PILLAR 3 REGULATORY DISCLOSURES REPORT – AS AT 30 NOVEMBER 2014

LEUCADIA INVESTMENT MANAGEMENT LIMITED

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1 OVERVIEW AND BASIS OF PREPARATION OF THE PILLAR 3 DISCLOSURES

1.1 BUSINESS BACKGROUND

Leucadia Investment Management Limited ('LIML' or 'the Firm') is a UK incorporated fund manager, regulated by the Financial Conduct Authority ('FCA') as a BIPRU[1] €50K firm. LIML was previously a subsidiary of Jefferies International (Holdings) Limited ('JIHL') under the registration name of Jefferies Investment Management Limited ('JIML'). In November 2013, JIML was acquired by the US-incorporated Leucadia Asset Management Holdings LLC ('LAM') which is wholly owned by Leucadia National Corporation, the ultimate parent company of JIHL.

1.2 REGULATORY FRAMEWORK: BASEL ACCORD AND PURPOSE OF THE PILLAR 3 DISCLOSURES

The Basel framework sets out minimum capital requirement standards for firms to ensure they are adequately capitalised against the risks they face and be able to withstand trading losses during periods of stress conditions. The framework consists of three pillars:

- Pillar 1 sets out the minimum capital requirements that firms must meet for credit and counterparty, market and operational risk. LIML is subject to the base capital resources requirements; credit risk and market risk capital requirements and fixed overhead requirement;
- Pillar 2 covers the review process by firms and supervisors to assess the appropriateness of the Pillar 1 level of capital and concludes on any additional capital to be held for risks not captured or not adequately captured by Pillar 1; and
- Pillar 3 encourages market discipline and transparency through appropriate disclosures on capital adequacy and risk management processes.

This Pillar 3 Disclosures Report ('the Report') is prepared in accordance with the requirements in BIPRU 11 and focuses on capital adequacy measures and disclosures of the Firm's risk management processes.

1.3 SCOPE OF THE PILLAR 3 DISCLOSURES

This Report relates to LIML's activities and financial position as at 30 November 2014. LIML is a solo UK regulated entity; the consolidation basis and scope used for statutory accounting reporting and regulatory reporting are the same.

1.4 PILLAR 3 DISCLOSURES POLICY, FREQUENCY AND VERIFICATION

Policy - LIML has a policy in place to assess the appropriateness of its Pillar 3 disclosures, including their verification and frequency of review and publication. The Pillar 3 Policy, in line with BIPRU requirements, also requires that LIML's external disclosures present the Firm's profile comprehensively, subject to the information being material and not proprietary or confidential. Any information omitted on this basis is declared in this Report.

Frequency - LIML's policy is to publish this Report at least annually using the accounting reference date and, if appropriate, more frequently if there is a significant change in the Firm's risk profile.

Verification - The 2014 disclosures were validated and approved internally by senior management, including the LIML Board of Directors, in line with the Pillar 3 Disclosures Policy. Consistency checks and reconciliations are performed within the Finance function to ensure consistency in disclosures. The internal validation process included data validation by Senior Management in Finance, Risk, Human Resources, Legal and Regulatory Reporting, and final approval by the Board of Directors.

1.5 PRESENTATION OF RISK EXPOSURES AND ACCOUNTING PRINCIPLES

The calculation methodologies underlying the measurement of the risk exposures in this Report are those required in BIPRU. In general, the measurement of exposures for regulatory risk reporting purposes is based on a supervisory formula method, therefore, these exposure measures may be materially different from those used by LIML for risk management internally and those used for other external risk disclosures. Except for the application of the exposure measurement methodology described above, these disclosures have been prepared in accordance with UK Generally Accepted Accounting Principles ('UK GAAP').

1.6 OTHER DISCLOSURES

This document does not constitute a set of financial statements. Financial statements for LIML are prepared in accordance with applicable UK company law and accounting standards. These disclosures should also be read in conjunction with Leucadia's public disclosures which can be found at: http://www.leucadia.com/

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

2 RISK MANAGEMENT APPROACH AND CAPITAL RESOURCES

LIML's Board of Directors ('the Board') is responsible for the long term success of the Firm by creating sustainable value for the Firm's sole shareholder, Leucadia. The Board sets strategy, in line with delegated authority from the shareholder, and oversees its implementation through the Board-approved Business Plans. The Board is ultimately responsible for the governance and oversight of risk management and for ensuring that adequate systems and controls are maintained to enable risks to be appropriately identified, measured, managed and monitored.

2.1 PRINCIPAL RISK MANAGEMENT

The Board identifies three Principal Risks: Capital Risk; Operational Risk; and Reputational Risk.

2.1.1 CAPITAL RISK MANAGEMENT

The Firm's capital management policy is to maintain a strong capital base that is comfortably above the minimum regulatory own funds requirements in order to support all material risks inherent in the Firm's business and market environment. Capital resources and requirements are monitored and reported to Senior Management and are subject to minimum thresholds as set out in the Capital Management Framework.

