2015
Annual Report

Burford

About Burford Capital

Burford is a leading global finance firm focused on law. Our businesses include litigation finance, insurance and risk transfer, law firm lending, corporate intelligence and judgment enforcement, and a wide range of investment activities. Burford's equity and debt securities are publicly traded on the London Stock Exchange. We work with lawyers and clients around the world from our principal offices in New York and London.

Contents

Full Year 2015 Highlights:

Income up
26% to $103.0m

Operating profit up
27% to $77.2m

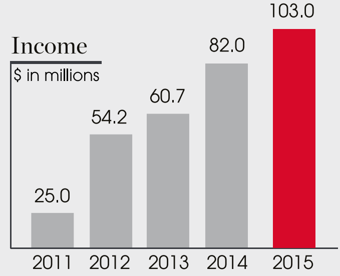
Return on Equity of **16%**

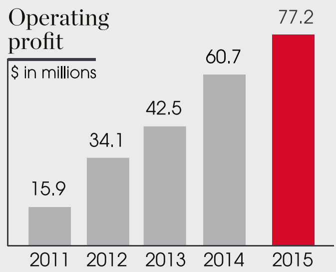
Full year dividend up
14% to 8.0¢

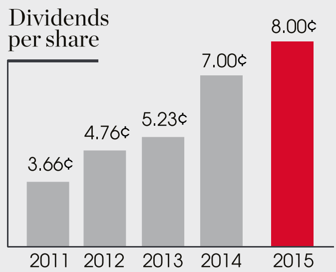
Continued strong investment returns:

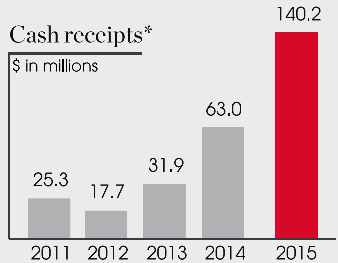
42 investments, generating
$348m in gross investment recoveries and
$143m net of invested capital, producing a
70% net return on invested capital

See definitions and discussion later in this report.







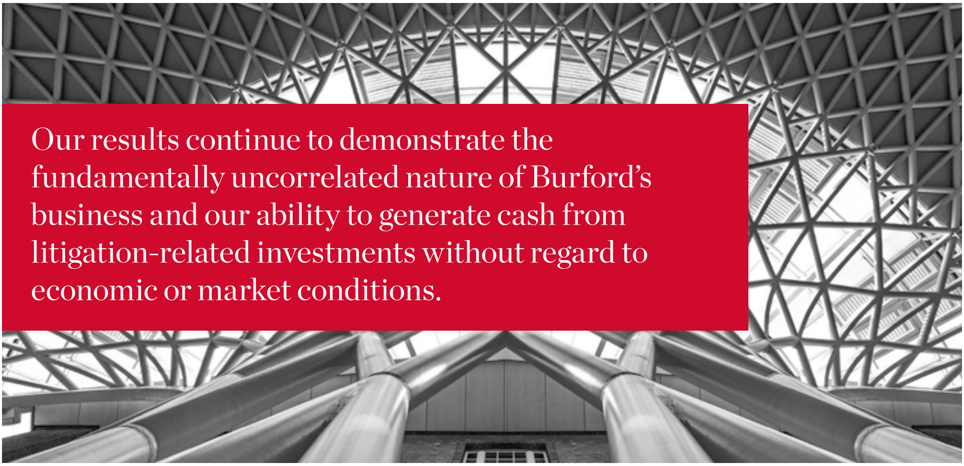


*from litigation finance investments

Full audited IFRS consolidated financial statements can be found in the following pages and a summary is set out below. The current period figures do not contain any adjustments and are derived directly from the audited consolidated financial statements. The prior period figures for profit before tax, taxation and profit after tax exclude the impact of amortisation relating to the Burford UK acquisition and are shown to assist in understanding the underlying performance of the Company; on a pure IFRS basis profit after tax would have increased by 41%.

