financial reporting, as well as assisting our Board and senior management with our legal and regulatory compliance and overseeing our Code of Business Practice. The Audit Committee is also updated on risk controls at each of its regularly scheduled meetings.

Internal Audit, which reports to the Audit Committee of the Board and includes professionals with a broad range of audit and industry experience, including risk management expertise, is responsible for independently assessing and validating key controls within our risk management framework.

We make extensive use of internal committees to govern risk taking and ensure that business activities are properly identified, assessed, monitored and managed. The Risk Management Committee ("RMC") and membership is comprised of our Chief Executive Officer and Chairman, Chairman of the Executive Committee, CFO, CRO and Global Treasurer. Our other risk related committees govern risk taking and ensure that business activities are properly managed for their area of oversight.

Risk Committees.

RMC - the principal committee that governs our risk-taking activities. The RMC meets weekly to discuss our risk profile and discuss business or market trends and their potential impact on the business. The Committee approves our limits as a whole, and across risk categories and business lines, reviews limit breaches, and approves risk policies and stress testing methodologies.

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Executive Committee - provides insight, perspective and guidance for the day-to-day operations and strategic direction of their respective businesses and us as a whole.

Operating Committee - brings together the managers of all control areas and the business line chief operating officers, whereby each department presents issues regarding current and proposed business. This committee provides the key forum for coordination and communication between the control managers entirely focused on our activities as a whole.

Asset / Liability Committee - seeks to ensure effective management and control of the balance sheet in terms of risk profile, adequacy of capital and liquidity resources, and funding profile and strategy. The committee is responsible for developing, implementing and enforcing our liquidity, funding and capital policies. This includes recommendations for capital and balance sheet size, as well as the allocation of capital to our businesses.

Independent Price Verification Committee - establishes our valuation policies and procedures and is responsible for independently validating the fair value of our financial instruments. The committee, which is comprised of stakeholders represented by the CFO, Internal Audit, Risk Management and Controllers, meets monthly to assess and approve the results of our inventory price testing.

New Business Committee - reviews new business, products and activities and extensions of existing businesses, products and activities that may introduce materially different or greater risks than those of a business' existing activities. The new business approval process is a key control over new business activity. The objectives are to notify all relevant functions of the intention to introduce a new product, business or activity, to share information between functions and to ensure there is a thorough understanding of the proposal.

Vendor Risk Committee - oversees our vendor assurance program, reviews the list of critical vendors annually, ensures that our vendor risk management policy is being applied consistently and operated effectively and that the overall level of vendor risk is in line with our approved risk levels.

Model Governance Committee - approves the model risk policy and sets common standards for managing model risk, and reviews and approves all model validation reports. The committee also reviews model validation findings and monitors the completion of any remedial action.

Risk Policy Framework

We maintain risk management policies which detail our risk management approach and controls. The Risk Management Department is responsible for ensuring policies are reviewed and approved annually, or in response to any material change in business activity or risk profile. All policies are reviewed and approved by the RMC. Our policies set forth the governance structures, business controls, and risk mitigation strategies in place to manage risk. The policies also set out the measures or limits to manage our risks in accordance with our risk tolerance, as well as outline the risk exposure reporting requirements. All policies articulate the governance process for the development of the policies and the risk measurement techniques that are used and the business controls that are in place to manage any principal risks. The policies also set forth the processes and systems that are used to monitor the risk and the processes and escalation channels used to report the risk.

Our risk management policies include the following:

- Market Risk Management Policy;
- Operational Risk Management Policy;
- Credit Risk Management Policy;
- Independent Price Verification Policy;
- Model Risk Management Policy;
- Vendor Risk Management Policy; and
- New Business Approval Policy.

Risk Considerations

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 limits reflects our risk tolerance for a certain activity under normal business conditions. Key metrics included in our risk management framework include inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, Value-at-Risk ("VaR"), sensitivities, exposure concentrations, aged inventory,

amount of Level 3 assets, counterparty exposure, leverage and cash capital.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Market Risk

Market risk is defined as the risk of loss due to fluctuations in the market value of financial assets and liabilities attributable to changes in market variables.

Our market risk principally arises from interest rate risk, from exposure to changes in the yield curve, the volatility of interest rates, and credit spreads, and from equity price risks from exposure to changes in prices and volatilities of individual equities, equity baskets and equity indices. In addition, commodity price risk results from exposure to the changes in prices and volatilities of individual commodities, commodity baskets and commodity indices, and foreign exchange risk results from changes in foreign currency rates.

Market risk is present in our market making, proprietary trading, underwriting, specialist and investing activities and is principally managed 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 economically 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 the results of our trading businesses.

## Trader Mandates

Trading is principally managed through front office trader mandates, where each trader is provided a specific mandate in line with our product registry. Mandates set out the activities, currencies, countries and products that the desk is permitted to trade in and set the limits applicable to the desk. Traders are responsible for knowing their trading limits and trading in a manner consistent with their mandate. Trader mandates are reviewed annually and as part of the new business proposal process.

## VaR

VaR is a statistical estimate of the potential loss from adverse market movements over a specified time horizon within a specified probability (confidence level). It provides a common risk measure across financial instruments, markets and asset classes. We estimate VaR using a model that simulates revenue and loss distributions on our trading portfolios by applying historical market changes to the current portfolio. 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 over a longer time horizon where moves may be more extreme. Previous changes in market risk factors may not generate accurate predictions of future market movements. While we believe the assumptions and inputs in our risk model are reasonable, we could incur losses greater than the reported VaR. Consequently, this VaR estimate is only one of a number of tools we use in our daily risk management activities.

Our average daily VaR decreased to \$7.56 million for 2018 from \$7.79 million for 2017. This change was due to slightly lower interest rate, currency rate, and commodity price risk, partially offset by an increase in equity price risk. Equity price risk was higher at November 30, 2018 compared with at November 30, 2017 due to the transfer to us by Jefferies, in the fourth quarter of 2018, of capital investments in certain separately managed accounts and funds. See Note 1, Organization and Basis of Presentation, and Note 20, Related Party Transactions, for further details on this transfer.

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 November 30, 2018	Value-at-Risk In Trading Portfolios Daily VaR for 2018			VaR at November 30, 2017			Daily VaR for 2017		
	Average	High	Low	Average	High	Low	Average	High	Low	
Interest Rates	\$ 5.33	\$ 4.88	\$ 6.82	\$ 2.18	\$ 3.38	\$ 5.11	\$ 9.59	\$ 2.63		
Equity Prices	8.47	5.51	13.56	3.08	2.90	5.17	17.20	2.52		

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Currency Rates	0.09	0.12	0.24	0.02	0.18	0.22	0.65	0.06
Commodity Prices	0.48	0.53	1.51	0.24	0.35	0.73	2.20	0.27
Diversification Effect (2)	(3.12 )	(3.48 )	N/A	N/A	(1.86 )	(3.44 )	N/A	N/A
Firmwide	\$ 11.25	\$ 7.56	\$ 14.73	\$ 4.76	\$ 4.95	\$ 7.79	\$ 17.55	\$ 4.52

(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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

(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.

We perform daily back-testing of our VaR model comparing realized revenue and loss with the previous day's VaR. Back-testing results are included in the quarterly business review pack for our Board. 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 overall level down to specific business lines. For the VaR model, trading related revenue is defined as principal transactions revenues, 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 2018, results of the evaluation at the aggregate level demonstrated two days when the net trading loss exceeded the 95% one day VaR. The chart below reflects our daily VaR over the last four quarters with the significant increase in the daily VaR in late August 2018 due to the acquisition and short-term holding of an equity block position that was substantially liquidated within a few days subsequent to quarter end. Our daily VaR increased in the latter part of 2018 due to the transfer to us by Jefferies, in the fourth quarter of 2018, of capital investments in certain separately managed accounts and funds. See Note 1, Organization and Basis of Presentation, and Note 20, Related Party Transactions, for further details on this transfer.

Daily Net Trading Revenue

There were 45 days with trading losses out of a total of 252 trading days in 2018. The histogram below presents the distribution of our actual daily net trading revenue for substantially all of our trading activities for 2018 (in millions).

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Other Risk Measures

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, 2018 (in thousands):

	10% Sensitivity
Private investments	\$ 20,088
Corporate debt securities in default	9,915
Trade claims	4,747

The impact of changes in our own credit spreads on our structured notes for which the fair value option was elected is not included in VaR. 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 \$930,000 at November 30, 2018, which is included in other comprehensive income.

## Stress Tests and Scenario Analysis

Stress tests are used to analyze the potential impact of specific events or extreme market moves on the current portfolio both firm-wide and within business segments. Stress testing is an important part of our risk management approach because it allows us to quantify our exposure to tail risks, highlight potential loss concentrations, undertake risk/reward analysis, set risk controls and overall assess and mitigate our risk.

We employ a range of stress scenarios, which 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 the 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 and changes in the shape of the yield curve.

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 complements VaR to cover for potential limitations of VaR such as the breakdown in correlations, non-linear risks, tail risk and extreme events and capturing market moves beyond the confidence levels assumed in the VaR calculations.

Stress testing is performed and reported at least weekly as part of our risk management process and on an ad hoc basis in response to market events or concerns. Current stress tests provide estimated revenue and loss of the current portfolio through a range of both historical and hypothetical events. The stress scenarios are reviewed and assessed at least annually so that they remain relevant and up to date with market developments. Additional hypothetical scenarios are also conducted on a sub-portfolio basis to assess the impact of any relevant idiosyncratic stress events as needed.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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. Credit exposure exists across a wide-range of products, including cash and cash equivalents, loans, securities finance transactions and over-the-counter derivative contracts. The main sources of credit risk are:

Loans and lending arising in connection with our capital markets activities, which reflects our exposure at risk on a default event with no recovery of loans. Current exposure represents loans that have been drawn by the borrower and lending commitments that are outstanding. In addition, credit exposures on forward settling traded loans are included within our loans and lending exposures for consistency with the balance sheet categorization of these items.

Securities and margin financing transactions, which reflect our credit exposure arising from reverse repurchase agreements, repurchase agreements and securities lending agreements to the extent the fair value of the underlying collateral differs from the contractual agreement amount and from margin provided to customers.

OTC derivatives, which are reported net by counterparty when a legal right of setoff exists under an enforceable master netting agreement. OTC derivative exposure is based on a contract at fair value, net of cash collateral received or posted under credit support agreements. In addition, credit exposures on forward settling trades are included within our derivative credit exposures.

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

Credit is extended to counterparties in a controlled manner and 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 as a whole to limit exposure to loss related to credit risk. Credit risk is managed according to the Credit Risk Policy, which sets out the process for identifying counterparty credit risk, establishing counterparty limits, and managing and monitoring credit limits. The policy includes our approach for:

- Client on-boarding and approving counterparty credit limits;
- Negotiating, approving and monitoring credit terms in legal and master documentation;
- Determining the analytical standards and risk parameters for ongoing management and monitoring credit risk books;
- Actively managing daily exposure, exceptions and breaches; and
- Monitoring daily margin call activity and counterparty performance.

Counterparty credit exposure limits are granted within our credit ratings framework, as detailed in the Credit Risk Policy. The Credit Risk Department assesses counterparty credit risk and sets credit limits at the counterparty master agreement level. Limits must be approved by appropriate credit officers and initiated in our credit and trading systems before trading commences. All credit exposures are reviewed against approved limits on a daily basis.

Current counterparty credit exposures at November 30, 2018 and 2017 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, 2018, excluding cash and cash equivalents, the percentage of exposure from investment grade counterparties decreased to 91% from 92% at November 30, 2017, and with a majority concentrated in North America.

When comparing our credit exposure at November 30, 2018 with credit exposure at November 30, 2017, excluding cash and cash equivalents, current exposure decreased 19% to approximately \$1,093 million from \$1,353 million.

Counterparty credit exposure from OTC derivatives decreased by 57%, primarily driven by investment grade North American banks and broker-dealers. Exposure from securities and margin finance decreased by 8%, while exposure from loans and lending decreased by 5%.





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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	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
AAA Range	\$—	\$—	\$3.2	\$6.4	\$—	\$—	\$3.2	\$6.4	\$2,981.2	\$2,924.2	\$2,984.4	\$2,930.6
AA Range	45.1	47.7	45.3	61.3	4.2	3.8	94.6	112.8	111.6	158.6	206.2	271.4
A Range	0.3	1.2	573.3	603.0	97.9	260.6	671.5	864.8	1,865.8	1,751.9	2,537.3	2,616.7
BBB Range	0.1	0.5	206.6	232.5	15.5	28.5	222.2	261.5	2.3	152.3	224.5	413.8
BB or Lower	—	12.5	5.5	8.1	15.7	16.7	21.2	37.3	107.5	100.6	128.7	137.9
Unrated	80.0	70.1	—	—	—	—	80.0	70.1	77.5	76.9	157.5	147.0
Total	\$125.5	\$132.0	\$833.9	\$911.3	\$133.3	\$309.6	\$1,092.7	\$1,352.9	\$5,145.9	\$5,164.5	\$6,238.6	\$6,517.4

## 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	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Asia/Latin America/Other	\$—	\$3.0	\$30.2	\$45.8	\$0.1	\$0.3	\$30.3	\$49.1	\$304.0	\$280.7	\$334.3	\$329.8
Europe	0.3	1.0	427.0	403.5	27.3	54.0	454.6	458.5	170.8	540.0	625.4	998.5
North America	125.2	128.0	376.7	462.0	105.9	255.3	607.8	845.3	4,671.1	4,343.8	5,278.9	5,189.1
Total	\$125.5	\$132.0	\$833.9	\$911.3	\$133.3	\$309.6	\$1,092.7	\$1,352.9	\$5,145.9	\$5,164.5	\$6,238.6	\$6,517.4

## 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	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Asset Managers	\$—	\$—	\$0.6	\$15.9	\$—	\$7.1	\$0.6	\$23.0	\$2,812.4	\$2,920.3	\$2,813.0	\$2,943.3
Banks, Broker-dealers	0.4	1.7	619.6	620.8	118.9	282.6	738.9	905.1	2,333.5	2,244.2	3,072.4	3,149.3
Commodities	—	—	—	—	—	—	—	—	—	—	—	—
Corporates	92.9	87.5	—	—	7.2	14.7	100.1	102.2	—	—	100.1	102.2
Other	32.2	42.8	213.7	274.6	7.2	5.2	253.1	322.6	—	—	253.1	322.6
Total	\$125.5	\$132.0	\$833.9	\$911.3	\$133.3	\$309.6	\$1,092.7	\$1,352.9	\$5,145.9	\$5,164.5	\$6,238.6	\$6,517.4

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, and monitor country risk resulting from both trading positions and counterparty exposure. The following tables reflect our top exposure at November 30, 2018 and 2017 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, 2018

	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
Finland	\$279.8	\$(6.7)	\$—	\$—	\$—	\$—	\$ 1.0	\$273.1	\$ 274.1
Japan	97.7	(92.8)	8.0	—	11.3	—	136.9	24.2	161.1
Italy	1,778.1	(1,267.5)	(354.5)	—	0.2	0.1	—	156.4	156.4
United Kingdom	311.6	(168.2)	(30.3)	0.3	63.1	18.5	(56.4)	195.0	138.6
Belgium	65.4	(39.8)	2.8	—	—	—	107.3	28.4	135.7
Netherlands	317.4	(316.1)	70.4	—	39.5	—	—	111.2	111.2
Germany	175.4	(384.8)	129.4	—	89.7	1.3	93.3	11.0	104.3
Switzerland	100.5	(50.1)	5.7	—	37.7	2.7	3.8	96.5	100.3
Hong Kong	13.8	(39.7)	3.5	—	0.5	—	84.9	(21.9)	63.0
Singapore	21.1	(1.4)	1.0	—	0.1	—	31.2	20.8	52.0
Total	\$3,160.8	\$(2,367.1)	\$(164.0)	\$0.3	\$ 242.1	\$ 22.6	\$ 402.0	\$894.7	\$ 1,296.7

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

We have no material exposure to countries where either sovereign or non-sovereign sectors 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.

**Model Risk**

Model risk refers to the risk of losses resulting from decisions that are based on the output of models, due to errors or weaknesses in the design and development, implementation, or improper use of models. We use quantitative models primarily to value certain financial assets and liabilities and to monitor and manage our risk. Model risk is a function of the model materiality, frequency of use, complexity and uncertainty around inputs and assumptions used in a given model. Robust model risk management is a core part of our risk management approach and is overseen through our risk governance structure and risk management controls.

**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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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, 2018. 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, 2018, 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 54.

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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

We have audited the accompanying consolidated statements of financial condition of Jefferies Group LLC and subsidiaries (the "Company") as of November 30, 2018 and 2017, the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended November 30, 2018 and 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"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2018 and 2017, and the results of its operations and its cash flows for the years ended November 30, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of November 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 28, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

New York, NY

January 28, 2019

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

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Jefferies Group LLC and subsidiaries (the “Company”) as of November 30, 2018, 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 Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedules as of and for the year ended November 30, 2018, of the Company and our report dated January 28, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible 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 Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

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 28, 2019



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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 statements of earnings, comprehensive income, changes in equity and cash flows for the year ended November 30, 2016 present fairly, in all material respects, the results of operations and cash flows of Jefferies Group LLC and its subsidiaries for the year 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 schedule for the year ended November 30, 2016 present 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 audit. We conducted our audit 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 audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

New York, New York

January 27, 2017, except for the change in the manner in which the Company accounts for restricted cash in the statement of cash flows discussed in Note 3 to the consolidated financial statements, as to which the date is January 28, 2019

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

	November 30,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents (\$1,096 and \$7,514 at November 30, 2018 and 2017, respectively, related to consolidated VIEs)	\$5,145,886	\$5,164,492
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	707,960	578,014
Financial instruments owned, at fair value, (including securities pledged of \$13,059,802 and \$10,842,051 at November 30, 2018 and 2017, respectively; and \$380 and \$38,044 at November 30, 2018 and 2017, respectively, related to consolidated VIEs)	16,399,526	14,193,352
Loans to and investments in related parties	997,524	682,790
Securities borrowed	6,538,212	7,721,803
Securities purchased under agreements to resell	2,785,758	3,689,559
Securities received as collateral	—	103
Receivables:		
Brokers, dealers and clearing organizations	3,218,984	2,514,838
Customers	2,017,090	1,563,758
Fees, interest and other (\$0 and \$197 at November 30, 2018 and 2017, respectively, related to consolidated VIEs)	327,083	381,231
Premises and equipment	304,026	297,750
Goodwill	1,642,170	1,647,089
Other assets (\$2 at both November 30, 2018 and 2017, respectively, related to consolidated VIEs)	1,084,554	1,270,912
Total assets	\$41,168,773	\$39,705,691
<b>LIABILITIES AND EQUITY</b>		
Short-term borrowings (includes \$0 and \$23,324 at fair value at November 30, 2018 and 2017, respectively)	\$387,492	\$436,215
Financial instruments sold, not yet purchased, at fair value	9,478,944	8,171,929
Collateralized financings:		
Securities loaned	1,838,688	2,843,911
Securities sold under agreements to repurchase	8,643,069	8,660,511
Other secured financings (\$881,472 and \$722,108 at November 30, 2018 and 2017, respectively, related to consolidated VIEs)	881,472	722,108
Obligation to return securities received as collateral	—	103
Payables:		
Brokers, dealers and clearing organizations	2,448,059	2,226,768
Customers	3,176,727	2,664,023
Accrued expenses and other liabilities (\$642 and \$1,391 at November 30, 2018 and 2017, respectively, related to consolidated VIEs)	1,585,635	1,803,720
Long-term debt (includes \$686,170 and \$606,956 at fair value at November 30, 2018 and 2017, respectively)	6,546,283	6,416,844
Total liabilities	34,986,369	33,946,132
<b>EQUITY</b>		
Member's paid-in capital	6,376,662	5,895,601
Accumulated other comprehensive loss:		
Currency translation adjustments	(185,804	) (98,909 )

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Changes in instrument specific credit risk	(5,728	) (27,888	)
Cash flow hedges	470	(936	)
Additional minimum pension liability	(4,761	) (9,046	)
Available-for-sale securities	(346	) —	
Total accumulated other comprehensive loss	(196,169	) (136,779	)
Total Jefferies Group LLC member's equity	6,180,493	5,758,822	
Noncontrolling interests	1,911	737	
Total equity	6,182,404	5,759,559	
Total liabilities and equity	\$41,168,773	\$39,705,691	

See accompanying notes to consolidated financial statements.

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Table of ContentsJEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands)

	Year Ended November 30,		
	2018	2017	2016
Revenues:			
Commissions and other fees	\$635,190	\$593,257	\$611,574
Principal transactions	524,296	796,633	524,302
Investment banking	1,910,203	1,764,285	1,193,973
Asset management fees	21,214	20,490	26,412
Interest	1,207,095	905,601	857,838
Other	131,634	98,316	19,724
Total revenues	4,429,632	4,178,582	3,233,823
Interest expense	1,246,256	980,473	819,209
Net revenues	3,183,376	3,198,109	2,414,614
Non-interest expenses:			
Compensation and benefits	1,736,264	1,829,096	1,568,948
Non-compensation expenses:			
Floor brokerage and clearing fees	189,068	179,478	167,205
Underwriting costs	64,317	—	—
Technology and communications	305,655	279,242	262,396
Occupancy and equipment rental	100,952	102,904	101,133
Business development	163,756	99,884	93,105
Professional services	139,885	114,711	112,562
Other	73,812	87,870	79,293
Total non-compensation expenses	1,037,445	864,089	815,694
Total non-interest expenses	2,773,709	2,693,185	2,384,642
Earnings before income taxes	409,667	504,924	29,972
Income tax expense	250,650	147,340	14,566
Net earnings	159,017	357,584	15,406
Net earnings (loss) attributable to noncontrolling interests	256	86	(28 )
Net earnings attributable to Jefferies Group LLC	\$158,761	\$357,498	\$15,434

See accompanying notes to consolidated financial statements.