Figure 2 shows the Firm's capital resources as at 30 November 2014. The value of share capital and audited reserves is £1.341m; the capital resources comprise Core Equity Tier 1 capital only.

Figure 1: Capital Resources

Capital Resources as at 30 November 2014	£'000
Common Equity Tier 1 Capital	
Ordinary Shares	2,007.3
Reserves	(742.7)
Current Year's P&L	76.8
Total CET1 Capital	**1,341.4**
Deductions from Tier 1	0.0
Total Capital Resources	**1,341.4**

2.1.1.1 CAPITAL REQUIREMENTS

Application of the Pillar 1 framework

As a limited licence BIPRU 50K firm, LIML's regulatory own funds requirements for each risk factor are calculated on the basis of the most conservative approaches as set out in the FCA GENPRU[2] and BIPRU[3] rulebooks. As per GENPRU 2.1.45, the variable capital requirements (Pillar 1) are calculated as the higher of:

- The sum of the market risk and credit risk capital requirements as calculated under the standardised approaches according to BIPRU; and
- The fixed overheads requirement ('FOR') calculated as one quarter of the Firm's relevant fixed expenditure as per GENPRU 2.1.54.

As at 30 November 2014, LIML's Pillar 1 requirement was £380k based on the fixed overheads requirement (resulting in a solvency ratio of 353%). This is because credit and market risk exposures are minimal[4]:

- *Credit risk:* As a fund manager (and sub adviser) LIML's only exposures to credit risk are limited to incidental credit risk as a result of receivables and operational bank balances. As at 30 November 2014, the Pillar 1 requirement was £52.3k. There are no counterparty risk exposures.
- *Market risk:* LIML's only exposure to market risk is in the form of inherent FX risk as a result of fee receivables and bank balances denominated in dollars; this was calculated as £66.8k as at 30 November 2014. The Firm has no trading book activity and has zero appetite for any other market risk; as such it has no other trading book activity or securitization activity.

Application of the Pillar 2 framework

As part of the capital planning process, the Board ensures that LIML has adequate capital to support all material risks inherent in LIML's business activities and market environment. The framework is based on calculating and holding additional capital that may be required under stressed conditions in line with regulatory requirements. These stress tests inform decisions on the size and quality of capital buffers required to ensure capital adequacy under severe but plausible stressed scenarios. These results are incorporated into the capital planning process.

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[2] General Prudential Sourcebook ('GENPRU')
[3] Prudential sourcebook for Banks, Building Societies and Investment Firms ('BIPRU')
[4] As such LIML has no exposures referred to in BIPRU 11.5.5-11.5.9; and 11.5.11-11.5.17.

The level of Pillar 2 capital held by LIML reflects the risks inherent in the business model and the governance, control and risk management infrastructure. The minimum regulatory own funds requirement is the sum of the Pillar 1 and the Pillar 2 requirement where an amount in excess of that covered by the FOR is determined.

2.1.2 Operational Risk Management

This is managed under the Operational Risk Management Framework which includes incident reporting and key risk indicators. The Basel 2 taxonomy is used to define operational risks within the Firm. For a fund manager such as LIML, this risk predominantly arises in the form of professional liability risk. As per industry practice, LIML has a professional indemnity insurance ('PII') in place and also reviews operational risk as per of the Pillar 2 framework.

2.1.3 Reputational Risk

LIML's reputational Risk could arise from poor performance affecting its ability to generate profits; the effect on its financial position should it lose some of its largest investors; the effect of poor customer services on its financial positions; and the effect on its financial position should one or more of its key portfolio managers leave the Firm. This is assessed and monitored as part of the Firm's Pillar 2 framework.

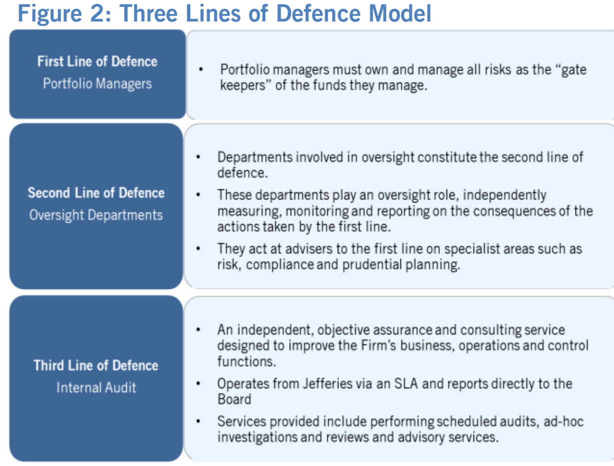
2.2 RISK MANAGEMENT APPROACH

Three Lines of Defence

LIML has adopted a "three lines of defence" approach to managing risk. This ensures segregation of duties and allows the Firm to demonstrate and structure roles, responsibilities and accountabilities for risk, control and decision making.