US$`000	**2015**	2014	**% change**
Litigation investment income	**86,903**	47,847	**82%**
Insurance income	**12,763**	24,338	**(48%)**
New Initiatives income	**3,484**	222	
Other income	**(143)**	9,627	
Total income	**103,007**	82,034	**26%**
Operating expenses – litigation investment	**(13,953)**	(10,416)	
Operating expenses – insurance	**(2,577)**	(5,396)	
Operating expenses – new initiatives	**(4,498)**	(1,561)	
Operating expenses – corporate	**(4,812)**	(3,950)	
Operating profit	**77,167**	60,711	**27%**
Finance costs	**(9,290)**	(3,652)	
Profit before tax	**67,877**	57,059*	**19%**
Taxation	**(2,204)**	(2,906)*	
Profit after tax	**65,673**	54,153*	**21%**

* Profit before tax, taxation and profit after tax in 2014 do not include the amortisation, and related deferred tax credit, of the embedded value intangible asset, which is included in the prior period figures in the Consolidated Statement of Comprehensive Income on page 25.



> Our results continue to demonstrate the fundamentally uncorrelated nature of Burford's business and our ability to generate cash from litigation-related investments without regard to economic or market conditions.

Burford's business can be described very simply: we are a leading and pioneering capital provider to the global legal industry.

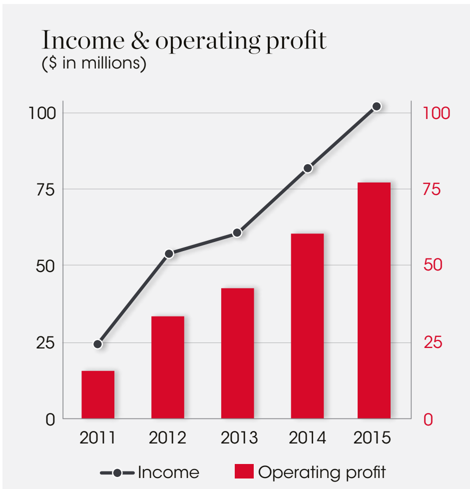
We have experienced rapid growth over our six year history and 2015 was no exception:

- Our income exceeded $100 million for the first time and our operating profit grew by 27% to $77 million – which translates into a 75% operating profit margin.
- Our new investments also grew dramatically: we committed $206 million of new capital to litigation finance investments in 2015 (versus $153 million in 2014, a 35% increase), positioning the business to continue to grow its profitability in the years to come.
- Our concluded investments have produced a 70% net return on invested capital and their IRR rose to 28%. They also produced significant cash – $140 million in cash receipts in 2015 (versus $63 million in 2014).
- Our return on book equity was 16% in 2015 and our return on cash equity was 20%.

Our results continue to demonstrate the fundamentally uncorrelated nature of Burford's business and our ability to generate cash from litigation finance investments without regard to economic or market conditions.

A shareholder who invested in our IPO six years ago would have realised a 124.5% return in stock price appreciation, or a 13.5% compound annual growth rate (through 15 March 2016). In comparison, the FTSE All-Share Index yielded a 3.7% CAGR over the same period. Including dividend payments, Burford has delivered a 156.6% return since IPO, or a 15.9% CAGR.

In recognition of a strong year and consistent with our dividend policy, the Board is recommending a full year dividend of 8.0 cents per share, a 14% increase. (Shareholders who receive dividends in Sterling will see an even greater effective increase due to the strengthening of the US dollar over the past year.)



The future continues to look bright.

In capital terms, the legal industry resembles a slumbering giant that is now awakening. It is difficult to size the legal market precisely, but it is enormous by any measure. Thirty-four law firms have annual revenues of more than $1 billion each. Market analysts put the size of the entire global law firm market above $800 billion in annual revenues. And it is a profitable business, too – 81 large firms had profits per partner of $1 million or more. However, law firms have not historically been significant users of outside capital. That is changing, and we are in the vanguard of driving that change – which presents opportunities for us to continue to grow our diversified portfolio of capital investments in law.