Table of ContentsJEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended November 30,		
	2018	2017	2016
Net earnings	\$159,017	\$357,584	\$15,406
Other comprehensive income (loss), net of tax:			
Currency translation and other adjustments (1)	(85,554 )	53,396	(115,494 )
Changes in instrument specific credit risk (2)	22,160	(21,394 )	(6,494 )
Cash flow hedges (3)	1,406	(936 )	—
Minimum pension liability adjustments (4)	4,285	312	(1,223 )
Unrealized gain on available-for-sale securities (5)	311	—	—
Total other comprehensive income (loss), net of tax (6)	(57,392 )	31,378	(123,211 )
Comprehensive income (loss)	101,625	388,962	(107,805 )
Net earnings (loss) attributable to noncontrolling interests	256	86	(28 )
Comprehensive income (loss) attributable to Jefferies Group LLC	\$101,369	\$388,876	\$(107,777)

(1) The amount for the year ended November 30, 2018 includes a gain of \$20.5 million related to foreign currency gains, which was reclassified to Other revenues within the Consolidated Statements of Earnings, and \$8.9 million related to the impact of certain discrete items related to tax planning for our non-U.S. subsidiaries in connection with the Tax Cuts and Jobs Act (the "Tax Act").

(2) The amounts include income tax expense of approximately \$15.5 million, and income tax benefits of approximately \$13.2 million and \$4.3 million for the years ended November 30, 2018, 2017 and 2016, respectively. The amount for the year ended November 30, 2018 includes a gain of \$0.9 million, net of taxes of \$0.3 million, related to changes in instrument specific credit risk, which was reclassified to Principal transactions revenues within the Consolidated Statements of Earnings and \$(6.5) million related to the Tax Act, which was reclassified to Member's paid-in capital.

(3) The amount for the year ended November 30, 2018 includes \$(0.2) million related to the Tax Act, which was reclassified to Member's paid-in capital and income tax expense of approximately \$0.8 million. The amount for the year ended November 30, 2017 includes income tax benefit of approximately \$0.6 million.

(4) The amount for the year ended November 30, 2018 includes \$5.3 million related to the transfer of the German Pension Plan and \$(0.3) million, net of taxes of \$0.1 million, related to pension losses, which were reclassified to Compensation and benefits expenses within the Consolidated Statements of Earnings and \$(0.8) million related to the Tax Act, which was reclassified to Member's paid-in capital. The amounts include income tax expense of approximately \$0.1 million and income tax benefits of approximately \$0.1 million and \$0.3 million for the years ended November 30, 2018, 2017 and 2016, respectively.

(5) The amount includes income tax expense of approximately \$0.1 million.

(6) 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,		
	2018	2017	2016
Member's paid-in capital:			
Balance, beginning of period	\$5,895,601	\$5,538,103	\$5,526,855
Cumulative effect of the adoption of the new revenue standard, net of tax	(6,121 )	—	—
Net earnings attributable to Jefferies Group LLC	158,761	357,498	15,434
Tax detriment for issuance of share-based awards	—	—	(4,186 )
Contribution from Jefferies Financial Group Inc.	600,247	—	—
Distribution to Jefferies Financial Group Inc.	(279,381 )	—	—
Tax Cuts and Jobs Act adjustment	7,555	—	—
Balance, end of period	\$6,376,662	\$5,895,601	\$5,538,103
Accumulated other comprehensive income (loss), net of tax:			
Balance, beginning of period	\$(136,779 )	\$(168,157 )	\$(44,946 )
Contribution from Jefferies Financial Group Inc.	(1,998 )	—	—
Currency adjustments	(85,554 )	53,396	(115,494 )
Changes in instrument specific credit risk	22,160	(21,394 )	(6,494 )
Cash flow hedges	1,406	(936 )	—
Pension adjustments	4,285	312	(1,223 )
Unrealized gain on available-for-sale securities	311	—	—
Balance, end of period	\$(196,169 )	\$(136,779 )	\$(168,157 )
Total Jefferies Group LLC member's equity	\$6,180,493	\$5,758,822	\$5,369,946
Noncontrolling interests:			
Balance, beginning of period	\$737	\$651	\$27,468
Net earnings (loss) attributable to noncontrolling interests	256	86	(28 )
Contributions	10	—	9,390
Distributions	(7,408 )	—	(563 )
Consolidation (deconsolidation) of asset management entity	8,316	—	(35,616 )
Balance, end of period	\$1,911	\$737	\$651
Total equity	\$6,182,404	\$5,759,559	\$5,370,597
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,		
	2018	2017	2016
Cash flows from operating activities:			
Net earnings	\$ 159,017	\$ 357,584	\$ 15,406
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	15,250	1,977	(2,365 )
Deferred income taxes	126,265	(43,246 )	(14,013 )
Income on loans to and investments in related parties	(73,662 )	(109,395 )	(17,184 )
Distributions received on investments in related parties	62,949	21,038	38,180
Other adjustments	(127,698 )	44,043	(32,711 )
Net change in assets and liabilities:			
Securities deposited with clearing and depository organizations	64,911	163	(99,893 )
Receivables:			
Brokers, dealers and clearing organizations	(406,509 )	(487,385 )	(477,273 )
Customers	(453,360 )	(720,710 )	348,055
Fees, interest and other	51,122	(68,177 )	(54,366 )
Securities borrowed	1,137,134	50,660	(805,779 )
Financial instruments owned	(1,194,791 )	(119,087 )	2,390,542
Securities purchased under agreements to resell	807,619	234,740	(112,777 )
Other assets	31,699	8,435	(173,127 )
Payables:			
Brokers, dealers and clearing organizations	252,698	(1,081,611 )	584,426
Customers	512,760	366,721	(483,188 )
Securities loaned	(964,137 )	381	(122,946 )
Financial instruments sold, not yet purchased	311,998	(279,282 )	1,753,647
Securities sold under agreements to repurchase	36,956	1,838,793	(3,144,433 )
Accrued expenses and other liabilities	(224,157 )	524,304	296,067
Net cash provided by (used in) operating activities	126,064	539,946	(113,732 )
Cash flows from investing activities:			
Contributions to loans to and investments in related parties	(1,929,603 )	(3,161,619 )	(538,186 )
Distributions from loans to and investments in related parties	1,876,164	3,068,961	689,226
Net payments on premises and equipment	(71,445 )	(72,653 )	(75,772 )
Purchase of Leucadia Investment Management Limited, net of cash paid	3,125	—	—
Proceeds from sale of Jefferies LoanCore	—	173,105	—
Payment on purchase of aircraft	—	—	(27,500 )
Proceeds from sale of aircraft	—	—	29,450
Consolidation (deconsolidation) of asset management entity	130	—	(77 )
Cash received from contingent consideration	—	1,342	2,617
Net cash provided by (used in) investing activities	(121,629 )	9,136	79,758
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,		
	2018	2017	2016
Cash flows from financing activities:			
Proceeds from short-term borrowings	\$1,083,416	\$274,230	\$520,207
Payments on short-term borrowings	(1,137,599 )	(369,992 )	(315,325 )
Proceeds from issuance of long-term debt, net of issuance costs	1,367,243	1,116,798	299,779
Repayment of long-term debt	(1,035,700 )	(186,444 )	(373,246 )
Dividend distribution	(248,684 )	—	—
Net proceeds from (payments on) other secured financings	159,364	(33,468 )	(7,333 )
Net change in bank overdrafts	10,290	(5,650 )	(46,536 )
Proceeds from contributions of noncontrolling interests	10	—	9,390
Payments on distributions to noncontrolling interests	(7,408 )	—	(563 )
Net cash provided by financing activities	190,932	795,474	86,373
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(19,116 )	11,707	(27,133 )
Net increase in cash, cash equivalents and restricted cash	176,251	1,356,263	25,266
Cash, cash equivalents and restricted cash at beginning of period	5,642,776	4,286,513	4,261,247
Cash, cash equivalents and restricted cash at end of period	\$5,819,027	\$5,642,776	\$4,286,513

## Supplemental disclosures of cash flow information:

## Cash paid (received) during the period for:

Interest	\$1,287,162	\$1,025,576	\$859,466
Income taxes, net	196,553	8,910	(6,410 )

## Noncash financing activities:

On October 1, 2018, Jefferies transferred to us its 50% interest in Berkadia Commercial Mortgage Holding LLC (“Berkadia”) and its capital investments in certain separately managed accounts and funds. The transfer of its interest in Berkadia and a portion of the transfer of its capital investments in certain separately managed accounts and funds were recorded as a capital contribution and increased member’s equity by \$598.2 million. Refer to Note 1, Organization and Basis of Presentation, for further details.

The following presents our cash, cash equivalents and restricted cash by category within the Consolidated Statements of Financial Condition (in thousands):

	November 30,	
	2018	2017
Cash and cash equivalents	\$5,145,886	\$5,164,492
Cash and securities segregated and on deposit for regulatory purposes with clearing and depository organizations	673,141	478,284
Total cash, cash equivalents and restricted cash	\$5,819,027	\$5,642,776
See accompanying notes to consolidated financial statements.		

Table of ContentsJEFFERIES 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 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 21, Exit Costs.

Jefferies Group LLC is a direct wholly owned subsidiary of publicly traded Jefferies Financial Group Inc. (“Jefferies”), formerly known as Leucadia National Corporation. Jefferies does not guarantee any of our outstanding debt securities. 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 Jefferies, as well as a Director of Jefferies. Brian P. Friedman, our Chairman of the Executive Committee, is Jefferies’ President and a Director of Jefferies.

On October 1, 2018, Jefferies transferred its 50% interest in Berkadia and capital investments in certain separately managed accounts and funds to us. On November 1, 2018, we purchased LIML, an investment advisory company, from LAM Holding LLC, a subsidiary of Jefferies. These transfers were accomplished as capital contributions from Jefferies of approximately \$598.2 million and total cash payments of \$76.0 million to Jefferies during the fourth quarter of 2018. In connection with these transfers, related deferred tax liabilities of approximately \$50.9 million were transferred to us, for which Jefferies has indemnified us. The cash payments are primarily included as operating activities in our Consolidated Statements of Cash Flows for the year ended November 30, 2018. See Note 9, Investments, for further details on our 50% interest in Berkadia and Note 20, Related Party Transactions, for further details on these transfers.

We operate in two reportable business segments, Capital Markets and Asset Management. For further information on our reportable business segments, refer to Note 19, 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 (loss) 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 transactions 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

Changes to the Consolidated Statements of Operations

We have reorganized the presentation of our gains and losses generated from our capital invested in asset management funds managed by us and related parties in the first quarter of 2018. This was previously presented as Asset management: Investment income (loss) from investments in managed funds and is now presented within Principal transactions revenues.

Changes to the Consolidated Statements of Cash Flows

In the first quarter of 2018, we made certain changes to the presentation of our Consolidated Statements of Cash Flows in order to net certain Short-term borrowings, primarily related to revolving intraday credit advances. Refer to Note 11, Short-Term Borrowings, for further information. The changes had the impact of reducing Proceeds from short-term borrowings by \$34,225.0 million and \$14,793.2 million and increasing Payments on short-term borrowings by \$34,225.0 million and \$14,793.2 million for the years ended November 30, 2017 and 2016, respectively. There was no change to the total Net cash provided by financing activities. We do not believe these changes are material to our Consolidated Statements of Cash Flows.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition Policies

We adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (the “new revenue standard” or Accounting Standards Codification 606, (“ASC 606”)) on December 1, 2017. Revenue recognition policies under the new standard are applied prospectively in our financial statements from December 1, 2017 forward. Reported financial information for the historical comparable periods was not revised and continues to be reported under the accounting standards in effect during the historical periods. For investment banking revenues and asset management fees, we separately state the accounting policies applicable in the presented fiscal years. There were no material changes in our other revenue recognition policies as a result of the new standard. Refer to Note 3, Accounting Developments, for further information on our adoption of the new revenue standard.

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 acting as an agent in 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 transactions 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 transactions revenues.

Investment Banking - Year Ended November 30, 2018. Advisory fees from mergers and acquisitions engagements are recognized at a point in time when the related transaction is completed. Advisory fees from restructuring engagements are recognized over time using a time elapsed measure of progress. Expenses associated with investment banking advisory engagements 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 advisory engagements, are expensed as incurred. All investment banking advisory expenses are recognized within their respective expense category on the Consolidated Statements of Earnings and any expenses reimbursed by clients are recognized as Investment banking revenues.



Underwriting and placement agent revenues are recognized at a point in time on trade-date. Costs associated with underwriting activities are deferred until the related revenue is recognized or the engagement is otherwise concluded and are recorded on a gross basis within Underwriting costs in the Consolidated Statements of Earnings.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Investment Banking - Years Ended November 30, 2017 and 2016. 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 - Year Ended November 30, 2018. Management and administrative fees are generally recognized over the period that the related service is provided. Performance fee revenue is generally recognized only at the end of the performance period to the extent that the benchmark return has been met.

Asset Management Fees - Years Ended November 30, 2017 and 2016. Management and administrative fees are generally recognized over the period that the related service is provided. 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 transactions 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 LLC 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.

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 transactions 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).



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

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

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 3: 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 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 on the best available information, taking into account the types of financial instruments, current financial information, restrictions (if any) 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 are permitted based on management's judgment, which takes into consideration the features of the financial instrument such as its complexity, the market in which the financial instrument is traded and underlying risk uncertainties about market conditions. 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. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

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 20, Related Party Transactions, for additional information regarding certain of these investments.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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. 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.

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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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, 2018 and 2017, furniture, fixtures and equipment, including amounts under capital leases, amounted to \$431.9 million and \$431.7 million, respectively, and leasehold improvements amounted to \$219.7 million and \$214.0 million, respectively. Accumulated depreciation and amortization was \$347.5 million and \$348.0 million at November 30, 2018 and 2017, respectively.

Depreciation and amortization expense amounted to \$56.2 million, \$51.7 million and \$47.9 million for the years ended November 30, 2018, 2017 and 2016, 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<sup>st</sup> 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 the 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.

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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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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. Our annual indefinite-lived intangible asset impairment testing date is August 1st. 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 Jefferies. 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 Jefferies, payments are made between us and Jefferies 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.

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.

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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 FASB 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.

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 transactions 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. Transfers of financial assets to securitization vehicles 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 within 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 continues to recognize the assets of a secured borrowing in Financial instruments owned and recognizes 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

Consolidation. In October 2018, the FASB issued ASU No. 2018-17, Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities. The guidance requires indirect interests held through related parties under common control arrangements be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The guidance is effective in the first quarter of fiscal 2021. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Internal-Use Software. In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The guidance amends the definition of a hosting arrangement and requires that the customer in a hosting arrangement that is a service contract capitalize certain implementation costs as if the arrangement was an internal-use software project. The guidance is effective in the first quarter of fiscal 2021. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Defined Benefit Plans. In August 2018, the FASB issued ASU No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General: Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The objective of the guidance is to improve the effectiveness of disclosure requirements on defined benefit pension plans and other postretirement plans. The guidance is effective in the first quarter of fiscal 2021. We do not believe the new guidance will have a material impact on our consolidated financial statements.

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 2020. We do not believe the new guidance will have a material impact on our consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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. We do not believe the new guidance will have a material impact on our consolidated financial statements.

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. We do not believe the new guidance will have a material impact on our consolidated financial statements.

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. 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 (“ASU 2016-02”). The guidance affects the accounting for leases and provides for a lessee model that brings substantially all leases that are longer than one year onto the balance sheet, which will result in the recognition of a right of use asset and a corresponding lease liability. The right of use asset and lease liability will be measured initially using the present value of the remaining rental payments. A significant portion of the population of contracts that will be subject to recognition on our Consolidated Statements of Financial Condition have been identified; however, their initial measurement still remains under evaluation. We are currently modifying our lease accounting systems to enable us to comply with the accounting requirements of this guidance. In July 2018, the FASB issued ASU No. 2018-11, Leases: Targeted Improvements. The guidance allows an entity to recognize a cumulative-effect adjustment to the opening balance of retained earnings upon adoption of ASU 2016-02. We plan on adopting both lease ASUs in the first quarter of fiscal 2020 with a cumulative-effect adjustment to opening member’s equity in the period of adoption. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Adopted Accounting Standards

Fair Value Measurement. In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The objective of this guidance is to improve the effectiveness of disclosure requirements on fair value measurement by eliminating certain disclosure requirements for fair value measurements for all entities, requiring public entities to disclose certain new information and modifying some disclosure requirements. We early adopted this disclosure guidance in the third quarter of fiscal 2018 and the adoption did not have a material impact on our consolidated financial statements.

Comprehensive Income. In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows companies the option to reclassify stranded taxes from Accumulated other comprehensive income to retained earnings due to the decrease in the Federal Statutory tax rate from 35% to 21% resulting from the Tax Act. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted corporate income tax rate. We early adopted this guidance as of February 28, 2018, resulting in a reclassification adjustment of \$7.6 million related to unamortized pension liabilities, cash flow hedges and instrument specific credit risk in our consolidated financial statements.

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. We early adopted this guidance in the first quarter of fiscal 2018 and the adoption did not have a material impact on our Consolidated Statements of Earnings.

Statement of Cash Flows. In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). The guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash (“ASU 2016-18”), which 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 adopted both ASUs in the first quarter of fiscal 2018. Prior periods were retrospectively adjusted to conform to the current period's presentation. The adoption of ASU 2016-15 did not have a material impact on our Consolidated Statements of Cash Flows. Upon adoption of ASU 2016-18, we recorded a decrease of \$280.5 million and an increase of \$7.9 million in Net cash provided by (used by) operating activities for the years ended November 30, 2017 and 2016, respectively, related to reclassifying the changes in our restricted cash balance from operating activities to the cash and cash equivalent balances within the Consolidated Statements of Cash Flows.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**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. We adopted the guidance on financial liabilities under the fair value option in the first quarter of fiscal 2016 and we adopted the remaining guidance in the first quarter of fiscal 2018. 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 beginning Member's paid-in capital as the cumulative effect of adoption of this accounting change. The impact of adoption is primarily related to 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 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 applied to contracts that were not completed as of December 1, 2017. Accordingly, the new revenue standard is applied prospectively in our financial statements from December 1, 2017 forward and reported financial information for historical comparable periods is not revised and continues 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 transactions 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 transactions revenues, as these revenues are not considered to be within the scope of the new standard.

**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 Statements of Earnings 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., exceeding a specified benchmark index) and are recognized only to the extent it is 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

There was no significant impact as a result of applying the new revenue standard to our consolidated financial statements for the year ended November 30, 2018, except as it relates to the presentation of investment banking expenses. The table below presents the impact to revenues and expenses as a result of the change in presentation of investment banking expenses (in thousands):

	Year Ended November 30, 2018		
	As Reported	ASC 606 Impact	Adjusted (1)
Revenues:			
Investment banking	\$1,910,203	\$131,789	\$1,778,414
Total revenues	4,429,632	131,789	4,297,843
Net revenues	3,183,376	131,789	3,051,587
Non-interest expenses:			
Underwriting costs	64,317	64,317	—
Technology and communications	305,655	489	305,166
Business development	163,756	62,676	101,080
Professional services	139,885	3,210	136,675
Other expenses	73,812	1,097	72,715
Total non-compensation expenses	1,037,445	131,789	905,656
Total non-interest expenses	2,773,709	131,789	2,641,920

(1) The amounts reflect each affected financial statement line item as they would have been reported under U.S. GAAP, prior to the adoption of the new revenue standard.

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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 net asset value ("NAV") of \$322.9 million and \$215.4 million at November 30, 2018 and 2017, respectively, by level within the fair value hierarchy (in thousands):

	November 30, 2018			Counterparty and Cash Collateral Netting (1)	Total
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$1,907,945	\$118,681	\$51,040	\$—	\$2,077,666
Corporate debt securities	—	2,683,180	9,484	—	2,692,664
Collateralized debt obligations and collateralized loan obligations	—	72,949	25,815	—	98,764
U.S. government and federal agency securities	1,789,614	56,592	—	—	1,846,206
Municipal securities	—	894,253	—	—	894,253
Sovereign obligations	1,769,556	1,043,409	—	—	2,812,965
Residential mortgage-backed securities	—	2,163,629	19,603	—	2,183,232
Commercial mortgage-backed securities	—	819,406	10,886	—	830,292
Other asset-backed securities	—	239,381	53,175	—	292,556
Loans and other receivables	—	2,056,593	46,985	—	2,103,578
Derivatives	12,186	2,524,988	5,922	(2,412,486 )	130,610
Investments at fair value	—	—	113,831	—	113,831
Total financial instruments owned, excluding Investments at fair value based on NAV	\$5,479,301	\$12,673,061	\$336,741	\$(2,412,486)	\$16,076,617
<b>Liabilities:</b>					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$1,685,071	\$1,444	\$—	\$—	\$1,686,515
Corporate debt securities	—	1,505,618	522	—	1,506,140
U.S. government and federal agency securities	1,384,295	—	—	—	1,384,295
Sovereign obligations	1,735,242	661,095	—	—	2,396,337
Loans	—	1,371,630	6,376	—	1,378,006
Derivatives	26,471	3,585,249	27,536	(2,511,605 )	1,127,651
Total financial instruments sold, not yet purchased	\$4,831,079	\$7,125,036	\$34,434	\$(2,511,605)	\$9,478,944
Long-term debt	\$—	\$485,425	\$200,745	\$—	\$686,170

(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, 2017			Counterparty and Cash Collateral Netting (1)	Total
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
<b>Financial instruments owned:</b>					
Corporate equity securities	\$1,801,453	\$57,091	\$22,009	\$—	\$1,880,553
Corporate debt securities	—	3,261,300	26,036	—	3,287,336
Collateralized debt obligations and collateralized loan obligations	—	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>					
<b>Financial instruments sold, not yet purchased:</b>					
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.

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 and 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 of the fair value hierarchy 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.

**Collateralized Debt Obligations and Collateralized Loan Obligations**

Collateralized debt obligations (“CDOs”) and collateralized loan obligations (“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 obtained from external pricing services 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. Sovereign government obligations, with consideration given to the country of issuance, are generally categorized in Level 1 or Level 2 of the fair value hierarchy.

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 and interest-only (including inverse interest-only) securities. Agency RMBS are generally measured using recent transactions, pricing data from external pricing services or expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral and are categorized within Level 2 of the fair value hierarchy. 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 factors such as weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer and weighted average loan age.