- **First Line -** Those responsible for initiating and directly identifying and managing LIML's risk.
- **Second Line -** Oversight and independent control.
- **Third Line -** Provide independent challenge and assurance.

Figure 2: Three Lines of Defence Model



Risk Management Department

Operationally, risk management is performed by the independent Risk Management Department ('Risk Department'), provided by the EMEA Jefferies Risk Department through Service Level Agreements ('SLAs'). This includes the monitoring, management and reporting of risk exposures against applicable internal thresholds. Risk Management consists of five teams, Market and Liquidity Risk, Credit Risk, Operational Risk, Model Validation, and Risk Control; the heads of the teams report to the Chief Risk Officer ('CRO').

Policy Framework

As part of risk management, the Firm adopts and follows various policies and frameworks in the risk management process including the:

- *Operational Risk Management Framework* – This sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.
- *Liquidity Risk Management Framework* – This states how the limited liquidity risk is mitigated in the Firm and sets out the Contingency Funding Plan.
- *Capital Management Framework* – This states the key components for the management of regulatory capital including the application of the Pillar 1 and Pillar 2 frameworks, risk appetite and thresholds, governance.
- *Individual Capital Adequacy Assessment Process ('ICAAP')* – This assesses any additional capital the Firm needs to hold against the risks inherent in its business so that the Firm is able to maintain periods of stressed conditions without material business impact.

Limit monitoring

There are independent limits set for the investment structures which are monitored on a daily basis. Stress testing is also used to analyse the potential impact on the fees for the Firm from specific events or moderate or extreme market moves on the portfolios. The stress scenarios comprise both historical and hypothetical market movements including simultaneous changes to many risk factors.

3 REMUNERATION

The following disclosures are made in accordance with BIPRU 11.518R for the financial year ended 30 November 2014, considering the FCA's Remuneration Code, 'the Code' and guidance on proportionality, set out in the Sourcebook for Senior Management Arrangements, Systems and Controls (SYSC19C). LIML is classified as a proportionality Level Three firm.

Remuneration Policy and The Decision-Making Process

The business strategy for LIML is to provide quality services to its clients, to increase revenues, and to provide a return to shareholders and other stakeholders. As such the Firm's remuneration policies and practices are designed to be flexible to:

- Align with these objectives in a highly competitive market by improving individual and corporate performance and contribution, while managing risk effectively in recognition of the Firm's employees being critical to executing the business strategy successfully; and
- Meet high standards of governance and compliance with all regulatory requirements by encouraging behavior that supports the long term financial soundness and risk management framework.

Governance

LIML's remuneration policy is reviewed and approved by the Board annually. The International Chief Financial Officer, supported by the Chief Operating Officer, have general oversight of the financial performance of all business units, and the Board review business performance and compensation costs for each business unit.

Design Characteristics of the Remuneration System

The performance targets and budgets are set at least annually and are reviewed regularly throughout the financial year. Business performance and remuneration costs are reviewed by the Boards. In the event of the Firm's performance being weak, bonus pool and any distributions will be reduced accordingly at the discretion of the senior management.

The Firm monitors the ratio of fixed to variable compensation for Code Staff to ensure adherence with the general requirements of the Code. The Firm will consider on special cases buying out deferred variable remuneration for prospective hires where the hire of a particular importance to the Firm for achieving its business objectives and subject to senior management approval.

Link between pay and performance

Remuneration practices are directly linked to both short term and long term performance goals. LIML operates a discretionary year-end bonus scheme, the purpose of which is to reward and incentivize employees, including Code Staff. All employees are eligible to participate in this scheme; there are no bonus schemes specific to Code Staff. Year-end performance awards are made from annual bonus pools for the financial year. The discretionary nature of the bonus schemes enables management to review performance and to take appropriate action to reduce or otherwise extinguish any entitlement to bonus on the grounds of failure to comply with risk and/or compliance policies even where performance against financial targets would otherwise have led to a bonus being awarded. When determining employee performance awards, the factors considered include, but are not limited to, the:

- Employee's performance during the year, against financial and non-financial metrics, with specific attention to stand-out performance, active contribution and adherence to expected risk and compliance requirements;
- Performance and profitability of the business, the relevant legal entity, and the wider group;
- Overall contribution of the individual to the business unit performance;
- Importance of the sector / business until and the need to retain the individual; and
- Competitive market data and performance of the financial markets in general.

Vesting: The performance award is paid in the fiscal quarter immediately following the end of the fiscal year to which the bonus relates, provided the individual is an employee of the Firm on the date that the award is made and is not under notice, whether given by LIML or the employee, to terminate their employment. Depending on the level of an employee's total compensation, performance awards in 2014 were paid in either restricted or unrestricted cash in accordance with the Remuneration Policy. Restricted awards have a one year or greater vesting requirement to encourage employees to take a multi-year perspective.

Aggregate Quantitative Information on Remuneration: The Firm does not disclose detailed breakdown remuneration data for Code Staff on the basis of confidentiality due to the limited number of Code Staff in LIML.