Only a few short years ago, we would not have described our business quite this way. Instead, we would probably have called ourselves a "litigation funder". Indeed, that is how the press still tends to talk about this business. But along with the rapid growth of our business has come dramatic evolution in the use of capital in the legal sector. In our inaugural year, 100% of our business was single case litigation funding. In 2015, only 13% of our new investments related to single litigation cases, and the remaining 87% was for a variety of other forms of capital provision to the legal market. This transmutation is very significant, as it expands our potential market dramatically while enabling us to reduce volatility and retain our historical return profile.

While most of our activity is necessarily confidential, we were pleased to announce the closing of a $45 million portfolio financing arrangement with a FTSE 20 company in December. We also provided $100 million in capital to a major global law firm early in 2016 in our largest transaction ever, arrayed against a wide variety of legal assets. (That investment is not included in our 2015 results.) We discuss these in more detail below, as they are significant illustrations of both the ongoing development and evolution of the litigation finance market and the growth of our own business.

Indeed, demand for our capital is such that we are ready once again to expand our balance sheet after our success in deploying (on schedule) the capital we raised from our inaugural bond issue in 2014. We are therefore also announcing concurrently with these results a roadshow for Sterling fixed income investors to commence marketing for a possible second bond offering.

To be sure, we do more than provide capital. We also provide a variety of risk transfer and professional services, but at present, about 85% of our income comes from returns on capital that we deploy in litigation finance investments. Thus, it is fitting to start this report with a detailed discussion of that business.

Litigation finance

Introduction

A litigation claim is an asset. It may seem strange to think of litigation in that way, but if one strips away the drama and the collateral dynamics associated with the litigation process, a litigation claim is nothing more than an effort to get money to change hands. In other words, a litigation claim is just like any other receivable.

For decades, businesses regarded litigation as an unpleasant necessity – expensive, unpredictable, distracting – but not something usually needing much attention from anyone other than the lawyers.

That is no longer the case. Litigation has become more pervasive, more expensive and more significant to enterprises of all sizes. Global icons are having their earnings driven by litigation, as a long string of headlines demonstrates:

- *Goldman Revenue Tops Estimates, Profit Falls on Legal Costs*
- *HSBC quarterly loss amid heavy litigation costs*
- *FDIC: Bank earnings rose, boosted by lower litigation expenses*

There is a tidal wave of litigation across the globe. Brazil alone has around 100 million pending litigation cases. It is impossible to arrive at a reliable number in the United States.

These dynamics are driving two basic corporate reactions. One is a desire for financial alternatives to defray or manage the high and ever-rising cost of litigation and its unhappy accounting treatment for businesses. The other is a growing recognition that litigation claims are assets capable of supporting financing arrangements that may have nothing to do with meeting litigation costs. Burford's business meets both corporate needs.

Burford concluded a $45 million financing arrangement with a FTSE 20 company in late 2015 to support a portfolio of pending litigation. Described by the press as "ground-breaking" and a "landmark deal", it illustrated the pervasive spread of litigation finance into even the largest global companies. Our view is that this is simply common sense, and long overdue. Businesses have suffered from an excess of litigation expense for some time with deplorable financial reporting consequences. On a cash basis, litigation consumes resources that would otherwise be devoted to business progress and distorts corporate budgets. On an accounting basis, the story is even worse: litigation costs are current P&L expenses, but even though litigation claims are assets, the accounting rules do not permit them to be included on the balance sheet (and significant litigation wins tend to be treated as non-operating income). Thus, paying for litigation from the corporate purse is a value destroying exercise. While Burford's capital is expensive compared to most companies' own cost of capital, the market value benefit of using external financing for litigation and avoiding its negative P&L impact more than makes up for the incremental cost. It is no surprise that companies of all sizes are seeking the kind of financial alternatives that Burford provides.