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, prices observed from recently executed market transactions or based on expected cash flow models that incorporate underlying loan collateral characteristics and performance. Non-Agency CMBS are categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability of the underlying inputs.

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 or Level 3 of the fair value hierarchy. Valuations are primarily determined using pricing data obtained from external pricing services, broker quotes and prices observed from recently executed market transactions. In addition, recent transaction data from comparable deals is deployed to develop market clearing yields and cumulative loss assumptions. The cumulative loss assumptions are based on the analysis of the underlying collateral and comparisons to earlier deals from the same issuer to gauge the relative performance of the deal.





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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 consensus pricing service quotations. Where available, market price quotations from external pricing services are reviewed to ensure they 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 flows 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 and data provider pricing. 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 to account for the arbitrage that is realized at the time of securitization. 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 observations 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 or consensus pricing services. 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. Where available, valuation inputs are calibrated from observable 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 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. Where available, external data is used 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**

Investments at fair value includes 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 included investments in insurance contracts relating to our defined benefit plan in Germany. Refer to Note 14, Benefit Plans, for further information. 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, 2018		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$ 15,338	\$ —	Quarterly
Equity Funds (3)	40,070	20,996	—
Commodity Funds (4)	10,129	—	Quarterly
Multi-asset Funds (5)	256,972	—	—
Other Funds (6)	400	—	—
Total	\$ 322,909	\$ 20,996	
	November 30, 2017		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$ 33,176	\$ —	Monthly, Quarterly
Equity Funds (3)	26,798	19,084	—
Multi-asset Funds (5)	154,805	—	—

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Other Funds (6)	606	—	—
Total	\$ 215,385	\$ 19,084	

(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, 2018 and 2017, approximately 3% and 1%, respectively, of the fair value of investments in this category are classified as being in liquidation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(3) At November 30, 2018 and 2017, 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 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 be liquidated in one to ten years.

(4) This category includes investments in hedge funds that invest, long and short, primarily in commodities.

(4) Investments in this category are redeemable quarterly with 60 days prior written notice.

(5) 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 November 30, 2018 and 2017, investments representing approximately 15% and 12%, respectively, of the fair value of investments in this category are redeemable with 30 days prior written notice.

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

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

Short-term borrowings that are accounted for at fair value include equity-linked notes, which are generally categorized within Level 2 of 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), digital 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 as well as prices for transactions in a given note during the period. Long-term debt notes are generally categorized within Level 2 of the fair value hierarchy where market trades have been observed during the quarter, otherwise categorized within Level 3.

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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, 2018 (in thousands):

	Balance at November 30, 2017	Total gains/losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances (net of Level 3)	Net transfers into/	Balance at November 30, 2018	For instruments still held at November 30, 2018, changes in unrealized gains/(losses) included in:	
									Earnings (1)	Other comprehensive income (1)
<b>Assets:</b>										
<b>Financial instruments owned:</b>										
Corporate equity securities	\$ 22,009	\$ 24,023	\$ 31,669	\$(22,759)	\$(3,977)	\$ —	-\$ 75	\$ 51,040	\$ 22,774	\$ —
Corporate debt securities	26,036	(439 )	10,352	(23,364 )	(1,679 )	—	(1,422)	9,484	(2,606 )	—
CDOs and CLOs	30,004	(14,368 )	356,650	(353,330)	(10,247 )	—	17,106	25,815	(7,605 )	—
RMBS	26,077	(6,970 )	3,118	(12,816 )	(513 )	—	10,707	19,603	521	—
CMBS	12,419	(2,186 )	1,436	(471 )	(16,624 )	—	16,312	10,886	(4,000 )	—
Other ABS	61,129	(9,934 )	706,846	(677,220)	(27,641 )	—	(5 )	53,175	(5,283 )	—
Loans and other receivables	47,304	(5,137 )	149,228	(130,832)	(15,311 )	—	1,733	46,985	(8,457 )	—
Investments at fair value	93,454	2,353	34,648	(17,570 )	—	—	946	113,831	1,759	—
<b>Liabilities:</b>										
<b>Financial instruments sold, not yet purchased:</b>										
Corporate equity securities	\$ 48	\$ —	\$ —	\$ —	\$ —	\$ —	-\$ (48 )	\$ —	\$ —	\$ —
Corporate debt securities	522	—	—	—	—	—	—	522	—	—
CMBS	105	(105 )	—	—	—	—	—	—	—	—
Loans	3,486	84	(4,626 )	7,432	—	—	—	6,376	(28 )	—
Net derivatives (2)	6,746	(3,237 )	(17 )	14,920	(1,335 )	—	4,537	21,614	(646 )	—
Long-term debt	—	(30,347 )	—	—	—	—	84,860	46,232	200,745	10,951
										19,396

Realized and unrealized gains/losses are primarily reported in Principal transactions revenues in our Consolidated (1) Statements of Earnings. Changes in instrument-specific credit risk related to structured notes are included in our Consolidated Statement of Comprehensive Income, net of tax.

(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, 2018

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During the year ended November 30, 2018, transfers of assets of \$57.8 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

• CDOs and CLOs of \$17.3 million, CMBS of \$16.3 million and RMBS of \$15.3 million due to reduced pricing transparency.

During the year ended November 30, 2018, transfers of assets of \$12.3 million from Level 3 to Level 2 are primarily attributed to:

• RMBS of \$4.6 million, corporate debt securities of \$3.6 million and corporate equity securities of \$2.9 million due to greater pricing transparency supporting classification into Level 2.

During the year ended November 30, 2018, there were transfers of structured notes of \$146.2 million from Level 2 to Level 3 due to reduced market transparency.

Net losses on Level 3 assets were \$12.7 million and net gains on Level 3 liabilities were \$33.6 million for the year ended November 30, 2018. Net losses on Level 3 assets were primarily due to decreased market values in CDOs and CLOs, other ABS, RMBS and certain loans and other receivables, partially offset by increased market values in corporate equity securities. Net gains on Level 3 liabilities were primarily due to decreased valuations of certain structured notes.

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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, 2017 (in thousands):

	Balance at November 30, 2016	Total gains/ losses realized and unrealized (1)	Purchases	Sales	Settlements	Issuances/ net (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	\$ —	\$ 22,009	\$ 2,515
Corporate debt securities	25,005	(3,723 )	36,850	(34,077)	(1,968)	—	26,036	(3,768 )
CDOs and CLOs	54,354	(19,858 )	112,239	(110,907)	(367 )	—	30,004	(2,262 )
Municipal securities	27,257	(1,547 )	—	(25,710)	—	—	—	—
RMBS	38,772	(10,817 )	6,805	(26,193)	(115 )	—	26,077	(7,201 )
CMBS	20,580	(5,346 )	3,275	(5,263 )	(1,018)	—	12,419	(6,976 )
Other ABS	40,911	(17,705 )	77,508	(8,613 )	(25,799)	—	61,129	(12,562 )
Loans and other receivables	81,872	24,794	63,768	(53,095)	(34,622)	—	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 )
Loans	378	196	(385 )	2,485	—	—	3,486	(2,639 )
Net derivatives (2)	3,441	(1,638 )	—	—	5,558	456	(1,071 )	(17,740 )
Other secured financings	418	(418 )	—	—	—	—	—	—

(1) Realized and unrealized gains/losses are reported in Principal transactions 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):

	Balance at November 30, 2015	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances/ net transfers (out of) Level 3	Balance at November 30, 2016	Change in unrealized gain/ (losses) relating to instruments still held at November 30, 2016 (1)
<b>Assets:</b>								
<b>Financial instruments owned:</b>								
Corporate equity securities	\$40,906	\$(8,463 )	\$3,365	\$(49 )	\$(671 )	\$—	\$21,739	\$291
Corporate debt securities	25,876	(16,230 )	27,242	(29,347 )	(7,223 )	—	25,005	(18,799 )
CDOs and CLOs	85,092	(14,918 )	52,316	(69,394 )	(2,750 )	—	54,354	(7,628 )
Municipal securities	—	(1,462 )	—	—	—	—	27,257	(1,462 )
Sovereign obligations	120	5	—	(125 )	—	—	—	—
RMBS	70,263	(9,612 )	623	(12,249 )	(931 )	—	38,772	(1,095 )
CMBS	14,326	(7,550 )	3,132	(2,024 )	(2,229 )	—	20,580	(7,243 )
Other ABS	42,925	(14,381 )	133,986	(102,952 )	(8,769 )	—	40,911	(18,056 )
Loans and other receivables	189,289	(42,566 )	75,264	(69,262 )	(46,851 )	—	81,872	(52,003 )
Investments, at fair value	53,120	(13,278 )	26,228	(542 )	(1,107 )	—	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	—
Loans	10,469	—	—	378	—	—	378	—
Net derivatives (2)	(242 )	(1,760 )	—	11,101	31	2,067	3,441	(6,458 )
Other secured financings	544	(126 )	—	—	—	—	418	(126 )

(1) Realized and unrealized gains/losses are reported in Principal transactions 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;

- 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

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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.

Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at November 30, 2018 and 2017

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, 2018

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
Corporate equity securities	\$ 43,644				
Non-exchange-traded securities		Market approach	Price	\$1-\$75	\$ 12
			Transaction level	\$47	—
Corporate debt securities	\$ 9,484	Market approach	Estimated recovery percentage	46%	—
			Transaction level	\$80	—
CDOs and CLOs	\$ 25,815	Discounted cash flows	Constant prepayment rate	10%-20%	18 %
			Constant default rate	1%-2%	2 %
			Loss severity	25%-30%	26 %
			Discount rate/yield	11%-16%	14 %
		Scenario analysis	Estimated recovery percentage	2%	—
RMBS	\$ 19,603	Discounted cash flows	Cumulative loss rate	4%	—
			Duration (years)	13	—
			Discount rate/yield	3%	—
			Loss severity	0%	—
CMBS	\$ 9,444	Market approach	Price	\$100	—
		Discounted cash flows	Cumulative loss rate	8%-85%	45 %
			Duration (years)	1-3	1
			Discount rate/yield	2%-15%	6 %
			Loss severity	64%	—
		Scenario analysis	Estimated recovery percentage	26%	—
Other ABS	\$ 53,175	Discounted cash flows	Price	\$49	—
			Cumulative loss rate	12%-30%	22 %
			Duration (years)	1-2	1
			Discount rate/yield	6%-12%	8 %
Loans and other receivables	\$ 46,078	Market approach	Price	\$100	—
		Scenario analysis	Estimated recovery percentage	13%-117%	105 %
Derivatives	\$ 4,602				
Total return swaps		Market approach	Price	\$97	—
Interest rate swaps		Market approach	Price	\$20	—
Investments at fair value	\$ 113,831				
Private equity securities		Market approach	Price	\$3-\$250	\$ 108
			Transaction level	\$169	—
		Scenario analysis	Discount rate/yield	20%	—
			Revenue growth	0%	—
Financial Instruments Sold, Not Yet Purchased:					

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Loans	\$ 6,376	Market approach	Price	\$50-\$101	\$ 74
Derivatives	\$ 27,536				
Equity options		Option model/default rate	Default probability	0%	—
		Volatility benchmarking	Volatility	39%-62%	50 %
Interest rate swaps		Market approach	Price	\$20	—
Total return swaps		Market approach	Price	\$97	—
Long-term debt					
Structured notes	\$ 200,745	Market approach	Price	\$78-\$94	\$ 86
			Price	€68-€110	€ 96

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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

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		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%	—

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, 2018 and 2017, asset exclusions consisted of \$11.1 million and \$21.1 million, respectively, primarily comprised of private equity securities, non-exchange-traded securities, CMBS, loans and other receivables and certain derivatives. At November 30, 2018 and 2017, liability exclusions consisted of \$0.5 million and \$4.2 million, respectively, of CMBS, loans and corporate debt and equity securities.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Uncertainty of Fair Value Measurement From Use of Significant Unobservable Inputs

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

- Non-exchange-traded securities using comparable pricing valuation techniques. A significant increase (decrease) in the comparable asset 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, interest rate swaps, total return swaps, RMBS, other ABS, private equity securities, and structured notes using a market approach valuation technique. A significant increase (decrease) in the transaction level of a non-exchange-traded security, corporate debt security and private equity security 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, interest rate swaps, RMBS, other ABS, loans and other receivables or structured notes 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, other ABS and private equity securities 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. A significant increase (decrease) in the discount rate/yield underlying the investment would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in the revenue growth underlying the investment would result in a significantly higher (lower) fair value measurement.

- CDOs and CLOs, RMBS, CMBS, other ABS and variable funding note swaps 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/default rate model. A significant increase (decrease) in default probability would result in a significantly lower (higher) fair value measurement.

- Derivative equity options using volatility benchmarking. A significant increase (decrease) in volatility 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 businesses 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,		
	2018	2017	2016
Financial instruments owned:			
Loans and other receivables	\$(3,856 )	\$22,088	\$(68,812)
Financial instruments sold:			
Loans	\$(46 )	\$—	\$9
Loan commitments	(739 )	230	5,509
Long-term debt:			
Changes in instrument specific credit risk (1)	\$38,064	\$(34,609)	\$(10,745)
Other changes in fair value (2)	48,748	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, long term debt and short-term borrowings measured at fair value under the fair value option (in thousands):

	November 30,	
	2018	2017
Financial instruments owned:		
Loans and other receivables (1)	\$806,798	\$752,076
Loans and other receivables on nonaccrual status and/or 90 days or greater past due (1) (2)	24,389	159,462
Long-term debt and short-term borrowings	114,669	32,839

(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 90 days or greater past due by which contractual principal exceeds fair value of \$20.5 million and \$38.7 million at November 30, 2018 and 2017, respectively.

The aggregate fair value of loans and other receivables on nonaccrual status and/or 90 days or greater past due was \$105.3 million and \$55.1 million at November 30, 2018 and 2017, respectively, which includes loans and other receivables 90 days or greater past due of \$19.4 million and \$37.4 million at November 30, 2018 and 2017, 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 we recognized a non-recurring fair value adjustment during the years ended November 30, 2018, 2017 and 2016 (in thousands):

	Carrying Value at November 30, 2018	Level 2	Level 3	Impairment Losses for the Year Ended November 30, 2018
Exchange ownership interests and registrations (1)	\$ 2,663	\$2,663	\$	—\$ 9
	Carrying Value at November 30, 2017	Level 2	Level 3	Impairment Losses for the Year Ended November 30, 2017
Exchange ownership interests and registrations (1)	\$ 2,672	\$2,672	\$	—\$ 613
	Carrying Value at November 30, 2016	Level 2	Level 3	Impairment Losses for the Year Ended November 30, 2016
Exchange ownership interests and registrations (1)	\$ 2,716	\$2,716	\$	—\$ 1,284

Impairment losses for exchange memberships, which represent ownership interests in market exchanges on which trading business is conducted, and registrations, were recognized in Other expenses. The fair value of these (1) 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, 2018, 2017 and 2016, primarily in the Fixed income reporting unit.

There were no assets measured at fair value on a non-recurring basis, which utilized Level 1 inputs during the years ended November 30, 2018, 2017 and 2016. There were no liabilities measured at fair value on a non-recurring basis during the years ended November 30, 2018, 2017 and 2016.

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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 \$34.8 million and \$99.7 million at November 30, 2018 and 2017, 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 17, 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 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, 2018 and 2017 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, 2018 (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	\$—	—	\$29,647	1
Total derivatives designated as accounting hedges	—		29,647	
Derivatives not designated as accounting hedges:				
Interest rate contracts:				
Exchange-traded	924	32,159	513	66,095
Cleared OTC	422,670	2,095	411,833	2,394
Bilateral OTC	372,899	1,398	491,697	816
Foreign exchange contracts:				
Exchange-traded	42	538	2	690
Cleared OTC	—	—	36	3
Bilateral OTC	311,228	9,548	314,951	9,909
Equity contracts:				
Exchange-traded	1,202,927	2,104,684	2,061,137	1,779,836
Bilateral OTC	207,221	5,126	315,996	2,764
Commodity contracts:				
Exchange-traded	213	3,927	270	4,012
Credit contracts:				
Cleared OTC	11,204	7	1,556	14
Bilateral OTC	13,768	123	11,618	79
Total derivatives not designated as accounting hedges	2,543,096		3,609,609	
Total gross derivative assets/ liabilities:				
Exchange-traded	1,204,106		2,061,922	
Cleared OTC	433,874		443,072	
Bilateral OTC	905,116		1,134,262	
Amounts offset in our Consolidated Statements of Financial Condition				
(3):				
Exchange-traded	(1,190,951)		(1,190,951)	
Cleared OTC	(407,351)		(418,779)	
Bilateral OTC	(814,184)		(901,875)	
Net amounts per Consolidated Statements of Financial Condition (4)	\$130,610		\$1,127,651	

Exchange-traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives (1) 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 (2) 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.

We have not received or pledged additional collateral under master netting agreements and/or other credit support (4) 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, 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 (3)	\$—	—	\$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 (3)	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 accounting 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 (4):				
Exchange-traded	(1,268,043)		(1,268,043)	
Cleared OTC (3)	(1,319,895)		(1,274,900)	
Bilateral OTC	(666,278)		(883,306)	
Net amounts per Consolidated Statements of Financial Condition (5)	\$163,833		\$236,950	

Exchange-traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives (1) 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 (2) contracts is included in Receivables from/Payables to brokers, dealers and clearing organizations in our Consolidated Statements of Financial Condition.

(3) Pursuant to a rule change by the London Clearing House in the first fiscal quarter of 2018, variation margin exchanged each day with this clearing organization on certain interest rate 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, 2017 of approximately \$800 million, 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

We have not received or pledged additional collateral under master netting agreements and/or other credit support (5) agreements that is eligible to be offset beyond what has been offset in our Consolidated Statements of Financial Condition.

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 November 30,		
Gains (Losses)	2018	2017	2016
Interest rate swaps	\$(25,539)	\$(2,091)	\$ —
Long-term debt	27,363	8,124	—
Total	\$1,824	\$6,033	\$ —

The following table presents unrealized and realized gains (losses) on derivative contracts recognized in Principal transactions revenues 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)	2018	2017	2016
Interest rate contracts	\$67,291	\$2,959	\$(34,319 )
Foreign exchange contracts	(304 )	4,735	18,122
Equity contracts	(232,873 )	(303,953 )	(650,815 )
Commodity contracts	1,112	(4,911 )	1,310
Credit contracts	2,715	8,508	13,039
Total	\$(162,059)	\$(292,662)	\$(652,663)

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, 2018 (in thousands):

	OTC Derivative Assets (1) (2) (3)				Total
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)	
Equity swaps and options	\$1,769	\$13,966	\$4,934	\$(1,889 )	\$18,780
Credit default swaps	66	12,060	3,984	(899 )	15,211
Total return swaps	95,130	19,519	—	(1,786 )	112,863
Foreign currency forwards, swaps and options	39,162	15,942	—	(12,528 )	42,576
Fixed income forwards	3,911	—	—	—	3,911
Interest rate swaps, options and forwards	27,851	93,303	103,165	(77,874 )	146,445
Total	\$167,889	\$154,790	\$112,083	\$(94,976 )	339,786
Cross product counterparty netting					(18,743 )
Total OTC derivative assets included in Financial instruments owned					\$321,043

(1) At November 30, 2018, we held exchange-traded derivative assets and other credit agreements with a fair value of \$14.8 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, 2018, cash collateral received was \$205.3 million.

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

	OTC Derivative Liabilities (1) (2) (3)				Total
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)	
Equity swaps and options	\$52,466	\$83,938	\$35,730	\$ (1,889)	) \$170,245
Credit default swaps	164	1,197	1,548	(899)	) 2,010
Total return swaps	64,296	11,549	—	(1,786)	) 74,059
Foreign currency forwards, swaps and options	43,593	15,546	—	(12,528)	) 46,611
Interest rate swaps, options and forwards	30,518	135,874	196,171	(77,874)	) 284,689
Total	\$191,037	\$248,104	\$233,449	\$ (94,976)	) 577,614
Cross product counterparty netting					(18,743 )
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					\$558,871

- (1) At November 30, 2018, we held exchange-traded derivative liabilities and other credit agreements with a fair value of \$873.5 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 net of collateral pledged in our Consolidated Statements of Financial Condition. At November 30, 2018, cash collateral pledged was \$304.7 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, 2018 (in thousands):

Counterparty credit quality (1):	
A- or higher	\$157,742
BBB- to BBB+	18,390
BB+ or lower	119,713
Unrated	25,198
Total	\$321,043

We utilize internal credit ratings determined by our Risk Management department. Credit ratings determined by 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, 2018		Unrated	Total Notional
	Investment Grade	Non-investment Grade		
Credit protection sold:				
Index credit default swaps	\$25.7	\$ 167.4	\$	—\$ 193.1
Single name credit default swaps	57.7	84.5	3.0	145.2



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	November 30, 2017		
	External Credit		
	Rating		
	Investment	Non-investment	Total
	Grade	Grade	Notional
Credit protection sold:			
Index credit default swaps	\$3.0	\$ 46.0	\$ 49.0
Single name credit default swaps	129.1	89.1	218.2

## 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 following table presents the aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a liability position, the collateral amounts we have posted or received in the normal course of business and the potential collateral we would have been required to return and/or post additionally to our counterparties if the credit-risk-related contingent features underlying these agreements were triggered (in millions):

	November 30,	
	2018	2017
Derivative instrument liabilities with credit-risk-related contingent features	\$93.5	\$95.1
Collateral posted	(61.5 )	(86.4 )
Collateral received	91.5	5.6
Return of and additional collateral required in the event of a credit rating downgrade below investment grade (1)	123.3	14.3

(1) These potential outflows include initial margin received from counterparties at the execution of the derivative contract. The initial margin will be returned if counterparties elect to terminate the contract after a downgrade.

## 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.

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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, 2018			Total
	Securities Lending Arrangements	Repurchase Agreements		
Collateral Pledged:				
Corporate equity securities	\$ 1,505,218	\$ 487,124		\$ 1,992,342
Corporate debt securities	333,221	1,853,309		2,186,530
Mortgage- and asset-backed securities	249	2,820,543		2,820,792
U.S. government and federal agency securities	—	8,181,947		8,181,947
Municipal securities	—	604,274		604,274
Sovereign obligations	—	2,945,521		2,945,521
Loans and other receivables	—	300,768		300,768
Total	\$ 1,838,688	\$ 17,193,486		\$ 19,032,174
	November 30, 2017			
	Securities Lending Arrangements	Repurchase Agreements	Obligation To Return Securities Received As 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

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, 2018				Total
	Overnight and Continuous	Up to 30 Days	31-90 Days	Greater than 90 Days	
Securities lending arrangements	\$ 807,347	\$ —	\$ 560,417	\$ 470,924	\$ 1,838,688
Repurchase agreements	7,849,052	1,915,325	6,042,951	1,386,158	17,193,486
Total	\$ 8,656,399	\$ 1,915,325	\$ 6,603,368	\$ 1,857,082	\$ 19,032,174

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	November 30, 2017				Total
	Overnight and Continuous	Up to 30 Days	31-90 Days	Greater than 90 Days	
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

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, 2018 and 2017, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$23.1 billion and \$27.1 billion, respectively. At November 30, 2018 and 2017, a substantial portion of the securities received by us had been sold or repledged.

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, 2018

	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (3)
<b>Assets</b>						
Securities borrowing arrangements	\$6,538,212	\$ —	\$ 6,538,212	\$(468,778)	\$(1,193,986)	\$ 4,875,448
Reverse repurchase agreements	11,336,175	(8,550,417)	2,785,758	(609,225)	(2,126,730)	49,803
<b>Liabilities</b>						
Securities lending arrangements	\$1,838,688	\$ —	\$ 1,838,688	\$(468,778)	\$(1,343,704)	\$ 26,206
Repurchase agreements	17,193,486	(8,550,417)	8,643,069	(609,225)	(7,070,967)	962,877



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	November 30, 2017					
	Gross	Netting in	Net	Additional	Available	Net
	Amounts	Consolidated	Amounts in	Amounts	Collateral (2)	Amount (4)
		Statement	Consolidated	Available		
		of	Statement of	for Setoff		
		Financial	Financial	(1)		
		Condition	Condition			
<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 as collateral	103	—	103	—	(103)	—

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 (1) 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 (2) 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 \$4,825.7 million of securities borrowing arrangements, for which we have received securities (3) collateral of \$4,711.7 million, and \$931.7 million of repurchase agreements, for which we have pledged securities collateral of \$963.6 million, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

Amounts include \$5,678.6 million of securities borrowing arrangements, for which we have received securities (4) 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.

#### 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 \$708.0 million and \$578.0 million at November 30, 2018 and 2017, respectively. Segregated cash and securities consist of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Jefferies LLC 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.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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, and Note 4, Fair Value Disclosures, herein.

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,		
	2018	2017	2016
Transferred assets	\$7,159.3	\$4,552.9	\$5,786.0
Proceeds on new securitizations	7,165.3	4,594.5	5,809.0
Cash flows received on retained interests	48.5	28.7	28.2

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, 2018 and 2017.

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

Securitization Type	November 30,			
	2018		2017	
	Total Assets	Retained Interests	Total Assets	Retained Interests
U.S. government agency RMBS	\$13,633.5	\$365.3	\$6,383.5	\$28.2
U.S. government agency CMBS	2,027.6	185.6	2,075.7	81.4
CLOs	3,512.0	20.9	3,957.8	20.3
Consumer and other loans	604.1	48.9	247.6	47.8

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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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;
- Warehouse funding arrangements for client-sponsored consumer loan vehicles and CLOs through participation certificates, forward sale agreements 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 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 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, 2018 and 2017 (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,			
	2018		2017	
	Securitization Vehicles	Other	Securitization Vehicles	Other
Cash	\$—	\$ 1.1	\$ 6.5	\$ 1.1
Financial instruments owned	—	0.4	37.6	0.4
Securities purchased under agreements to resell (1)	883.1	—	729.3	—
Fees, interest and other receivables	—	—	0.2	—
Total assets	\$ 883.1	\$ 1.5	\$ 773.6	\$ 1.5
Other secured financings (2)	\$ 882.5	\$ —	\$ 766.2	\$ —
Other liabilities	0.6	0.2	5.9	0.2
Total liabilities	\$ 883.1	\$ 0.2	\$ 772.1	\$ 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 \$1.0 million and \$44.1 million of the secured financing represent amounts held by us in inventory and are eliminated in consolidation at November 30, 2018 and 2017, respectively.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Securitization Vehicles.** We are the primary beneficiary of asset-backed financing vehicles to which we sell agency and non-agency residential and commercial mortgage loans, mortgage-backed securities and consumer loans pursuant to the terms of a master repurchase agreement. Our variable interests in these vehicles consist of our collateral margin maintenance obligations under the master repurchase agreement, which we manage, 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 were previously the primary beneficiary of a securitization vehicle associated with our financing of small business loans. In the creation of the securitization vehicle, we were involved in the decisions made during the establishment and design of the entity and held variable interests consisting of the securities retained that could potentially be significant. The assets of the VIE consisted of small business loans, which were available for the benefit of the vehicles' beneficial interest holders. The creditors of the VIE did not have recourse to our general credit and the assets of the VIE were not available to satisfy any other debt.

**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, 2018			
	Carrying Amount		Maximum	VIE
	Assets	Liabilities	Exposure to Loss	Assets
CLOs	\$42.1	\$ —	—\$ 568.3	\$3,088.9
Consumer loan and other asset-backed vehicles	462.1	—	807.1	3,273.1
Related party private equity vehicles	35.5	—	53.5	108.3
Other investment vehicles	95.0	—	99.1	3,558.1
Total	\$634.7	\$ —	—\$ 1,528.0	\$10,028.4
	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 and other asset-backed vehicles	254.8	—	759.8	2,322.7
Related party private equity vehicles	23.7	—	45.4	75.0
Other investment vehicles	48.0	—	48.7	2,938.4
Total	\$490.0	\$ 8.9	\$ 1,874.4	\$10,546.5

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;

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

¶Trading positions in securities issued in a CLO transaction; and

¶Investments in variable funding notes issued by CLOs.

Consumer Loan and Other Asset-Backed 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 and trust preferred securities. 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.

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. At November 30, 2018 and 2017, our total equity commitment in the JCP Entities were \$139.3 million and \$148.1 million, respectively, of which \$121.3 million and \$126.3 million had been funded, respectively. The carrying value of our equity investments in the JCP Entities was \$35.5 million and \$23.7 million at November 30, 2018 and 2017, 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.

Other Investment Vehicles. At November 30, 2018 and 2017, we had equity commitments to invest \$112.2 million and \$61.8 million, respectively, in various other investment vehicles, of which \$108.1 million and \$61.0 million was funded, respectively. The carrying value of our equity investments was \$95.0 million and \$48.0 million at November 30, 2018 and 2017, respectively. Our exposure to loss is limited to the total of our carrying value and unfunded equity commitment. These 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.

At November 30, 2018 and 2017, we held \$2,913.0 million and \$1,829.6 million of agency mortgage-backed securities, respectively, and \$170.5 million and \$253.2 million of non-agency mortgage and other asset-backed securities, respectively, as a result of our secondary trading and market-making activities, and underwriting, placement and structuring 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 LLC (“Jefferies Finance”), Berkadia and Epic Gas Ltd. (“Epic Gas”). Our investments in Jefferies Finance, Berkadia 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 one of our directors and our Chairman of the Executive Committee. In addition, we had investments in KCG Holdings, Inc. (“KCG”) and Jefferies LoanCore LLC (“Jefferies LoanCore”), which were sold on July 20, 2017 and October 31, 2017, respectively. 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 Statement of Financial Condition with changes in fair value recognized in Principal transactions revenues in our Consolidated Statements of Earnings. Our investment in Jefferies LoanCore was accounted for under the equity method with our share of the investees’ earnings recognized in Other 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 LLC. 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, 2018, 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, 2018, we had funded \$694.8 million of our \$750.0 million commitment, leaving \$55.2 million unfunded. The investment commitment is scheduled to expire on March 1, 2019 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, 2018. Advances are shared equally between us and MassMutual. The facility is scheduled to mature on March 1, 2019 with automatic one year extensions absent a 60 day termination notice by either party. At November 30, 2018, 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		
	November 30,		
	2018	2017	2016
Interest income	\$1.2	\$2.9	\$0.1
Unfunded commitment fees	1.2	1.0	1.2

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,	
	2018	2017
Total assets	\$7,779.4	\$8,164.9
Total liabilities	6,389.8	6,892.6
Total equity	1,389.6	1,272.3

Our total equity balance	694.8	636.2	
	Year Ended November		
	30,		
	2018	2017	2016
Net earnings (loss)	\$197.2	\$181.7	\$(19.6)

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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 30,		
	2018	2017	2016
Origination and syndication fee revenues (1)	\$377.7	\$327.9	\$112.6
Origination fee expenses (1)	56.6	2.4	0.5
CLO placement fee revenues (2)	3.7	6.1	2.6
Derivative gains (losses) (3)	(1.6 )	(1.1 )	0.5
Underwriting fees (4)	0.3	—	—
Service fees (5)	61.7	50.7	46.1

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 (1) 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, 2018 and (2) 2017, we held securities issued by CLOs managed by Jefferies Finance, which are included in Financial instruments owned.

We have entered into participation agreements and derivative contracts with Jefferies Finance based upon certain (3) securities issued by the CLO and we have recognized gains (losses) relating to the derivative contracts.

(4) We acted as underwriter in connection with term loans issued by Jefferies Finance.

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

Receivables from Jefferies Finance, included in Other assets in our Consolidated Statements of Financial Condition, were \$35.2 million and \$20.5 million at November 30, 2018 and 2017, respectively. Payables from Jefferies Finance, related to cash deposited with us and included in Accrued expenses and other liabilities in our Consolidated Statements of Financial Condition, were \$14.1 million at November 30, 2018.

We enter into OTC foreign exchange contracts with Jefferies Finance. In connection with these contracts we had \$0.2 million recorded in Payables—brokers, dealers and clearing organizations and \$0.4 million recorded in Financial instruments sold, at fair value in our Consolidated Statements of Financial Condition at November 30, 2018. We recorded \$1.5 million in Financial instruments owned, at fair value in our Consolidated Statements of Financial Condition at November 30, 2017.

**Berkadia**

Berkadia is a commercial mortgage banking and servicing joint venture that was formed in 2009 by Jefferies and Berkshire Hathaway Inc. On October 1, 2018, Jefferies transferred its 50% voting equity interest in Berkadia and related arrangements to us. As a result, we are entitled to receive 45% of the profits of Berkadia. Berkadia originates commercial/multifamily real estate loans that are sold to U.S. government agencies, and originates and brokers commercial/multifamily mortgage loans which are not part of government agency programs. Berkadia is an investment sales advisor focused on the multifamily industry. Berkadia is a servicer of commercial real estate loans in the U.S., performing primary, master and special servicing functions for U.S. government agency programs, commercial mortgage-backed securities transactions, banks, insurance companies and other financial institutions.

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

	November 30, 2018
Total assets	\$ 3,875.8
Total liabilities	3,331.5
Total equity	544.3

Our total equity balance 245.2

Two  
Months  
Ended  
November  
30, 2018

Net earnings \$ 44.4

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

At November 30, 2018 and 2017, we had commitments to purchase \$723.8 million and \$864.1 million, respectively, in agency CMBS from Berkadia. During the two months ended November 30, 2018, we received \$23.1 million in cash distributions from Berkadia.

**JCP Fund V**

The amount of our investments in JCP Fund V included in Financial instruments owned, at fair value in our Consolidated Statements of Financial Condition was \$31.9 million and \$19.6 million at November 30, 2018 and 2017, 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 Principal transactions revenues in our Consolidated Statements of Earnings (in millions):

	Year Ended		
	November 30,		
	2018	2017	2016
Net gains (losses) from our investments in JCP Fund V	\$12.1	\$(10.7)	\$(1.1)

At November 30, 2018 and 2017, we were committed to invest equity of up to \$85.0 million in JCP Fund V.

At November 30, 2018 and 2017, our unfunded commitment relating to JCP Fund V was \$9.7 million and \$10.1 million, respectively.

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

	September 30,	
	2018 (1)	2017 (1)
Total assets	\$90,731	\$55,788
Total liabilities	76	96
Total partners' capital	90,655	55,692

	Nine	Three	Nine	Three	Nine	Three
	Months	Months	Months	Months	Months	Months
	Ended	Ended	Ended	Ended	Ended	Ended
	September	December	September	December	September	December
	30, 2018	31, 2017	30, 2017	31, 2016	30, 2016	31, 2015
	(1)	(1)	(1)	(1)	(1)	(1)
Net increase (decrease) in net assets resulting from operations	\$ 15,252	\$ 19,712	\$(24,630 )	\$(2,294 )	\$ 6,159	\$(7,886 )

(1) Financial information for JCP Fund V in our financial position and results of operations at November 30, 2018 and 2017 and for the years ended November 30, 2018, 2017 and 2016 is included based on the presented periods.

**Epic Gas**

On July 14, 2015, Jefferies LLC 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, 2018, we own approximately 21.1% of the outstanding common stock of Epic Gas.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

	November 30, 2018		2017
Our investment in Epic Gas (1)	\$21.7	\$22.2	

(1) Included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition.

	September 30, 2018		2017
	(1)	(1)	
Total assets	\$555.7	\$599.2	
Total liabilities	312.6	340.2	
Total equity	243.1	259.0	

	Nine Months Ended September 30, 2018 (1)	Three Months Ended December 31, 2017 (1)	Nine Months Ended September 30, 2017 (1)	Three Months Ended December 31, 2016 (1)	Nine Months Ended September 30, 2016 (1)	Three Months Ended December 31, 2015 (1)
Net losses \$	(3.7 )	(16.4 )	(14.5 )	(15.9 )	(7.4 )	(11.4 )

(1) Financial information for Epic Gas in our financial position and results of operations at November 30, 2018 and 2017 and for the years ended November 30, 2018, 2017 and 2016 is included based on the presented periods.

**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 four years in the event Jefferies LoanCore's yearly return on equity exceeds certain thresholds. For the eleven months ended October 31, 2017 and the year ended November 30, 2016, Jefferies LoanCore reported net earnings of \$37.5 million and \$71.8 million, respectively. In connection with Jefferies LoanCore, we entered into master repurchase agreements and earned interest income and fees of \$0.6 million and \$8.4 million during the years ended November 30, 2017 and 2016, respectively, related to these agreements.

**KCG**

Our investment in KCG was sold on July 20, 2017. The change in the fair value of our investment in KCG was net gains of \$93.4 million and \$19.6 million for the years ended November 30, 2017 and 2016, respectively, and was included in Principal transactions revenues in our Consolidated Statements of Earnings. 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 was based on the closing exchange price of KCG and included in Level 1 of the fair value hierarchy. For the year ended November 30, 2016, KCG reported net earnings of \$255.7 million. 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

## Note 10. Goodwill and Intangible Assets

## Goodwill

Goodwill attributed to our reportable business segments are as follows (in thousands):

	November 30,	
	2018	2017
Capital Markets (1)	\$ 1,638,778	\$ 1,644,089
Asset Management (1)	3,392	3,000
Total goodwill	\$ 1,642,170	\$ 1,647,089

Accumulated goodwill impairments related to the Capital Markets business segment were \$51.9 million at both December 1, 2018 and 2017, and goodwill prior to these impairments was \$1,690.7 million and \$1,696.0 million at (1)December 1, 2018 and 2017, respectively. Accumulated goodwill impairments related to the Asset Management business segment were \$2.1 million at both December 1, 2018 and 2017, and goodwill prior to these impairments was \$5.5 million and \$5.1 million at December 1, 2018 and 2017, respectively.

The following table is a summary of the changes to goodwill (in thousands):

	Year Ended November 30,	
	2018	2017
Balance, at beginning of period	\$ 1,647,089	\$ 1,640,653
Translation adjustments	(5,319 )	6,436
Goodwill acquired during the period (1)	400	—
Balance, at end of period	\$ 1,642,170	\$ 1,647,089

(1) Goodwill was acquired in connection with our purchase of LIML and relates to our Asset Management business segment.

## 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 incorporates 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, 2018.

Our annual goodwill impairment testing at August 1, 2018 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, which are part of our Capital Markets reportable business segment, 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## 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, 2018 and 2017 (dollars in thousands):

	November 30, 2018						
	Gross cost	Disposals (1)	Impairment losses	Accumulated amortization	Intangible Assets Acquired (2)	Net carrying amount	Weighted average remaining lives (years)
Customer relationships	\$125,574	\$ —	\$ —	\$(58,892)	\$ —	\$66,682	10.6
Trade name	128,348	—	—	(21,086)	—	107,262	29.3
Exchange and clearing organization membership interests and registrations	8,450	(93)	(9)	—	176	8,524	N/A
Total	\$262,372	\$(93)	\$(9)	\$(79,978)	\$176	\$182,468	

(1) Activity is primarily related to the disposal of certain exchange membership interests in the Capital Markets business segment due to the closing of a branch location in Dubai.

(2) Intangible assets were acquired in connection with our purchase of LIML and relates to our Asset Management business segment.

	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			

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, 2018. 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, 2018 and 2017, we recognized impairment losses 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 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 \$12.1 million, \$11.9 million and \$12.0 million for the years ended November 30, 2018, 2017 and 2016, 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, 2019	\$12,198
Year ending November 30, 2020	12,198
Year ending November 30, 2021	12,198
Year ending November 30, 2022	9,256

Year ending November 30, 2023 8,268

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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, 2018 and 2017 include the following and mature in one year or less (in thousands):

	November 30,	
	2018	2017
Bank loans (1)	\$330,942	\$304,651
Floating rate puttable notes	56,550	108,240
Equity-linked notes	—	23,324
Total short-term borrowings	\$387,492	\$436,215

(1) Bank loans include loans entered into, pursuant to a Master Loan Agreement, with the Bank of New York Mellon. At November 30, 2018, the weighted average interest rate on short-term borrowings outstanding is 3.08% per annum. Average daily short-term borrowings outstanding were \$472.6 million and \$482.4 million for the years ended November 30, 2018 and 2017, respectively.

Our floating rate puttable notes with principal amounts of €30.0 million and €11.0 million matured on April 8, 2018 and May 3, 2018, respectively. In addition, our equity-linked notes with a principal amount of \$23.3 million matured on December 7, 2017. See Note 4, Fair Value Disclosures, for further information on these notes.

The Bank of New York Mellon has agreed to make revolving intraday credit advances (“Intraday Credit Facility”) for an aggregate committed amount of \$150.0 million. The Intraday Credit Facility contains financial covenants, which includes a minimum regulatory net capital requirement for Jefferies LLC. Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. At November 30, 2018, we were in compliance with debt covenants under the Intraday Credit Facility.

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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,	
			2018	2017
Unsecured long-term debt				
5.125% Senior Notes	April 13, 2018	—%	\$—	\$682,338
8.500% Senior Notes	July 15, 2019	3.99%	699,659	728,872
2.375% Euro Medium Term Notes	May 20, 2020	2.42%	564,702	593,334
6.875% Senior Notes	April 15, 2021	4.40%	791,814	808,157
2.250% Euro Medium Term Notes	July 13, 2022	4.08%	4,243	4,389
5.125% Senior Notes	January 20, 2023	4.55%	612,928	615,703
4.850% Senior Notes (1)	January 15, 2027	4.93%	709,484	736,357
6.450% Senior Debentures	June 8, 2027	5.46%	373,669	375,794
3.875% Convertible Senior Debentures (2)	November 1, 2029	—%	—	324,779
4.150% Senior Notes	January 23, 2030	4.26%	987,788	—
6.250% Senior Debentures	January 15, 2036	6.03%	511,662	512,040
6.500% Senior Notes	January 20, 2043	6.09%	420,625	420,990
Structured notes (3) (4)	Various	Various	686,170	614,091
Total unsecured long-term debt			6,362,744	6,416,844
Secured long-term debt				
Revolving Credit Facility			183,539	—
Total long-term debt			\$6,546,283	\$6,416,844

These senior notes with a principal amount of \$750.0 million were issued on January 17, 2017. The carrying value includes gains of \$27.4 million and \$8.1 million during 2018 and 2017, respectively, 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 transactions revenues in our Consolidated Statements of Earnings, was not material for the years ended November 30, 2017 and 2016.

The carrying value includes \$686.2 million and \$607.0 million of notes carried at fair value at November 30, 2018 and 2017, 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 transactions revenues. A weighted average coupon rate is not meaningful, as all of the structured notes are carried at fair value.

Of the \$686.2 million of structured notes at November 30, 2018, \$5.7 million matures in 2019, \$27.3 million matures in 2022, and the remaining \$653.2 million matures in 2024 or thereafter.

During 2018, we issued 4.150% senior notes with a total principal amount of approximately \$1.0 billion, due 2030. Additionally, structured notes with a total principal amount of approximately \$173.2 million, net of retirements, were issued during the year. During 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. 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 or were retired. During 2017, our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the “debentures”) were called for redemption at a redemption price equal to 100% of the principal amount of the debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Debentures of \$20.2 million and \$324.8 million

were redeemed on November 1, 2017 and January 5, 2018, respectively. In addition, our 5.125% senior notes with a principal of \$668.3 million were redeemed in April 2018.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

During 2018, we entered into a senior secured revolving credit facility (“Revolving Credit Facility”) with a group of commercial banks for an aggregate principal amount of \$185.0 million. The Revolving Credit Facility contains certain financial covenants, including, but not limited to, restrictions on future indebtedness of certain of our subsidiaries and its’ minimum tangible net worth, liquidity requirements and minimum capital requirements. Interest is based on an annual alternative base rate or an adjusted London Interbank Offered Rate, as defined in the Revolving Credit Facility agreement. The obligations of certain of our subsidiaries under the Revolving Credit Facility are secured by substantially all its assets. At November 30, 2018, we were in compliance with debt covenants under the Revolving Credit Facility.

## Note 13. Revenues from Contracts with Customers

The following table presents our total revenues separated for our revenues from contracts with customers and our other sources of revenues (in thousands):

	Year Ended November 30, 2018
Revenues from contracts with customers:	
Commissions and other fees	\$635,190
Investment banking	1,910,203
Asset management fees	21,214
Other	28,280
Total revenue from contracts with customers	2,594,887
Other sources of revenue:	
Principal transactions	524,296
Interest	1,207,095
Other	103,354
Total revenues	\$4,429,632

Revenue from contracts with customers is recognized when, or as, we satisfy our performance obligations by transferring the promised goods or services to the customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring our progress in satisfying the performance obligation in a manner that depicts the transfer of the goods or services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that we determine the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for those promised goods or services (i.e., the “transaction price”). In determining the transaction price, we consider multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, we consider the range of possible outcomes, the predictive value of our past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of our influence, such as market volatility or the judgment and actions of third parties.

The following provides detailed information on the recognition of our revenues from contracts with customers: Commissions and Other Fees. We earn commission revenue by executing, settling and clearing transactions for clients primarily in equity, equity-related and futures products. Trade execution and clearing services, when provided together, represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commission revenues associated with combined trade execution and clearing services, as well as trade



execution services on a standalone basis, are recognized at a point in time on trade-date. Commissions revenues are generally paid on settlement date and we record a receivable between trade-date and payment on settlement date. 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. We act as an agent in the soft dollar arrangements as the customer controls the use of the soft dollars and directs our payments to third-party service providers on its behalf. Accordingly, amounts allocated to soft dollar arrangements are netted against commission revenues in our Consolidated Statements of Earnings.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

We earn account advisory and distribution fees in connection with wealth management services. Account advisory fees are recognized over time using the time-elapsed method as we determined that the customer simultaneously receives and consumes the benefits of investment advisory services as they are provided. Account advisory fees may be paid in advance of a specified service period or in arrears at the end of the specified service period (e.g., quarterly). Account advisory fees paid in advance are initially deferred within Accrued expenses and other liabilities in the Consolidated Statements of Financial Condition. Distribution fees are variable and recognized when the uncertainties with respect to the amounts are resolved.

**Investment Banking.** We provide our clients with a full range of capital markets and financial advisory services. Capital markets services include underwriting and placement agent services in both the equity and debt capital markets, including private equity placements, initial public offerings, follow-on offerings and equity-linked convertible securities transactions and structuring, underwriting and distributing public and private debt, including investment grade debt, high yield bonds, leveraged loans, municipal bonds and mortgage- and asset-backed securities. Underwriting and placement agent revenues are recognized at a point in time on trade-date, as the client obtains the control and benefit of the capital markets offering at that point. Costs associated with capital markets transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded, and are recorded on a gross basis within Underwriting costs in the Consolidated Statements of Earnings as we are acting as a principal in the arrangement. Any expenses reimbursed by our clients are recognized as Investment banking revenues.

Revenues from financial advisory services primarily consist of fees generated in connection with merger, acquisition and restructuring transactions. 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. Fees received prior to the completion of the transaction are deferred within Accrued expenses and other liabilities in the Consolidated Statements of Financial Condition. Advisory fees from restructuring engagements are recognized over time using a time elapsed measure of progress as our clients simultaneously receive and consume the benefits of those services as they are provided. A significant portion of the fees we receive for our advisory services are considered variable as they are contingent upon a future event (e.g., completion of a transaction or third-party emergence from bankruptcy) and are excluded from the transaction price until the uncertainty associated with the variable consideration is subsequently resolved, which is expected to occur upon achievement of the specified milestone. Payment for advisory services are generally due promptly upon completion of a specified milestone or, for retainer fees, periodically over the course of the engagement. We recognize a receivable between the date of completion of the milestone and payment by the customer. Expenses associated with investment banking advisory engagements 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. All investment banking advisory expenses are recognized within their respective expense category in the Consolidated Statements of Earnings and any expenses reimbursed by our clients are recognized as Investment banking revenues.

**Asset Management Fees.** We earn management and performance fees in connection with investment advisory services provided to various funds and accounts, which are satisfied over time and measured using a time elapsed measure of progress as the customer receives the benefits of the services evenly throughout the term of the contract. Management and performance fees are considered variable as they are subject to fluctuation (e.g., changes in assets under management, market performance) and/ or are contingent on a future event during the measurement period (e.g., meeting a specified benchmark) and are recognized only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. Management fees are generally based on month-end assets under management or an agreed upon notional amount and are included in the transaction price at the end of each month when the assets under management or notional amount is known.

Performance fees are received when the return on assets under management for a specified performance period exceed certain benchmark returns, “high-water marks” or other performance targets. The performance period related to our performance fees is annual or semi-annual. 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Disaggregation of Revenue

The following presents our revenues from contracts with customers disaggregated by major business activity and primary geographic regions for the year ended November 30, 2018 (in thousands):

	Reportable Segment		
	Year Ended November 30, 2018		
	Capital Markets	Asset Management	Total
Major business activity:			
Equities (1)	\$649,631	\$ —	\$649,631
Fixed income (1)	13,839	—	13,839
Investment banking - Capital markets	1,090,161	—	1,090,161
Investment banking - Advisory	820,042	—	820,042
Asset management	—	21,214	21,214
Total	\$2,573,673	\$ 21,214	\$2,594,887
Primary geographic region:			
Americas	\$2,186,955	\$ 20,871	\$2,207,826
Europe	304,027	343	304,370
Asia	82,691	—	82,691
Total	\$2,573,673	\$ 21,214	\$2,594,887

(1) Revenues from contracts with customers associated with the equities and fixed income businesses primarily represent commissions and other fee revenue.

Refer to Note 19, Segment Reporting, for a further discussion on the allocation of revenues to geographic regions.

## Information on Remaining Performance Obligations and Revenue Recognized from Past Performance

We do not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at November 30, 2018. Investment banking advisory fees that are contingent upon completion of a specific milestone and fees associated with certain distribution services are also excluded as the fees are considered variable and not included in the transaction price at November 30, 2018.

During the year ended November 30, 2018 we recognized \$26.6 million of revenue related to performance obligations satisfied (or partially satisfied) in previous periods, mainly due to resolving uncertainties in variable consideration that was constrained in prior periods. In addition, we recognized \$18.1 million of revenues primarily associated with distribution services during the year ended November 30, 2018, a portion of which relates to prior periods.

## Contract Balances

The timing of our revenue recognition may differ from the timing of payment by our customers. We record a receivable when revenue is recognized prior to payment and we have an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, we record deferred revenue until the performance obligations are satisfied.

We had receivables related to revenues from contracts with customers of \$199.0 million and \$246.0 million at November 30, 2018 and December 1, 2017, respectively. We had no significant impairments related to these receivables during the year ended November 30, 2018.

Our deferred revenue primarily relates to retainer and milestone fees received in investment banking advisory engagements where the performance obligation has not yet been satisfied. Deferred revenue at November 30, 2018 and December 1, 2017 was \$10.6 million and \$8.8 million, respectively, which are recorded in Accrued expenses and other liabilities in the Consolidated Statements of Financial Condition. During the year ended November 30, 2018, we recognized revenue \$5.4 million that was recorded as deferred revenue at the beginning of the year.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Contract Costs

We capitalize costs to fulfill contracts associated with investment banking advisory engagements where the revenue is recognized at a point in time and the costs are determined to be recoverable. Capitalized cost to fulfill a contract are recognized at the point in time that the related revenue is recognized.

At November 30, 2018, capitalized costs to fulfill a contract were \$4.7 million, which are recorded in Receivables – Fees, interest and other in the Consolidated Statement of Financial Condition. For the year ended November 30, 2018, we recognized expenses of \$2.3 million, related costs to fulfill a contract that were capitalized as of the beginning of the year. There were no significant impairment charges recognized in relation to these capitalized costs during the year ended November 30, 2018.

## Note 14. 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, 2018 and plan to make a \$2.0 million contribution to the plan during the year ended November 30, 2019.

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	
	November 30,	
	2018	2017
Change in projected benefit obligation:		
Projected benefit obligation, beginning of period	\$60,559	\$58,731
Service cost	400	450
Interest cost	2,129	2,232
Actuarial (gains)/losses	(3,777 )	2,327
Administrative expenses paid	(502 )	(395 )
Benefits paid	(952 )	(2,786 )
Settlements	(3,133 )	—
Projected benefit obligation, end of period	\$54,724	\$60,559
Change in plan assets:		
Fair value of assets, beginning of period	\$52,949	\$49,992
Benefits paid	(952 )	(2,786 )
Administrative expenses paid	(502 )	(395 )
Actual return on plan assets	(1,186 )	5,138
Contributions	1,000	1,000
Settlements	(3,133 )	—
Fair value of assets, end of period	\$48,176	\$52,949
Funded status at end of period	\$(6,548 )	\$(7,610 )

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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,	
	2018	2017
Consolidated statements of financial condition:		
Accrued expenses and other liabilities	\$6,548	\$7,610
Accumulated other comprehensive income, before taxes:		
Net losses	\$(6,382)	\$(6,092)

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,		
	2018	2017	2016
Components of net periodic pension cost:			
Service cost	\$400	\$450	\$400
Interest cost on projected benefit obligation	2,129	2,232	2,311
Expected return on plan assets	(3,247)	(3,021)	(2,917)
Net amortization	—	19	—
Settlement losses	365	—	—
Net periodic pension cost	\$(353)	\$(320)	\$(206)

	Year Ended November 30,		
	2018	2017	2016
Amounts recognized in Other comprehensive income:			
Net losses arising during the period	\$655	\$210	\$646
Amortization of net loss	—	(19)	—
Settlements during the period	365	—	—
Total losses recognized in Other comprehensive income	\$1,020	\$191	\$646
Net losses/(gains) recognized in net periodic benefit cost and Other comprehensive income	\$667	\$(129)	\$440
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,		
	2018	2017	2016
Discount rate used to determine benefit obligation	4.30%	3.60%	3.90%
Weighted average assumptions used to determine net pension cost:			
Discount rate	3.60%	3.90%	4.10%
Expected long-term rate of return on plan assets	6.25%	6.25%	6.25%

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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):

2019	\$2,364
2020	2,152
2021	2,015
2022	2,892
2023	5,147
2024 through 2028	22,864

Plan Assets - 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. The common collective trusts are valued at their NAV as a practical expedient for fair value.

**German Pension Plan**

We maintained a defined benefits pension plan located in Germany (the "German Pension Plan") in connection with our Futures business. On December 28, 2017, a Liquidation Insurance Contract was entered into with Generali Lebensversicherung AG ("Generali") to transfer the defined benefit pension obligations and insurance contracts to Generali, for approximately €6.5 million, which was paid in January 2018, and released us from any and all obligations under the German Pension Plan. In addition, on December 28, 2017, we received \$3.25 million as consideration relating to the German Pension Plan in connection with releasing the prior plan sponsor from any indemnities. Accumulated other comprehensive income for the year ended November 30, 2018 included \$5.3 million related to the transfer of the German Pension Plan.

**Note 15. Compensation Plans**

Jefferies 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 Jefferies 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		
	2018	2017	2016
Components of compensation cost:			
Restricted cash awards	\$274.4	\$251.6	\$263.7
Restricted stock and RSUs (1)	27.6	26.6	23.5
Profit sharing plan	6.5	6.0	6.0
Total compensation cost	\$308.5	\$284.2	\$293.2

(1)



Total compensation cost associated with restricted stock and restricted stock units (“RSUs”) includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks. Additionally, we recognize compensation cost related to the discount provided to employees in electing to defer compensation under the Deferred Compensation Plan. This compensation cost was approximately \$346,000, \$227,000 and \$150,000 for the years ended November 30, 2018, 2017 and 2016, respectively.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Remaining unamortized amounts related to certain compensation plans at November 30, 2018 are as follows (dollars in millions):

	Remaining Unamortized Amounts	Weighted Average Vesting Period (in Years)
Non-vested share-based awards	\$ 63.2	3
Restricted cash awards	395.0	2
Total	\$ 458.2	

In December 2018, \$288.0 million of restricted cash awards related to the 2018 performance year that contain a future service requirement were approved and awarded. Absent actual forfeitures or cancellations or accelerations, the annual compensation cost for these awards will be recognized as follows (in millions):

	Year Ended				Total
	2018	2019	2020	Thereafter	
Restricted cash awards	\$58.2	\$47.6	\$57.0	\$ 125.2	\$288.0

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, RSUs, dividend equivalents or other share-based awards. 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 Jefferies.

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.

**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, Jefferies 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 Jefferies 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 transactions 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 16. Income Taxes

Total income taxes were allocated as follows (in thousands):

	Year Ended November 30,		
	2018	2017	2016
Income tax expense	\$250,650	\$147,340	\$14,566
Stockholders' equity, compensation expense for tax purposes less than amounts recognized for financial reporting purposes	—	—	4,186

The provision for income tax expense consists of the following components (in thousands):

	Year Ended November 30,		
	2018	2017	2016
Current:			
U.S. Federal	\$106,761	\$147,065	\$27,473
U.S. state and local	7,485	30,611	6,196
Foreign	10,139	12,910	(5,090 )
Total current	124,385	190,586	28,579
Deferred:			
U.S. Federal	131,233	(53,157 )	(11,249 )
U.S. state and local	975	1,760	(4,819 )
Foreign	(5,943 )	8,151	2,055
Total deferred	126,265	(43,246 )	(14,013 )
Total income tax expense	\$250,650	\$147,340	\$14,566

The following table presents the U.S. and non-U.S. components of income before income tax expense (in thousands):

	Year Ended November 30,		
	2018	2017	2016
U.S.	\$370,600	\$403,445	\$34,178
Non-U.S. (1)	39,067	101,479	(4,206 )
Income before income tax expense	\$409,667	\$504,924	\$29,972

(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 rates of 22.2% for the year ended November 30, 2018 and 35% for the years ended November 30, 2017 and 2016 to earnings before income taxes as a result of the following (dollars in thousands):

	Year Ended November 30,					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed expected income taxes	\$90,945	22.2 %	(1)\$176,724	35.0 %	\$10,490	35.0 %
Increase (decrease) in income taxes resulting from:						
State and city income taxes, net of Federal income tax benefit	20,419	5.0	23,898	4.7	1,832	6.1
International operations (including foreign rate differential)	2,258	0.6	(11,577 )	(2.3 )	(3,404 )	(11.4)
Tax exempt income	(2,202 )	(0.5 )	(3,850 )	(0.8 )	(4,640 )	(15.5)
Foreign tax credits, net	(8,006 )	(2.0 )	(32,974 )	(6.5 )	—	—
Meals and entertainment	4,528	1.1	4,129	0.8	4,640	15.5
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 )
Change in unrecognized tax benefits related to prior years	(18,497 )	(4.5 )	(2,953 )	(0.6 )	(1,280 )	(4.3 )
Deferred tax asset remeasurement related to the Tax Act	112,733	27.5	—	—	—	—
Transition tax on foreign earnings related to the Tax Act	52,417	12.8	—	—	—	—
Other, net	(3,945 )	(1.0 )	(2,677 )	(0.4 )	101	0.4
Total income tax expense	\$250,650	61.2 %	\$147,340	29.2 %	\$14,566	48.6 %

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Act which reduced the U.S. federal corporate tax rate from 35% to 21%, as well as other changes. The statutory U.S. federal corporate tax rate for companies with a fiscal year end of November 30, 2018 is a blended rate of 22.2%, which will be reduced to 21% in fiscal 2019 and thereafter.

The following table presents a reconciliation of gross unrecognized tax benefits (in thousands):

	Year Ended November 30,		
	2018	2017	2016
Balance at beginning of period	\$129,544	\$109,527	\$107,902
Increases based on tax positions related to the current period	19,840	18,619	5,045
Increases based on tax positions related to prior periods	5,002	7,310	1,447
Decreases based on tax positions related to prior periods	(28,760 )	(5,912 )	(4,520 )
Decreases related to settlements with taxing authorities	—	—	(347 )
Balance at end of period	\$125,626	\$129,544	\$109,527

The total amount of unrecognized benefit that, if recognized, would favorably affect the effective tax rate was \$99.4 million and \$86.1 million (net of benefits of taxes) at November 30, 2018 and 2017, 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 \$1.0 million, \$9.0 million and \$6.5 million for the years ended November 30, 2018, 2017 and 2016, respectively. At November 30, 2018 and 2017, we had interest accrued of approximately \$49.3 million and \$48.3 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, 2018 and 2017.



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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,	
	2018	2017
Deferred tax assets:		
Compensation and benefits	\$240,785	\$376,642
Net operating loss	17,867	20,094
Long-term debt	39,623	26,476
Accrued expenses and other	65,265	121,746
Sub-total	363,540	544,958
Valuation allowance	(10,650 )	(14,217 )
Total deferred tax assets	352,890	530,741
Deferred tax liabilities:		
Amortization of intangibles	69,095	102,739
Other	40,556	17,282
Total deferred tax liabilities	109,651	120,021
Net deferred tax asset, included in Other assets	\$243,239	\$410,720

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 \$243.2 million at November 30, 2018 is more likely than not based on expectations of future taxable income in the jurisdictions in which we operate.

At November 30, 2018, we had gross net operating loss carryforwards of \$121.7 million, primarily related to New York State, New York City and various European jurisdictions. A deferred tax asset of \$9.2 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 Jefferies. Refer to Note 20, Related Party Transactions, for further information.

We are currently under examination by numerous state and local taxing 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 \$5.9 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	2015
California	2009
New Jersey	2010
New York State	2001
New York City	2003
United Kingdom	2016
Hong Kong	2012
India	2010
Italy	2012





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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The Tax Act makes broad and complex changes to the U.S. tax code that will impact many areas of taxation, including, but not limited to: (1) reduction of the U.S. federal corporate tax rate from 35% to 21%; (2) elimination of the corporate alternative minimum tax; (3) the introduction of the base erosion anti-abuse tax (“BEAT”), a new minimum tax; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to tax global intangible low-taxed income (“GILTI”); (6) a new limitation on deductible interest expense; (7) limitations on the deductibility of certain executive compensation; (8) limitations on the use of foreign tax credits to reduce U.S. income tax liability; (9) limitations on net operating losses generated after December 31, 2017 to 80% of taxable income; (10) a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; and (11) bonus depreciation that will allow for full expensing of qualified property.

As a result of planning related to the Tax Act, during fiscal 2018, several of our foreign subsidiaries have made tax elections to be treated as branches of the U.S. for federal income tax purposes (commonly referred to as “check-the-box” elections) effective during various times during 2018. We believe that, as a result of these foreign subsidiaries being treated as branches of the U.S. for federal income tax purposes, rather than as controlled foreign corporations, we will reduce the future tax impact of the BEAT and GILTI provisions, which are effective starting in fiscal 2018 and fiscal 2019, respectively. We do not anticipate having a BEAT liability for 2018, and have not recorded a provision for BEAT.

Under the provisions of the Tax Act, we have paid U.S. federal income tax on all of the historic earnings and profits of our non-U.S. subsidiaries, and by making the above-mentioned check-the-box elections to treat several of our foreign entities as branches of the U.S. for federal income tax purposes, we no longer have any basis differences in these subsidiaries. Consequently, at November 30, 2018, we have no significant basis differences for which the recording of a U.S. deferred tax liability is required. We intend to continue to indefinitely reinvest in certain non-U.S. entities and therefore have not provided U.S. federal income tax on other basis differences. Determination of the amount of unrecognized deferred tax liability, if any, related to these basis differences is not practicable. At November 30, 2017, we had approximately \$232.0 million of earnings attributable to foreign subsidiaries that were indefinitely reinvested abroad and accordingly for which a deferred tax liability of approximately \$73.0 million had not been recorded with respect to the earnings at November 30, 2017.

Regarding the new GILTI tax rules, which will become applicable in fiscal 2019, we are required to make an accounting policy election to either treat taxes due on future GILTI inclusions in U.S. taxable income as a current period expense when incurred or reflect such portion of the future GILTI inclusions in U.S. taxable income that relate to existing basis differences in our current measurement of deferred taxes. We will make an accounting policy election during the first quarter of fiscal 2019.

Also on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740, Income Taxes (“ASC 740”). While the initial estimated impact of the Tax Act was calculated using all available information, we anticipate modifications based on the procedures set forth under SAB 118. This process is applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which the accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where the accounting is not complete, but a reasonable estimate has been determined; and (3) where a reasonable estimate cannot yet be made, taxes are reflected in accordance with the law prior to the enactment of the Tax Act.

Due to the complex nature of the Tax Act and the unavailability of certain information, we have not completed our accounting for the income tax effects of certain elements of the Tax Act. If we were able to make reasonable estimates of the effects of certain elements for which our analysis is not yet complete, we recorded a provisional estimate in our consolidated financial statements. If we were not yet able to make reasonable estimates of the impact of certain elements, we have not recorded any adjustments related to those elements and have continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before the Tax Act. The ultimate impact of the Tax Act

may differ from this estimate, possibly materially, due to refinement of our calculations based on updated information, changes in the interpretations and assumptions, guidance that may be issued and actions we may take in response to the Tax Act. The provisional accounting impact may change until the accounting analysis is finalized, which will occur no later than the first quarter of fiscal 2019.

We consider the accounting for the deferred tax asset remeasurements, the transition tax and other items to be incomplete. In connection with our initial analysis, we have recorded a discrete tax expense of \$165.1 million for the year ended November 30, 2018, as a result of the enactment of the Tax Act, as a provisional estimate of the impact of the Tax Act. This provisional estimate primarily consists of a \$112.7 million expense related to deferred tax asset remeasurements and a \$52.4 million expense related to the transition tax on foreign earnings.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Note 17. Commitments, Contingencies and Guarantees

## Commitments

The following table summarizes our commitments at November 30, 2018 (in millions):

	Expected Maturity Date (fiscal years)					Maximum Payout
	2019	2020	2021 and 2022	2023 and 2024	2025 and Later	
Equity commitments (1)	\$305.2	\$18.4	\$0.3	\$—	\$3.6	\$327.5
Loan commitments (1)	250.0	—	54.0	3.5	—	307.5
Underwriting commitments	377.5	—	—	—	—	377.5
Forward starting reverse repos (2)	4,262.7	—	—	—	—	4,262.7
Forward starting repos (2)	2,931.8	—	—	—	—	2,931.8
Other unfunded commitments (1)	194.8	—	69.4	4.9	—	269.1
Total commitments	\$8,322.0	\$18.4	\$123.7	\$8.4	\$3.6	\$8,476.1

(1) Equity, loan and other unfunded commitments are presented by contractual maturity date. The amounts, however, are available on demand.

(2) At November 30, 2018, \$4,232.8 million within forward starting securities purchased under agreements to resell and all of the 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 one of our directors and Chairman of the Executive Committee. At November 30, 2018, our outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$18.1 million. See Note 9, Investments, for additional information regarding our investments in Jefferies Finance.

Additionally, at November 30, 2018, we had other outstanding equity commitments to invest up to \$254.1 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, 2018, we had \$57.5 million of outstanding loan commitments to clients.

Loan commitments outstanding at November 30, 2018 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.

**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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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, 2018, future minimum aggregate annual lease payments under such leases (net of subleases) for fiscal years ended November 30, 2019 through 2023 and the aggregate amount thereafter, are as follows (in thousands):

Fiscal Year	Operating Leases
2019	\$60,500
2020	52,465
2021	54,644
2022	57,593
2023	56,725
Thereafter	427,181
Total	\$709,108

The total minimum payments to be received in the future under non-cancelable subleases at November 30, 2018 was \$19.4 million.

Rental expense, net of subleases, amounted to \$52.3 million, \$56.1 million and \$56.1 million for the years ended November 30, 2018, 2017 and 2016, 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, 2018, the present value of all future lease payments is \$0.2 million, all maturing in fiscal year 2019.

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, 2018 (in millions):

	Expected Maturity Date (Fiscal Years)					Notional/ Maximum Payout
	2019	2020	2021 and 2022	2023 and 2024	2025 and Later	
Derivative contracts—non-credit related	\$12,024.2	\$2,372.3	\$2,976.1	\$281.1	\$330.3	\$17,984.0
Written derivative contracts—credit related		32.4	—	112.8	—	145.2
Total derivative contracts	\$12,024.2	\$2,404.7	\$2,976.1	\$393.9	\$330.3	\$18,129.2

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, 2018, the fair

value of derivative contracts meeting the definition of a guarantee is approximately \$277.5 million.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Standby Letters of Credit. At November 30, 2018, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$52.6 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 clearing houses 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 clearing house, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearing houses 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 18. Net Capital Requirements

As a broker-dealer registered with the SEC and member firms of the Financial Industry Regulatory Authority (“FINRA”), Jefferies LLC is subject to the SEC 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 LLC, as a dually-registered U.S. broker-dealer and futures commission merchant (“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.

At November 30, 2018, Jefferies LLC’s net capital and excess net capital were as follows (in thousands):

Net Capital	Excess Net Capital
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Jefferies LLC	\$1,739,435	\$1,635,960
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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 LLC 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, 2018 and 2017, \$4,717.3 million and \$5,124.9 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 19. 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 (loss) before income taxes.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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.

In the fourth quarter of 2018, Jefferies transferred to us capital investments in certain separately managed accounts and funds. Due to this transfer, we have made changes to the presentation of our segment reporting in the fourth quarter of 2018 and are including investment income from capital invested in these separately managed accounts and funds within our Asset Management business segment. Previously reported results are presented on a comparable basis. See Note 1, Organization and Basis of Presentation and Note 20, Related Party Transactions for further details on this transfer.

Our net revenues, non-interest expenses and earnings (loss) before income taxes by reportable business segment are summarized below (in millions):

	Year Ended November 30,		
	2018	2017	2016
Capital Markets:			
Net revenues	\$3,184.4	\$3,169.9	\$2,338.3
Non-interest expenses	2,719.5	2,634.2	2,319.7
Earnings before income taxes	\$464.9	\$535.7	\$18.6
Asset Management:			
Net revenues	\$(1.0 )	\$28.2	\$76.3
Non-interest expenses	54.2	59.0	64.9
Earnings (loss) before income taxes	\$(55.2 )	\$(30.8 )	\$11.4
Total:			
Net revenues	\$3,183.4	\$3,198.1	\$2,414.6
Non-interest expenses	2,773.7	2,693.2	2,384.6
Earnings before income taxes	\$409.7	\$504.9	\$30.0

The following table summarizes our total assets by reportable business segment (in millions):

	November 30,	
	2018	2017
Capital Markets	\$38,700.7	\$38,620.4
Asset Management	2,468.1	1,085.3
Total assets	\$41,168.8	\$39,705.7



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## 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,		
	2018	2017	2016
Americas (1)	\$2,652.9	\$2,602.7	\$1,870.4
Europe (2)	434.9	489.6	458.0
Asia	95.6	105.8	86.2
Net revenues	\$3,183.4	\$3,198.1	\$2,414.6

(1) Substantially all relates to U.S. results.

(2) Substantially all relates to U.K. results.

## Note 20. 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 one of our directors and our Chairman of the Executive Committee (“Private Equity Related Funds”). At November 30, 2018 and 2017, our equity investments in Private Equity Related Funds were in aggregate \$35.5 million and \$23.7 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,		
	2018	2017	2016
Other revenues and investment income (loss)	\$11,788	\$(11,718)	\$(2,328)
Service charges	381	726	760

For further information regarding our commitments and funded amounts to the Private Equity Related Funds, see Note 17, Commitments, Contingencies and Guarantees.

**HRG Group Inc. (“HRG”).** We recognized investment banking revenues of \$3.0 million for the year ended November 30, 2018 in connection with the merger of HRG into Spectrum Brands Holdings, Inc., which is partially owned by Jefferies.

**Officers, Directors and Employees.** The following sets forth information regarding related party transactions with our officers, directors and employees:

At November 30, 2018 and 2017, we had \$39.3 million and \$45.6 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.

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, 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 \$4.6 million and \$4.9 million at November 30, 2018 and 2017, respectively.

See Note 8, Variable Interest Entities, and Note 17, Commitments, Contingencies and Guarantees, for further information regarding related party transactions with our officers, directors and employees.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Jefferies. The following is a description of related party transactions with Jefferies and its affiliates:

We provide services to and receive services from Jefferies under service agreements. We also receive revenues from Jefferies under a revenue sharing agreement (in millions):

	Year Ended		
	November 30,		
	2018	2017	2016
Charges to Jefferies for services provided	\$61.2	\$42.2	\$38.8
Charges from Jefferies for services received	9.1	14.2	11.2

We provide capital markets and asset management services to Jefferies and its affiliates. The following table presents the revenues earned by type of services provided (in millions):

	Year Ended		
	November 30,		
	2018	2017	2016
Investment banking	\$15.7	\$14.7	\$1.8
Asset management	—	—	0.2
Commissions and other fees	0.9	0.1	0.1
Principal transactions	0.1	—	—
Other revenues	0.8	0.3	—

Receivables from and payables to Jefferies are included in Other assets and Accrued expenses and other liabilities, respectively, in our Consolidated Statements of Financial Condition:

	Year	
	Ended	
	November	
	30,	
	2018	2017
Receivable from Jefferies	\$1.2	\$2.5
Payable to Jefferies	2.9	3.1

On January 11, 2018, our Board of Directors approved a distribution to our sole limited liability company member, Jefferies, in the amount of \$200.0 million, which was paid on January 31, 2018. 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 positive net earnings attributable to us (as adjusted for preceding loss quarters, if any). In addition, during the year ended November 30, 2018, we paid additional dividends of \$48.7 million to Jefferies, based on our results for the nine months ended August 31, 2018. For the three months ended November 30, 2018, we have accrued a dividend payable in the amount of \$30.7 million.

Pursuant to a tax sharing agreement entered into between us and Jefferies, payments are made between us and Jefferies to settle current tax receivables and payables. At November 30, 2018 and 2017, a net current tax payable to Jefferies of \$34.1 million and \$91.5 million, respectively, is included in Accrued expenses and other liabilities in our Consolidated Statements of Financial Condition. We made payments of \$193.0 million during the year ended November 30, 2018 to Jefferies, which reduced the cumulative net current tax payable balance. Additionally, we made a payment of \$35.0 million in December 2018.

On October 1, 2018, Jefferies transferred its 50% interest in Berkadia and capital investments in certain separately managed accounts and funds to us. On November 1, 2018, we purchased LIML, an investment advisory company, from Jefferies. These transfers were accomplished as a capital contribution from Jefferies of approximately \$598.2 million and cash payments of \$70.5 million to Jefferies during the fourth quarter of 2018. In addition, we paid cash of approximately \$5.5 million, representing LIML's net book value as at October 31, 2018, including goodwill of \$0.4

million and intangible assets of \$0.2 million. In connection with these transfers, related deferred tax liabilities of approximately \$50.9 million were transferred to us, for which Jefferies has indemnified us. See Note 9, Investments, for further details on our 50% interest in Berkadia.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

We entered into a foreign exchange prime brokerage agreement with an affiliate of Jefferies in 2017. In connection with the foreign exchange contracts entered into under this agreement we have \$9.9 million and \$17.0 million at November 30, 2018 and 2017, respectively, included in Payables—brokers, dealers and clearing organizations in our Consolidated Statements of Financial Condition.

Two of our directors have investments totaling \$2.7 million and \$3.6 million at November 30, 2018 and 2017, respectively, in a hedge fund managed by Jefferies.

Jefferies had an investment in a hedge fund managed by us of \$27.3 million at November 30, 2017. This investment was transferred to us effective December 31, 2017, for which we paid \$26.7 million, the investment's NAV, to Jefferies.

We have investments in hedge funds managed by Jefferies of \$218.7 million and \$136.1 million at November 30, 2018 and 2017, respectively, included in Financial instruments owned, at fair value in our Consolidated Statements of Financial Condition. Net gains on our investments in these hedge funds, which are included in Principal transactions revenues in our Consolidated Statements of Earnings (in millions):

	Year Ended		
	November 30,		
	2018	2017	2016

Net gains on our investments	\$5.0	\$8.0	\$3.6
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We own 638,561 common shares and warrants of Waitr Holdings Inc. (previously Landcadia Holdings Inc.), an affiliate of Jefferies. At November 30, 2018 and 2017, these investments have fair values of \$8.3 million and \$6.8 million, respectively, which are included in Financial instruments owned, at fair value in our Consolidated Statements of Financial Condition.

We sold securities to Jefferies at fair value for cash during the periods presented below. There was no gain or loss on these transactions.

Date	Amount (in millions)
August 2017	\$ 7.1
April 2017	21.9
February 2017	25.6

In connection with our sales and trading activities, from time to time we make a market in long-term debt securities of Jefferies (i.e., we buy and sell debt securities issued by Jefferies). At November 30, 2018 and 2017, approximately \$0.3 million and \$0.2 million, respectively, of debt securities issued by Jefferies 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 21. 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 for the year ended November 30, 2016.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following summarizes our recorded restructuring and impairment costs (in thousands):

	Year Ended November 30, 2016
Severance costs	\$ 279
Accelerated amortization of restricted stock and restricted cash awards	41
Contract termination costs	1,234
Other expenses	300
Total	\$ 1,854

Of the above costs, \$341,000 are of a noncash nature for the year ended November 30, 2016.

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
Compensation and benefits	\$ 320
Technology and communications	1,234
Other expenses	300
Total	\$ 1,854

## Note 22. Selected Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly statements of earnings for the years ended November 30, 2018 and 2017 (in thousands):

	Three Months Ended			
	November 30, 2018	August 31, 2018	May 31, 2018	February 28, 2018
Total revenues	\$1,097,943	\$1,088,285	\$1,156,809	\$1,086,595
Net revenues	761,958	777,615	822,557	821,246
Earnings before income taxes	77,963	87,101	121,865	122,738
Net earnings attributable to Jefferies Group LLC	61,393	60,182	98,004	(60,818 )
	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

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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, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of November 30, 2018 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, 2018 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 years ended November 30, 2018 and 2017, the fees for services provided by Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu Limited were as follows:

	Year Ended November 30,	
	2018	2017
Audit Fees	\$5,848,250	\$6,378,737
Audit-Related Fees	1,393,315	674,400
Tax Fees	348,500	994,961
Total All Fees	\$7,590,065	\$8,048,098

**Audit Fees** — The Audit Fees reported above reflect fees for services provided during fiscal 2018 and 2017. 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 2018, 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 2018 and 2017. 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 2018 and 2017 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 (with Schedule A supplemented effective May 23, 2018).
- 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.
- 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, 2018 and November 30, 2017; (ii) the Consolidated Statements of Earnings for the years ended November 30, 2018, 2017 and 2016; (iii) the Consolidated Statements of Comprehensive Income for the years ended November 30, 2018, 2017 and 2016; (iv) the Consolidated Statements of Changes in Equity for the years ended November 30, 2018, 2017 and 2016; (v) the Consolidated Statements of Cash Flows for the years ended November 30, 2018, 2017 and 2016; and (vi) the Notes to Consolidated Financial Statements.

\* Filed herewith.

(c) Financial Statement Schedules

Jefferies Finance LLC financial statements as of November 30, 2018 and 2017, and for the years ended November 30, 2018, 2017 and 2016

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 28, 2019

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 Richard B. Handler	Chairman of the Board of Directors, Chief Executive Officer	January 28, 2019
/s/	PEREGRINE C. BROADBENT Peregrine C. Broadbent	Executive Vice President and Chief Financial Officer (Principal Accounting Officer)	January 28, 2019
/s/	BRIAN P. FRIEDMAN Brian P. Friedman	Director and Chairman, Executive Committee	January 28, 2019
/s/	W. PATRICK CAMPBELL W. Patrick Campbell	Director	January 28, 2019
/s/	BARRY J. ALPERIN Barry J. Alperin	Director	January 28, 2019
/s/	MARYANNE GILMARTIN MaryAnne Gilmartin	Director	January 28, 2019
/s/	JOSEPH S. STEINBERG Joseph S. Steinberg	Director	January 28, 2019
/s/	JACOB M. KATZ Jacob M. Katz	Director	January 28, 2019
/s/	LINDA L. ADAMANY Linda L. Adamany	Director	January 28, 2019
/s/	ROBERT D. BEYER Robert D. Beyer	Director	January 28, 2019



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/s/	FRANCISCO L. BORGES Francisco L. Borges	Director January 28, 2019
/s/	ROBERT E. JOYAL Robert E. Joyal	Director January 28, 2019
/s/	JEFFREY C. KEIL Jeffrey C. Keil	Director January 28, 2019
/s/	MICHAEL T. O'KANE Michael T. O'Kane	Director January 28, 2019
/s/	STUART H. REESE Stuart H. Reese	Director January 28, 2019

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Jefferies Group LLC

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Financial Statement Schedules

Schedule I - Condensed Financial Information of Jefferies Group LLC (Parent Company Only) at November 30, S-2 -  
2018 and 2017 and for each of the three fiscal years ended November 30, 2018, 2017 and 2016

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JEFFERIES GROUP LLC  
(PARENT COMPANY ONLY)  
CONDENSED STATEMENTS OF FINANCIAL CONDITION  
(In thousands)

	November 30,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$921,603	\$1,959,536
Cash and securities segregated and on deposited for regulatory purposes or deposited with clearing and depository organizations	57,817	57,817
Financial instruments owned, at fair value	99,491	73,887
Loans to and investments in related parties	696,774	638,551
Investment in subsidiaries	5,850,168	5,084,726
Advances to subsidiaries	2,488,026	1,801,573
Subordinated notes receivable	2,434,411	2,708,685
Other assets	483,770	610,555
Total assets	\$13,032,060	\$12,935,330
<b>LIABILITIES AND EQUITY</b>		
Short-term borrowings	\$56,555	\$131,567
Financial instruments sold, not yet purchased, at fair value	797	18,061
Accrued expenses and other liabilities	431,471	610,036
Long-term debt	6,362,744	6,416,844
Total liabilities	6,851,567	7,176,508
<b>EQUITY</b>		
Member's paid-in capital	6,376,662	5,895,601
Accumulated other comprehensive loss:		
Currency translation adjustments	(185,804 )	(98,909 )
Changes in instrument specific credit risk	(5,728 )	(27,888 )
Cash flow hedges	470	(936 )
Additional minimum pension liability	(4,761 )	(9,046 )
Available-for-sale securities	(346 )	—
Total accumulated other comprehensive loss	(196,169 )	(136,779 )
Total member's equity	6,180,493	5,758,822
Total liabilities and equity	\$13,032,060	\$12,935,330
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,		
	2018	2017	2016
Revenues:			
Principal transactions	\$20,875	\$576	\$(308 )
Asset management fees	—	1,266	2,482
Interest	262,042	241,357	226,781
Other	101,284	78,812	(8,156 )
Total revenues	384,201	322,011	220,799
Interest expense	316,050	276,727	235,556
Net revenues	68,151	45,284	(14,757 )
Non-interest expenses:			
Total non-interest expenses	5,016	13,598	5,187
Earnings (loss) before income taxes	63,135	31,686	(19,944 )
Income tax expense (benefit)	104,649	(21,292 )	(9,574 )
Net earnings (loss) before undistributed earnings of subsidiaries	(41,514 )	52,978	(10,370 )
Undistributed earnings of subsidiaries	200,275	304,520	25,804
Net earnings	158,761	357,498	15,434
Other comprehensive income (loss), net of tax:			
Currency translation and other adjustments	(85,554 )	53,396	(115,494 )
Change in instrument specific credit risk	22,160	(21,394 )	(6,494 )
Cash flow hedges	1,406	(936 )	—
Minimum pension liability adjustments, net of tax	4,285	312	(1,223 )
Unrealized gain on available-for-sale securities	311	—	—
Total other comprehensive income (loss), net of tax	(57,392 )	31,378	(123,211 )
Comprehensive income (loss)	\$101,369	\$388,876	\$(107,777)
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,		
	2018	2017	2016
Cash flows from operating activities:			
Net earnings	\$158,761	\$357,498	\$15,434
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Amortization	(53,296 )	(61,634 )	(63,681 )
Undistributed earnings of subsidiaries	(200,275 )	(304,520 )	(25,804 )
(Income) loss on loans to and investments in related parties	(98,223 )	(90,724 )	10,251
Distributions received on investments in related parties	40,000	—	17,050
Other adjustments	(116,307 )	39,513	(34,496 )
Net change in assets and liabilities:			
Financial instruments owned	(25,604 )	90,399	9,467
Other assets	119,293	(29,031 )	21,475
Financial instruments sold, not yet purchased	(17,264 )	10,776	(13,739 )
Accrued expenses and other liabilities	(200,970 )	324,446	15,125
Net cash provided by (used in) operating activities	(393,885 )	336,723	(48,918 )
Cash flows from investing activities:			
Investments in, advances to and subordinated notes receivable from subsidiaries	(473,436 )	(415,100 )	327,110
Loans to and investments in related parties	—	(73,915 )	19,337
Cash received from contingent consideration	—	1,342	2,617
Net cash provided by (used in) investing activities	(473,436 )	(487,673 )	349,064
Cash flows from financing activities:			
Proceeds from short-term borrowings	70,482	55,652	101,538
Payments on short-term borrowings	(140,664 )	(32,326 )	(5,086 )
Proceeds from issuance of long-term debt, net of issuance costs	1,183,954	1,116,798	277,583
Repayment of long-term debt	(1,035,700 )	(186,444 )	(350,000 )
Dividend distribution	(248,684 )	—	—
Net cash provided by (used in) financing activities	(170,612 )	953,680	24,035
Net increase (decrease) in cash and cash equivalents	(1,037,933 )	802,730	324,181
Cash, cash equivalents and restricted cash at beginning of period	2,017,353	1,214,623	890,442
Cash, cash equivalents and restricted cash at end of period	\$979,420	\$2,017,353	\$1,214,623

## Supplemental disclosures of cash flow information:

## Cash paid (received) during the period for:

Interest	\$385,410	\$332,135	\$300,680
Income taxes, net	186,236	2,494	(8,654 )

## Noncash financing activities:

On October 1, 2018, Jefferies Financial Group Inc. (“Jefferies”) transferred to the Parent Company its 50% interest in Berkadia Commercial Mortgage Holding LLC (“Berkadia”) and its capital investments in certain separately managed accounts and funds. The transfer of its interest in Berkadia and a portion of the transfer of its capital investments in certain separately managed accounts and funds were recorded as a capital contribution and increased member’s equity by \$598.2 million. Refer to Note 1, Organization and Basis of Presentation, in the Company’s consolidated financial statements included in the Annual Report on Form 10-K for the year ended November 30, 2018 for further details.





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The following presents the Parent Company's cash, cash equivalents and restricted cash by category within the Condensed Statements of Financial Condition (in thousands):

	November 30,	
	2018	2017
Cash and cash equivalents	\$921,603	\$1,959,536
Cash and securities segregated and on deposit for regulatory purposes with clearing and depository organizations	57,817	57,817
Total cash, cash equivalents and restricted cash	\$979,420	\$2,017,353
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, 2018. 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 Jefferies, formerly known as Leucadia National Corporation. Jefferies does not guarantee any of our outstanding debt securities.

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, 2018.

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, compensation and benefits, 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, Jefferies 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 guarantees certain financing arrangements of subsidiaries. The maximum amount payable under these guarantees is \$183.5 million at November 30, 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, 2018.

Structured Notes. Structured notes of \$686.2 million at November 30, 2018 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, 2018 and 2017 and  
for the Years Ended November 30, 2018 and 2017 and 2016

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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, 2018 and 2017, and the related consolidated statements of earnings, changes in members' equity, and cash flows for each of the three years in the period ended November 30, 2018, 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, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

New York, NY  
January 28, 2019





CONSOLIDATED FINANCIAL STATEMENTS

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

## Consolidated Balance Sheets

As of November 30, 2018 and 2017

(Dollars in thousands)

	NOVEMBER 30, 2018	NOVEMBER 30, 2017
<b>ASSETS</b>		
Cash	\$ 1,033,048	\$ 1,555,484
Restricted cash	468,934	875,270
Loans receivable, net of deferred loan fees	4,479,225	4,813,182
Less allowance for loan losses	(35,353 )	(61,788 )
Loans receivable, net	4,443,872	4,751,394
Loans held for sale, net	1,550,175	712,546
Accrued interest receivable	33,382	32,393
Held-to-maturity securities (includes \$39,480 CLO notes pledged as collateral)	45,735	—
Investments	57,779	46,148
Other assets	143,618	191,708
<b>TOTAL ASSETS</b>	<b>\$ 7,776,543</b>	<b>\$ 8,164,943</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Credit facilities, net	\$ 186,232	\$ 318,103
Secured notes payable, net	3,620,191	3,882,817
Interest payable	49,235	46,686
Securities sold under agreement to repurchase	39,480	—
Other liabilities	393,613	525,403
Due to affiliates	44,214	46,130
Long-term debt, net	2,054,023	2,073,479
Total liabilities	6,386,988	6,892,618
<b>MEMBERS' EQUITY</b>	<b>1,389,555</b>	<b>1,272,325</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 7,776,543</b>	<b>\$ 8,164,943</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, 2018 and 2017

(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, or its wholly-owned subsidiaries, 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, 2018	NOVEMBER 30, 2017
<b>ASSETS</b>		
Restricted cash	\$410,045	\$817,890
Loans receivable, net of deferred loan fees	3,881,340	4,226,943
Less allowance for loan losses	(31,061	) (47,364
Loans receivable, net	3,850,279	4,179,579
Accrued interest receivable	16,589	18,788
Investments	29,934	27,452
Other assets	63,265	105,042
<b>TOTAL ASSETS</b>	<b>\$4,370,112</b>	<b>\$5,148,751</b>
<b>LIABILITIES</b>		
Credit facilities, net	\$—	\$154,772
Secured notes payable, net	3,620,555	3,882,817
Interest payable	22,252	18,772
Other liabilities	120,549	278,155
Due to affiliates	8,111	11,249
<b>TOTAL LIABILITIES</b>	<b>\$3,771,467</b>	<b>\$4,345,765</b>

See notes to consolidated financial statements.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Consolidated Statements of Earnings  
 For the Years Ended November 30, 2018, 2017 and 2016  
 (Dollars in thousands)

	NOVEMBER 30, 2018	NOVEMBER 30, 2017	NOVEMBER 30, 2016
<b>NET FEE AND INTEREST INCOME:</b>			
Fee income, net	\$ 282,856	\$ 270,023	\$ 130,356
Interest income	405,534	356,533	292,457
Total interest and net fee income	688,390	626,556	422,813
Interest expense	396,229	341,143	273,833
Net interest and net fee income	292,161	285,413	148,980
Provision for loan losses	18,897	33,854	37,880
Net interest and fee income after provision for loan losses	273,264	251,559	111,100
OTHER GAINS (LOSSES), NET	9,123	6,680	(75,548 )
<b>OTHER EXPENSES:</b>			
Compensation and benefits	32,093	28,806	24,533
General, administrative and other	45,564	41,464	32,148
Total other expenses	77,657	70,270	56,681
EARNINGS (LOSSES) BEFORE INCOME TAX EXPENSE	204,730	187,969	(21,129 )
INCOME TAX EXPENSE (BENEFIT)	7,500	6,300	(1,514 )
NET EARNINGS (LOSS)	\$ 197,230	\$ 181,669	\$ (19,615 )

See notes to consolidated financial statements.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Consolidated Statements of Changes in Members' Equity  
 For the Years Ended November 30, 2018, 2017 and 2016  
 (Dollars in thousands)

	CLASS A MEMBERS	CLASS B MEMBERS	TOTAL MEMBERS' EQUITY
BALANCE—December 1, 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
Distributions	(64,000 )	(16,000 )	(80,000 )
Net earnings	157,784	39,446	197,230
BALANCE—November 30, 2018	\$ 1,261,852	\$ 127,703	\$ 1,389,555

See notes to consolidated financial statements.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
For the Years Ended November 30, 2018, 2017 and 2016  
(Dollars in thousands)

	NOVEMBER 30, 2018	NOVEMBER 30, 2017	NOVEMBER 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings (loss)	\$ 197,230	\$ 181,669	\$ (19,615 )
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operating activities:			
Amortization of deferred loan fees and discounts	(74,471 )	(81,050 )	(50,022 )
Amortization of deferred structuring fees	23,418	21,281	19,797
Amortization of discount on secured notes	12,576	12,671	9,611
Issuance costs associated with extinguishment of debt	18,305	14,122	—
Provision for loan losses	18,897	33,854	37,880
Realized (gain) loss on sale of loans held for sale	(10,445 )	(6,467 )	34,545
Change in fair value of loans held for sale	5	4,634	8,267
Realized (gain) loss on sales of investments	(492 )	(1,047 )	24,597
Unrealized loss (gain) on investments	2,116	(1,863 )	8,139
Deferred income tax (benefit) expense	(91 )	550	55
(Increase) decrease in operating assets:			
Origination of loans held for sale	(33,441,105 )	(27,330,698 )	(9,570,812 )
Proceeds from sales of loans held for sale	32,278,095	27,398,380	8,842,177
Principal collections on loans held for sale	368,127	65,904	3,215
Accrued interest receivable	(989 )	401	(445 )
Other assets	22,798	(15,522 )	(12,051 )
Increase (decrease) in operating liabilities:			
Interest payable	2,550	12,563	6,297
Other liabilities	85,799	12,183	4,679
Due to affiliates	(1,916 )	22,159	15,796
Net cash (used in) provided by operating activities	(499,593 )	343,724	(637,890 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Origination and purchases of loans receivable	(5,686,660 )	(4,209,182 )	(3,824,179 )
Principal collections of loans receivable	4,037,095	3,190,000	2,714,137
Proceeds from sales of loans held for sale	1,772,021	799,869	790,602
Net change in restricted cash	406,336	100,621	300,009
Purchases of investments	(14,564 )	(159,379 )	(661,896 )
Purchases of HTM Securities	(45,735 )	—	—
Proceeds from sales of investments	17,716	317,235	690,183
Net cash provided by investing activities	486,209	39,164	8,856
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Contributions from members	—	149,597	—
Distributions to members	(80,000 )	—	(34,100 )
Proceeds from borrowings on credit facilities	8,459,941	9,900,244	1,108,814
Repayments on credit facilities	(8,598,345 )	(9,929,577 )	(1,147,242 )
Proceeds from secured notes, net of issuance costs	1,500,979	1,749,986	326,478

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Repayments of secured notes payable	(1,819,759 )	(1,779,088 )	(454,780 )
Purchases of secured notes	—	—	(3,263 )
Proceeds from sale of secured notes	15,142	—	—
Securities sold under agreement to repurchase	39,201	—	—

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Proceeds from long-term debt, net of issuance costs	—	637,191	—
Payment of issuance costs on long-term debt	(1,031 )	—	—
Repayment of long-term debt	(2,500 )	(212,313 )	(2,150 )
Repurchase of long-term debt	(22,680 )	—	—
Net cash (used in) provided by financing activities	(509,052 )	516,040	(206,243 )
NET (DECREASE) INCREASE IN CASH	(522,436 )	898,928	(835,277 )
CASH—Beginning of the year	1,555,484	656,556	1,491,833
CASH—End of the year	\$1,033,048	\$1,555,484	\$656,556
SUPPLEMENTAL INFORMATION:			
Cash paid for interest	\$331,561	\$277,348	\$237,719
Cash paid for income taxes, net	\$593	\$193	\$279
NONCASH ITEMS:			
Transfer of loans held for sale, net to loans receivable, net	\$—	\$44,136	\$—
Restructuring of loans receivable to investments	\$60,476	\$54,028	\$24,414

See notes to consolidated financial statements.

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## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

### 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”) and Jefferies Group LLC (“JGL” and, together with Mass Mutual, the “Members”).

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 two of its wholly-owned subsidiaries, 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 certain 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 result in a negative capital account.

**Subsequent Events**—The Company has evaluated events and transactions that occurred subsequent to November 30, 2018 through January 28, 2019, 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.

**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.

JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

**Deferred Loan Fees, Net**—Direct loan underwriting fees, net of specific costs, are recognized on a pro-rata basis as the corresponding loan is syndicated. If the Company retains a portion of the syndicated loan, that portion of the fee is deferred and amortized using a level 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 once any established refundable period has lapsed over the remaining life of the revolving credit facility as fee income. 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 \$1,502.0 million and \$2,430.8 million at November 30, 2018 and November 30, 2017, 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 draws on revolving credit facilities. 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 for loan losses, 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 \$1,714.2 million, \$799.9 million, and \$790.6 million for the years ended November 30, 2018, 2017 and 2016, 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—The Company determines the classification of investments at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold investments until maturity, they are stated at amortized cost. All other investments, including financial derivative instruments are recorded on the Consolidated Balance

JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

Sheets at fair value with changes in value recorded as a component of Other gains (losses), net, in the Consolidated Statements of Earnings. Securities not held-to-maturity or on a long-term basis, are classified as available-for-sale and carried at fair value with unrealized gains or losses reported in Other gains (losses), net, in the Consolidated Statements of Earnings.

The Company has elected to carry its investments (other than CLO notes) 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 or receipt of the eligible financial asset. The fair value election may not be revoked once an election is made.

For investments such as CLO notes and available for sale CLO securities, the Company evaluates such investments for other-than-temporary impairment ("OTTI") on a periodic basis. OTTI occurs when the Company does not expect to recover the entire cost basis of the investment. As the holder of an investment recorded at amortized cost for which changes in fair value are not regularly recognized in earnings, the Company must determine whether to recognize a loss in earnings when the investment is impaired. Factors considered in determining whether an impairment is OTTI include: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) projected future cash flows, (3) the financial condition, industry environment and near-term prospects of the issuer, (4) downgrades of the investment by rating agencies and (5) the intent and ability of the Company to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value which may be until maturity. The Company records an OTTI loss in an amount equal to the entire difference between the fair value and amortized cost if (1) the Company intends to sell an impaired investment, (2) it is more likely than not that the Company will be required to sell the investment before its amortized costs are recovered or (3) for debt securities, the present value of expected future cash flows is not sufficient to recover the entire amortized cost basis. If an impairment on an investment is determined to be OTTI but the Company does not intend to sell the investment, the estimated loss is recognized in Other gains (losses), net, in the Consolidated Statements of Earnings.

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.

Securities sold under repurchase agreements—Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at contracted repurchase amount plus accrued interest.

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.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

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 a portion of its investments. 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.

In accordance with ASC 820-10 certain investments that qualify as investment companies in accordance with ASC 946 for which fair value is estimated using net asset value (“NAV”) or its equivalent as a practical expedient (when the NAV is available to the Company as an investor but is not publicly available) are not classified in the fair value hierarchy.

### New Accounting Developments

Revenue Recognition—In May 2014, the FASB issued Accounting Standards Update (“ASU”), No. 2014-09, Revenue from Contracts with Customers which provides comprehensive guidance on the recognition of revenue earned from contracts with customers arising from the transfer of goods and services, guidance on accounting for certain contract costs and new disclosures. The new revenue standard, and the standards that amend it, are effective for non-public entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional



footnote disclosures). The Company will adopt ASC 606 using the full retrospective approach on November 30, 2019, will not have a material effect on fiscal year 2018 or 2017 revenue recognition and will have no cumulative effect on opening equity, as the timing and measurement of revenue recognition will be materially the same as under ASC 605. The Company will present additional quantitative and qualitative disclosures regarding identified revenue streams and performance obligations. While the adoption of this guidance will not have a material impact on the Company's consolidated financial statements as of November 30, 2019, our disclosures will change to meet the requirements of this new guidance.

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. Subsequently, it was updated with ASU No. 2018-03 and ASU No. 2018-13 “Fair Value Measurement (Topic 820)—Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU, among other amendments,

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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eliminates the requirement to disclose the amounts and reasons for transfers between level 1 and level 2 of the fair value hierarchy and modifies the disclosure requirement relating to investments in funds at NAV. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. 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 for the fiscal year 2020 and early adoption is permitted. The Company plans to adopt this guidance effective November 30, 2020 which will result in a reclassification of the net change in restricted cash currently in investing activities to opening and closing cash and restricted cash in the Consolidated Statements of Cash Flows.

## 3. RESTRICTED CASH

The following is a summary of restricted cash as of November 30, 2018 and November 30, 2017 (in thousands):

	2018		2017
Principal and interest collections on loans held in credit facilities and CLOs	\$ 207,763		\$ 265,064
Reserves held in credit facilities and CLOs to support future operations	261,171		610,206
Total restricted cash	\$ 468,934		\$ 875,270

As of November 30, 2018 and 2017, there was \$157.8 million and \$421.7 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.

#### 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.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

The following is a summary of outstanding loan balances as of November 30, 2018 and 2017 (in thousands):

	2018	2017
Loans receivable:		
Originated	\$1,770,247	\$1,687,531
Secondary	2,771,751	3,203,298
Total loans receivable	4,541,998	4,890,829
Less: original issue discount	(56,048 )	(68,650 )
Total loans receivable, net of original issue discount	4,485,950	4,822,179
Less: deferred loan fees <sup>(1)</sup>	(6,725 )	(8,997 )
Total loans receivable, net of deferred loan fees	4,479,225	4,813,182
Less: allowance for loan losses	(35,353 )	(61,788 )
Total loans receivable, net	\$4,443,872	\$4,751,394

(1) Unamortized deferred loan fees received in connection with revolving credit facilities are classified within Other liabilities on the Consolidated Balance Sheets.

As of November 30, 2018, there was \$38.3 million and \$17.7 million of original issue discount included in originated and secondary loans, respectively. 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, 2018 and 2017, \$4.2 billion and \$4.6 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 as of November 30, 2018 (in thousands):

LOANS 30-89 DAYS PAST	LOANS 90 OR MORE DAYS	TOTAL PAST DUE LOANS	CURRENT LOANS	TOTAL LOANS
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	DUE	PAST		
		DUE		
Originated	\$	—\$ 1,268	\$ 1,268	\$ 1,730,644 \$ 1,731,912
Secondary	—	—	—	2,754,038 2,754,038
Total	\$	—\$ 1,268	\$ 1,268	\$ 4,484,682 \$ 4,485,950

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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The following is an analysis of past due loans, net of original issue discount at November 30, 2017 (in thousands):

	LOANS 30-89 DAYS PAST DUE	LOANS 90 OR MORE DAYS PAST DUE	TOTAL PAST DUE LOANS	CURRENT LOANS	TOTAL 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

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 recorded, 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, 2018 (in thousands):

	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT
Originated	\$ 98,447	\$ 118,602	\$ 5,584	\$ 103,417
Secondary	—	—	—	6,139
Total	\$ 98,447	\$ 118,602	\$ 5,584	\$ 109,556

The following is a summary of impaired loans as of November 30, 2017 (in thousands):

RECORDED INVESTMENT	UNPAID PRINCIPAL	RELATED ALLOWANCE	AVERAGE RECORDED
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	BALANCE		INVESTMENT
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	\$ 97,939

The average recorded investment reflects the change in the balance of impaired loans as of November 30, 2018 and 2017.

As of November 30, 2018 there was one impaired loan for which no specific allowance was recorded. As of November 30, 2017, each individual impaired loan had a specific allowance recorded.

JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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Interest income was not recognized on impaired and nonaccrual loans during the years ended November 30, 2018, 2017 and 2016. If the impaired and nonaccrual loans had been performing, an additional \$2.8 million, \$4.4 million and \$3.9 million of interest income would have been recorded for the years ended November 30, 2018, 2017 and 2016, 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.

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 for loan losses 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 BALANCE SHEETS	CONSOLIDATED 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





## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

The following is a summary of the activity in the allowance for loan losses for the year ended November 30, 2018 (in thousands):

	ORIGINATED	SECONDARY	TOTAL
Balance, November 30, 2017	\$ 29,369	\$ 32,419	\$ 61,788
Provision for (recovery of) loan losses—general	1,604	(3,670)	(2,066)
Provision for loan losses—specific	20,862	101	20,963
Transfers to loans held for sale, net	—	(1,726)	(1,726)
Charge-offs	(35,641)	(7,965)	(43,606)
Balance, November 30, 2018	16,194	19,159	35,353
Balance, end of period—general	\$ 10,610	\$ 19,159	\$ 29,769
Balance, end of period—specific	\$ 5,584	\$ —	\$ 5,584
Loans receivable:			
Loans collectively evaluated—general	\$ 1,633,465	\$ 2,754,038	\$ 4,387,503
Loans individually evaluated—specific	98,447	—	98,447
Total	\$ 1,731,912	\$ 2,754,038	\$ 4,485,950

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

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

The following is a summary of the activity in the allowance for loan losses for the year ended November 30, 2016 (in thousands):

	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 allowance related to losses on unfunded commitments were \$5.1 million and \$5.8 million as of November 30, 2018 and 2017, respectively. In addition, the Company decreased the allowance related to losses on unfunded commitments by \$(0.7) million and increased the allowance by \$0.7 million and \$1.5 million during the years ended November 30, 2018, 2017 and 2016, 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.

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.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

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.

The following is a summary of credit risk profile by ICG as of November 30, 2018 (in thousands):

ICG	ORIGINATED	SECONDARY	TOTAL
5.2	\$ —	\$ 10,466	\$ 10,466
5.5	—	70,622	70,622
5.8	18,902	336,214	355,116
6.2	186,438	579,700	766,138
6.5	650,182	910,136	1,560,318
6.8	468,457	602,168	1,070,625
7.2	185,593	130,332	315,925
7.5	111,694	99,814	211,508
7.8	50,602	236	50,838
8.2	12,496	14,350	26,846
8.5	16,649	—	16,649
9.2	30,899	—	30,899
Total	\$ 1,731,912	\$ 2,754,038	\$ 4,485,950



## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

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

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.

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 the borrower’s auditors

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



## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

Below is a summary of the Company's loans which were determined to be TDRs as of November 30, 2018 (in thousands):

	PRE- MODIFICATION OUTSTANDING RECORDED AMOUNT	POST- MODIFICATION OUTSTANDING RECORDED AMOUNT	INVESTMENT IN TDR SUBSEQUENTLY DEFAULTED	
Primary	\$ 149,712	\$ 85,427	\$	—
Secondary	34,216	24,943	—	
Total	\$ 183,928	\$ 110,370	\$	—

Below is a summary of the Company's loans which were determined to be TDRs as of November 30, 2017 (in thousands):

	PRE- MODIFICATION OUTSTANDING RECORDED AMOUNT	POST- MODIFICATION OUTSTANDING RECORDED AMOUNT	INVESTMENT IN TDR SUBSEQUENTLY DEFAULTED	
Primary	\$ 118,923	\$ 92,546	\$	—
Secondary	68,982	38,371	—	
Total	\$ 187,905	\$ 130,917	\$	—

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, 2018 and 2017.

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, 2018 and 2017 there were \$209.0 million and \$379.9 million, respectively, of unsettled purchases.

##### 5. LOANS HELD FOR SALE, NET

Below is a summary of Loans held for sale, net, as of November 30, 2018 and 2017 (in thousands):

	2018	2017
Loans held for sale	\$1,574,923	\$722,551
Less:		
Original issue discount	(15,198 )	(2,636 )
Valuation allowance	(2,880 )	—
Deferred loan fees, net	(6,670 )	(7,369 )
Loans held for sale, net	\$1,550,175	\$712,546

Included in the Loans held for sale were \$1,530.5 million and \$435.3 million of loans that were funded prior to the balance sheet date, but the completion of the syndication process occurred after, November 30, 2018 and 2017 respectively. As of November 30, 2018 and 2017,

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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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, 2018 and 2017, the Company had no impaired or non-accrual loans 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, 2018 and 2017, there were \$112.7 million and \$143.0 million, respectively, of unsettled sales.

## 6. INVESTMENTS AND COLLATERALIZED TRANSACTIONS

Under the fair value option as of November 30, 2018 and 2017, the Company held investments of \$59.6 million and \$46.1 million, respectively, in corporate equity securities, a corporate bond, interest rate and total return swaps. As of November 30, 2018, the Company also held \$45.7 million of held-to-maturity securities which were recorded at cost.

On August 27, 2018, the Company entered into a Limited Partnership Agreement with Mass Mutual, whereby the Company has a \$9.9 million unfunded commitment representing less than 10% partnership interest. This entity is considered a VIE of the Company, however the Company is not the primary beneficiary, nor does it have the power to direct the activities that most significantly impact the entity. On this basis, the Company does not consolidate the entity and accounts for this investment at fair value. As of November 30, 2018, the investment had a fair value of \$(1.8) million recorded in Other gains (losses), net in the Consolidated Statements of Earnings.

As part of the Company's financing activities we entered into repurchase agreements where the collateral pledged is CLO notes in the amount of \$39.5 million. The agreements with the counterparty contain contractual provisions allowing the counterparty the right to sell or repledge the collateral. Pledged notes owned that can be sold or repledged by the counterparty are included in Investments and noted parenthetically as securities pledged on our Consolidated Balance Sheets. Repurchase agreements are accounted for as secured borrowings and are recorded at their contractual repurchase amount plus accrued interest. There is no accrued interest as of November 30, 2018.

The following table sets forth the carrying value of repurchase agreements remaining contractual maturity as of November 30, 2018 (in thousands):

	Contractual Maturity			Total
	Overnight and 30 days Continuous	Up to 30-90 days	Greater than 90 days	
Repurchase-to-maturity transactions				
CLO notes	—	—	\$39,480	\$39,480

## DERIVATIVE FINANCIAL INSTRUMENTS

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 \$246.9 million with remaining maturity of approximately two 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 (“VFN”) with one of the CLOs as the underlying asset. As of November 30, 2018 the underlying VFNs have been redeemed and the TRS terminated.

As of November 30, 2018 and 2017, the interest rate swaps and the TRS had a combined fair value of \$1.5 million and \$6.5 million, respectively and were included within Investments on the Consolidated Balance Sheets. The net gain (loss) on the interest rate swaps and TRS was \$2.4 million, \$0.4 million and \$(3.3) million for the years ended November 30, 2018, 2017 and 2016, respectively, and was included in Other gains (losses), net in the Consolidated Statements of Earnings. As of November 30, 2018 and 2017, the counterparty credit quality with respect to the interest rate swaps was between A+ and BBB.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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The following table sets forth the remaining contractual maturities of the interest rate swap at the notional value as of November 30, 2018 (in thousands):

	1-5 YEARS	TOTAL
Interest rate swaps	\$246,858	\$246,858

The following table sets forth the remaining contractual maturities of the interest rate swaps and TRS at their notional value as of November 30, 2017 (in thousands):

	1-5 YEARS	TOTAL
Interest rate swaps	\$1,080,889	\$1,080,889
TRS	\$3,442	\$3,442

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE

The following tables present the Company's financial assets and liabilities measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy (in thousands):

NOVEMBER 30, 2018	LEVEL 1	LEVEL 2	LEVEL 3	NET ASSET VALUE	TOTAL
Assets, nonrecurring basis:					
Loans held for sale, net	\$	—\$1,550,175	\$—	\$—	\$1,550,175
Assets, recurring basis:					
Investments					
Investments in affiliates	\$	—\$—	\$—	\$(1,810)	\$(1,810)
CLO Notes	—	10,900	—	—	10,900
Interest rate swaps	—	1,496	—	—	1,496
Corporate equity securities	—	11	47,182	—	47,193
Total Investments	\$	—\$12,407	\$47,182	\$(1,810)	\$57,779

NOVEMBER 30, 2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets, nonrecurring basis:				

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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

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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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.

For bonds and interest rate swaps, the Company primarily uses broker quotes for non-exchange traded investments based upon the observability of the inputs.

The following table presents the changes in Level 3 assets measured on a recurring and nonrecurring basis for year ended November 30, 2018 (in thousands):

	BALANCE AT DECEMBER 1, 2017	PURCHASES ADDITIONS	SETTLEMENTS NET	TOTAL GAINS/ LOSSES (REALIZED AND UNREALIZED)	NET TRANSFERS IN AND OUT OF LEVEL 3 <sup>(1)</sup>	BALANCE AT NOVEMBER 30, 2018	NET CHANGE IN UNREALIZED GAINS/LOSSES RELATING TO INSTRUMENTS STILL HELD AT NOVEMBER 30, 2018
Corporate equity securities	\$ 32,511	\$ 18,126	\$ —	\$ (3,455)	\$ —	\$ 47,182	\$ (3,455)
Notes	\$ 2,351	\$ —	\$ (2,767)	\$ 416	\$ —	\$ —	\$ —
Total return swap	\$ 4,812	\$ 296	\$ (5,814)	\$ 706	\$ —	\$ —	\$ —

The following table presents the changes in Level 3 assets measured on a recurring and nonrecurring basis for the year ended November 30, 2017 (in thousands):

	BALANCE AT DECEMBER 1, 2016	PURCHASES ADDITIONS	SETTLEMENTS NET	TOTAL GAINS/ LOSSES (REALIZED AND UNREALIZED) <sup>(1)</sup>	NET TRANSFERS IN AND OUT OF LEVEL 3	BALANCE AT NOVEMBER 30, 2017	NET CHANGE IN UNREALIZED GAINS/LOSSES RELATING TO INSTRUMENTS STILL HELD AT NOVEMBER 30,
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							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

(1) Total gains and losses (realized and unrealized) are recorded in Other gains (losses), net on the Consolidated Statements of Earnings.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy for year ended November 30, 2018. For the year ended November 30, 2017, \$44.1 million was transferred from loans held for sale, net to loans receivable.

The tables below present 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).



## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
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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.

Below is the summary of the valuation techniques, significant unobservable inputs and their ranges for the Company's Level 3 financial assets and liabilities as of November 30, 2018:

FINANCIAL INSTRUMENTS OWNED	FAIR VALUE (IN THOUSANDS)	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUT(S)	INPUT RANGE	WEIGHTED AVERAGE
Corporate equity securities					
Non-exchange traded securities	\$47,182		EBITDA multiple	1.6x-13.7x	7.8x
		Market Approach	Revenue multiple	1.0x-2.4x	1.6x

Below is the summary of the valuation techniques, significant unobservable inputs and their ranges for the Company's Level 3 financial assets and liabilities as of November 30, 2017:

FINANCIAL INSTRUMENTS OWNED	FAIR VALUE (IN THOUSANDS)	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUT(S)	INPUT RANGE	WEIGHTED AVERAGE
Corporate equity securities					
Non-exchange traded securities	\$32,511		EBITDA multiple	5.6x-10.7x	7.8x
		Market Approach	Revenue multiple	0.5x-2.0x	1.3x
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 %

<sup>(1)</sup> There is no meaningful quantitative information to provide as the methods of valuation are investment specific.



## JEFFERIES FINANCE LLC AND SUBSIDIARIES

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Below is a summary of financial instruments not measured at fair value on a recurring or non-recurring basis, but as of November 30, 2018 and 2017, but for which fair value is required to be disclosed (in thousands):

	NOVEMBER 30, 2018		NOVEMBER 30, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash	\$1,033,048	\$1,033,048	\$1,555,484	\$1,555,484
Restricted cash	468,934	468,934	875,270	875,270
Loans receivable, net	4,443,872	4,328,669	4,751,394	4,688,556
CLO notes <sup>(1)</sup>	45,735	43,962	—	—
Total	\$5,991,589	\$5,874,613	\$7,182,148	\$7,119,310

	NOVEMBER 30, 2018		NOVEMBER 30, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities:				
Credit facilities, net		\$186,232	\$192,083	\$318,103
Secured notes payable, net		3,620,191	3,646,054	3,882,817
Securities sold under agreement to repurchase		39,480	38,929	—
Long-term debt, net		2,054,023	2,062,584	2,073,479
Total		\$5,899,926	\$5,939,650	\$6,274,399

<sup>(1)</sup> For the year ended November 30, 2018 the Company did not record any OTTI.

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 broker quotations and pricing service data is unavailable and there are no observable inputs, valuations are based on models involving projected cash flows of the borrower and market prices for comparable borrowers and are considered Level 2 measurements since there is no open exchange for loan assets.

CLO Notes—The fair value is 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.

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.

Securities sold under agreement to repurchase—The carrying value approximates fair value which was determined by applying prevailing repurchase agreement market interest rates to the Company's current repurchase agreement structure and are categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability and significance of the pricing inputs.

## 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 owning 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 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 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, 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.

The Company also holds interest in certain VIEs that are not consolidated because the Company is not deemed the primary beneficiary. The Company's variable interest in these entities is in the form of insignificant CLO securities and fee arrangements. The maximum exposure to loss represents the potential loss of assets by the Company relating to these non-consolidated entities.

As of November 30, 2018, the Company recorded investments, at amortized cost, attributed to two non-consolidated VIEs of \$56.6 million, with \$0.2 million of receivables which are included within Other assets and Investments, respectively, on the Consolidated Balance Sheets. As of November 30, 2018, the Company's maximum exposure to losses from this investment was \$56.8 million.

## 9. CREDIT FACILITIES, NET

As of November 30, 2018 and 2017 the Company had secured credit facilities totaling \$1.7 billion and \$1.7 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, 2018, 2017 and 2016, the Company entered into revolving credit agreements for \$1.0 billion, \$0.6 billion, and \$0.5 billion, respectively. During the years ended November 30, 2018, 2017 and 2016, \$1.1 billion, \$0.6 billion and \$0.3 billion of outstanding commitments matured or terminated and any outstanding amounts were repaid, respectively.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
November 30, 2018 and 2017

Below is a summary of the Credit Facilities and Members' Fronting Line as of November 30, 2018 (in millions):

	THIRD PARTY FRONTING LINE	MEMBERS FRONTING LINE	APEX CLO 2017 III WH	APEX CLO 2018 WH II	CLO 2012 WH	JFIN BUSINESS CREDIT FUND I LLC	JFUND III LLC	TOTAL
Total availability under the facility	\$ 800.0	\$ 500.0	\$	—\$	—\$	—\$ 100.0	\$ 300.0	\$1,700.0
Outstanding balance	—	—	—	—	—	54.0	138.1	192.1 <sup>(1)</sup>
Current availability	\$ 800.0	\$ 500.0	\$	—\$	—\$	—\$ 46.0	\$ 161.9	\$1,507.9
Principal balance of loans pledged as collateral	\$ —	\$ —	\$	—\$	—\$	—\$ 73.2	\$ 249.0	322.2
Largest outstanding amounts during the periods	977.2	500.0	359.3	259.6	126.7	55.4	148.6	2,426.8
Interest expense incurred	3.4	2.0	3.0	3.0	0.9	1.3	6.5	20.1
Undrawn facility fees incurred	5.9	2.6	—	—	—	0.3	2.0	10.8
Variable interest rate based on LIBOR	4.67 %	5.30 %	N/A	N/A	N/A	4.04 %	4.76 %	
Maturity Date	2/20/2019 (2&3)	3/1/2019 (4&5)	Terminated	Terminated	Terminated	2/2/2021	2/10/2022 (6)	

(1) Outstanding balance does not include \$5.9 million of deferred structuring fees which is recorded as a direct reduction of the credit facility on the consolidated balance sheet.

(2) On February 21, 2018, the Third Party Fronting Line was increased to \$800.0 million from \$500.0 million.

(3) Third Party Fronting line included a temporary increase of \$233.0 million from 2/27/2018 to 3/27/2018.

(4) The Member's \$500 million Fronting Line was renewed until March 1, 2019.

(5) Each Member, at their discretion may make available additional advances in excess of its committed amount.

(6) On February 10, 2017, the maturity of the facility was extended until February 10, 2022.

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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 PARTY FRONTING LINE	MEMBERS' FRONTING LINE	APEX CLO 2017 III WH	CLO 2016 II WH	JFIN BUSINESS CREDIT FUND I LLC	JFUND III LLC	JFUND V 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	1,100.0 <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	12/2021	2/10/2022 <sup>(5)</sup>	Terminated	

(1) Outstanding balance does not include \$5.7 million of deferred structuring fees which is recorded as a direct reduction of the credit facility on consolidated balance sheet.

(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.



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Below is a summary of the Credit Facilities and Members' Fronting Line as of and for the year ended November 30, 2016 (in millions):

	THIRD PARTY FRONTING LINE	MEMBERS' FRONTING LINE	JFIN CLO 2016-II WH	JFIN CLO 2016 WH	JFIN BUSINESS CREDIT FUND I LLC	JFUND III 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	

<sup>(1)</sup> Outstanding balance does not include \$4.1 million of deferred structuring fees.

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. Subsequent to August 31, 2018, JFIN extended this agreement to June 26, 2021. 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, 2018 and 2017, there were \$45.1 million and \$42.7 million, respectively, of letters of credit borrowed under the LC Facility. Interest expense for the years ended November 30, 2018, 2017 and 2016 was \$1.1 million, \$1.0 million and \$1.0 million, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

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. In March 2018, the Company increased its stand by letter of credit facility to \$100 million, and renewed the facility for an additional two years to March 9, 2020. As of November 30, 2018 and 2017, there were \$50.4 million and \$22.6 million, respectively, of letters of credit borrowed under the LC Facility. Interest expense for the years ended November 30, 2018, 2017 and 2016 was \$1.5 million, \$0.5 million and \$0.2 million, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

Deferred Structuring Fees—Deferred structuring fees in aggregate were \$5.0 million and \$5.7 million at November 30, 2018, and 2017, 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, 2018, 2017 and 2016 was \$6.5 million, \$4.6 million and \$4.8 million, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

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Undrawn Facility Fees—Undrawn facility fees in aggregate were \$10.8 million, \$7.2 million and \$7.8 million for the years ended November 30, 2018, 2017 and 2016, 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. Four revolver CLOs contain \$775.7 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, 2018, the 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, 2018	NOVEMBER 30, 2017
Due in 2019	\$ —	\$ —
Due in 2020	—	37,378
Due in 2021	—	—
Due in 2022	—	137,141
Due in 2023	—	177,096
Thereafter	3,620,192	3,531,202
Total	\$ 3,620,192	\$ 3,882,817

For the years ended November 30, 2018, 2017 and 2016 the Company repaid \$1,819.8 million, \$1,779.1 million and \$454.8 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 four and two of the Company's CLO's for years ended November 30, 2018 and 2017, respectively, \$12.8 million and \$4.4 million of original issue discount and \$5.5 million and \$6.4 million of structuring fees were accelerated and are included in interest expense in the Consolidated Statements of Earnings.

Deferred Structuring Fees—Deferred structuring fees in aggregate were \$33.6 million and \$42.4 million as of November 30, 2018 and 2017, respectively, and are included in Secured notes payable, net on the Consolidated Balance Sheets. Deferred structuring fee expense, including acceleration associated with refinancing, was \$15.7 million, \$17.5 million and \$9.8 million for the years ended November 30, 2018, 2017 and 2016, respectively,

and was included in Interest expense in the Consolidated Statements of Earnings.

Original Issue Discount—The unamortized original issue discount of \$26.6 million and \$47.5 million as of November 30, 2018 and 2017, respectively, was included within Secured notes payable, net on the Consolidated Balance Sheets. Original issue discount expense, including acceleration associated with refinancing, was \$25.3 million, \$16.9 million and \$9.2 million for the years ended November 30, 2018, 2017 and 2016, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

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## 11. LONG-TERM DEBT, NET

Below is a summary of JFIN's long-term debt as of November 30, 2018 (in millions):

DESCRIPTION	ISSUE DATE	OUTSTANDING PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	INTEREST PAYMENT 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	\$ 415.0	April 15, 2022	6.875	% April and October 15
2024 Notes <sup>(1)</sup>	8/03/2017	\$ 387.3	August 15, 2024	7.250	% February and August 15
Secured Term Loan <sup>(2)</sup>	8/03/2017	\$ 247.5	August 3, 2024 <sup>(3)</sup>	Libor +2.500%	Last business day of each 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 its wholly-owned subsidiary 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 NOTES PERCENTAGE	2021 NOTES PERCENTAGE	2022 NOTES PERCENTAGE	2024 NOTES PERCENTAGE
2019	100.000%	101.875%	101.719%	107.250%
2020	100.000%	100.000%	100.000%	103.625%

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2021	—	100.000%	100.000%	101.813%
2022	—	—	100.000%	100.000%
2023	—	—	—	100.000%
2024 and thereafter	—	—	—	100.000%

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

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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 term loan was subsequently amended on February 13, 2018, with the interest rate decreasing from 3.0% to 2.5%. 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, 2018 and 2017, \$1.8 billion and \$1.0 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.

During the year ending November 30, 2018, the Company repurchased \$10.0 million of the 2022 Notes and \$12.7 million of the 2024 Notes. It is the Company's policy to repurchase the Senior Notes in the open market depending on overall market conditions.

Interest expense related to Long-term debt was \$145.8 million, \$125.3 million and \$114.9 million for the years ended November 30, 2018, 2017 and 2016, respectively.

Deferred Structuring Fees—Deferred structuring fees in aggregate were \$20.3 million and \$25.9 million as of November 30, 2018 and 2017, respectively and are included in Long-term debt, net on the Consolidated Balance Sheets. Amortization of deferred structuring fee expense was \$6.7 million, \$7.6 million and \$5.3 million for the years ended November 30, 2018, 2017 and 2016, respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

Original Issue Discount—The unamortized original issue discount of \$0.5 million and \$0.6 million as of November 30, 2018 and 2017, respectively, was included within Long-term debt, net on the Consolidated Balance Sheets. The amortization of the original issue discount was \$0.1 million, \$1.5 million and \$0.4 million for the years ended November 30, 2018, 2017 and 2016 respectively, and was included in Interest expense in the Consolidated Statements of Earnings.

## JEFFERIES FINANCE LLC AND SUBSIDIARIES

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## 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, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Underwriting fees	\$641,094	\$625,754	\$262,933
Administration fees	11,137	8,399	9,508
Other fees	67,887	61,024	52,104
	720,118	695,177	324,545
Less:			
Deferred underwriting fees	(136,292 )	(113,179 )	(72,227 )
Jefferies LLC fees, net <sup>(1)</sup>	(268,705 )	(279,337 )	(99,013 )
Third party fees	(32,265 )	(32,638 )	(22,949 )
Fee income, net	\$282,856	\$270,023	\$130,356

<sup>(1)</sup> Jefferies LLC is a wholly owned subsidiary of JGL.

## 13. OTHER GAINS (LOSSES), NET

The following summarizes Other gains (losses), net for the years ended November 30, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Realized gain (loss) on sale of loans held for sale	\$10,445	\$6,467	\$(34,545)
Change in fair value of loans held for sale	(5 )	(4,634 )	(8,267 )
Realized gain (loss) on investments	492	1,047	(24,597 )
Unrealized gain (loss) on investments	(2,116 )	1,863	(8,139 )
Dividends	307	1,937	—
Other gains (losses), net	\$9,123	\$6,680	\$(75,548)

## 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

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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 for the years ended November 30, 2018, 2017 and 2016 consists of the following (in thousands):

	2018	2017	2016
Current—local	\$7,591	\$5,750	\$(1,569)
Deferred—local	(91)	550	55
Total income tax expense (benefit)	\$7,500	\$6,300	\$(1,514)

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 \$4.9 million as of November 30, 2018, and 2017, respectively, included in Other assets on the Consolidated Balance Sheets.

For the years ended November 30, 2018 and 2017, 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, 2018 and 2017.

The Company's effective tax rate was 3.7%, 3.4% and 4.2% for years ended November 30, 2018, 2017 and 2016, respectively. The Company's effective tax rate for the years ended November 30, 2018, 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 \$27.7 million and \$20.2 million as of November 30, 2018 and 2017 respectively, included in other liabilities on the Consolidated Balance Sheets.

The balance of net unrecognized tax benefits was \$28.2 million and \$23.1 million as of November 30, 2018 and 2017, respectively. Interest related to income tax liabilities is recognized in income tax (benefit) expense in the Consolidated Statements of Earnings. Penalties, if any, are recognized in other expenses in the Consolidated Statements of Earnings. The Company has interest accrued of approximately \$5.3 million and \$4.0 million as of November 30, 2018 and 2017, respectively. No material penalties have been accrued.

The Company is currently under examination by New York City for the years 2006 to 2013. 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. Distributions by JFIN to JGL in respect of taxes were \$40.0 million for the year ended November 30, 2018. The undrawn capital commitment available to JFIN from JGL as of November 30, 2018 and 2017 was \$55.2 million and \$113.8 million, respectively, per the LLC agreement.

JFIN owed JGL \$0.3 million and \$0.4 million as of November 30, 2018 and 2017, 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 \$2.4 million, \$3.5 million and \$1.3 million for the years ended November 30, 2018, 2017 and 2016, respectively, and was included in Interest expense in the Consolidated Statements of Earnings. For the years ended November 30, 2018, 2017 and 2016, the Company borrowed in aggregate from JGI \$1.9 billion, \$3.0 billion and \$0.2 billion, respectively.

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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. 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. Distributions by JFIN to Mass Mutual in respect of taxes were \$40.0 million for the year ended November 30, 2018. The undrawn capital commitment available to JFIN from Mass Mutual as of November 30, 2018 and 2017 was \$55.2 million and \$113.8 million, respectively, per the LLC agreement.

JFIN owed Mass Mutual \$0.6 million and \$0.4 million as of November 30, 2018 and 2017, 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 \$2.1 million, \$3.2 million and \$1.3 million for the years ended November 30, 2018, 2017 and 2016, respectively, and was included in Interest expense in the Consolidated Statements of Earnings. For the years ended November 30, 2018, 2017 and 2016, the Company borrowed in aggregate from Mass Mutual \$1.3 billion, \$1.8 billion, \$0.2 billion, respectively.

Mass Mutual has also provided JFIN's direct lending subsidiary, JFAM access to capital to invest on their behalf and paid \$0.7 million and \$0.4 million for years ending November 30, 2018 and 2017, respectively in management fees to JFAM.

During the year the Company entered into a Limited Partnership Agreement with Mass Mutual for the purpose of investing in certain revolving credit facilities. Please refer to Note 6 for further information.

Babson Capital Management LLC ("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, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Management fees charged by BCM	\$912	\$2,807	\$1,488

JFIN owed BCM approximately \$0.2 million related to collateral management fees as of November 30, 2018 and 2017, which is recorded in Due to affiliates on the Consolidated Balance Sheets.

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.

Below is a summary of expenses charged by Jefferies to JFIN for the years ended November 30, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
Compensation and benefits	\$31,661	\$24,222	\$28,919
Administration expenses	26,003	22,938	13,935
Occupancy expenses	3,322	2,928	2,999
New York City Unincorporated Business Tax	635	291	347
Expenses charged by Jefferies	\$61,621	\$50,379	\$46,200

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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 expenses were \$268.7 million, \$279.3 million and \$99.0 million for the years ended November 30, 2018, 2017 and 2016, 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 \$34.6 million and \$34.1 million at November 30, 2018 and 2017, 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 at November 30, 2018 and 2017.

At November 30, 2018 and 2017, 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. On October 24, 2017, this guarantee was terminated as the related CLO notes were redeemed. 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 \$5.8 million and \$1.2 million to JFP and JFL, respectively. The derivative contract entered with JFP was terminated in September 2018. 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 September 21, 2016, JFIN CLO 2016-II entered into a \$200.0 million pre-CLO 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 pre-CLO warehouse financing arranged by Jefferies Leveraged Credit Products LLC. The warehouse was terminated on March 28, 2018 when the assets were contributed into the CLO. On April 20, 2018, JFIN CLO 2012 WH entered into a \$200.0 million pre-CLO warehouse financing arranged by Jefferies Leveraged Credit Products LLC. The warehouse

was terminated on August 17, 2018 when the assets were contributed into the CLO.

## 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 as assets 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, 2018 and 2017, the Company had undrawn commitments of \$2.2 billion and \$1.9 billion, respectively. As of November 30, 2018, the Company, through CLOs, had the capacity to fund \$0.9 billion of revolving commitments. In addition, \$214.5 million of revolving commitments were held in a credit facility subject to equity requirements. As of November 30, 2018 and 2017,

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these commitments had maturity dates through June 2026 and October 2024, respectively. For the years ended November 30, 2018, 2017 and 2016, the Company earned unfunded fees of \$15.4 million, \$13.0 million and \$11.5 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, 2018, the Company had \$3.4 billion of commitments to these credit facilities, of which \$0.7 billion had been syndicated to third parties. 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.

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, 2018, there was only one borrower whose individual outstanding loan balance represented 5% or more of all loan balances. 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, 2018, business services, healthcare and retail were the largest industry concentrations, which made up approximately 27%, 11% and 8%, respectively, 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. Loans balances include Loans receivable and Loans held for sale.

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