Law firms are also transforming. The hourly fee model for many law firms is going or gone. Instead, clients insist that their lawyers share risk and defer fees. That does not sit comfortably with the classic law firm business model, and law firms too are expanding their use of external capital to enable them to meet their clients' demands while not entirely upending their own business models.

Burford is stepping in to meet that demand. Notably, in January 2016, Burford provided $100 million in financing to a major global law firm against a broad and widely diversified portfolio of matters. This is a similarly ground-breaking transaction. Law360, a leading legal trade journal, commented on Burford's approach:

> *Industry experts have characterised the apparent move toward deeper outside funding in law firms as "inevitable," while noting the investments are starting to look and sound more like venture capital investments.*

This trend is in no way surprising. Law firms are one of the last businesses to try to exist as cash partnerships without external capital. That's fine when you can get your clients to pay you currently and by the hour. However, that model is significantly more challenging when clients demand alternative economic structures from their law firms – as they now do regularly. When that happens, law firms are like any other businesses in needing to add external capital to continue to prosper and grow.

Those trends are fuelling our business, and because we are at the early stage of the financial transformation of the legal industry, the future is appealing.

Burford's investment portfolio

There are three fundamental data points for Burford's litigation finance business:

- Burford's performance across investments that have concluded
- Burford's outstanding litigation investment portfolio
- Burford's commitments to new investments

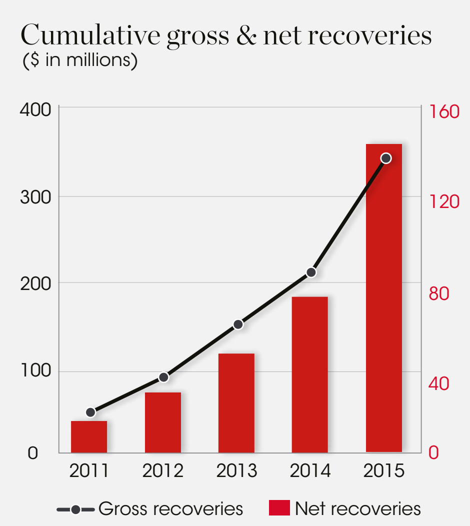
We examine each in turn.

Performance of concluded investments[1]

Burford's investment performance has continued to be strong. Our return on invested capital has risen to 70% (2014: 60%) and the IRR across the portfolio has risen to 28% (2014: 24%).

In 2015 we saw a further acceleration of investment recoveries, which now stand cumulatively at $348 million (2014: $209 million). In other words, we brought in 40% of our lifetime investment recoveries – $139 million – in 2015 alone. Significantly, that acceleration was broad-based. In 2015, 16 different investments made actual cash payments to Burford. Some of those were single case investments that resolved entirely in 2015; others were receipts from portfolio arrangements where some or even most of the portfolio remains outstanding.

1 We have consistently used concluded investments and investment recoveries as terms to refer to those investments where there is no longer any litigation risk remaining. We use the term to encompass: (i) entirely concluded investments where Burford has received all proceeds to which it is entitled (net of any entirely concluded investment losses); (ii) the portion of investments where Burford has received some proceeds (for example, from a settlement with one party in a multi-party case) but where the investment is continuing with the possibility of receiving additional proceeds; and (iii) investments where the underlying litigation has been resolved and there is a promise to pay proceeds in the future (for example, in a settlement that is to be paid over time) and there is no longer any litigation risk involved in the investment. When we express returns, we do so assuming all investment recoveries are paid currently, discounting back future payments as appropriate. We do not include wins or other successes where there remains litigation risk in the definition of "investment recoveries". We view matters as concluded when there is no longer litigation risk associated with their outcome and when our entitlement is crystallised or well-defined. While concluded matters often produce cash returns rapidly, some concluded matters are still in the process of being monetised.

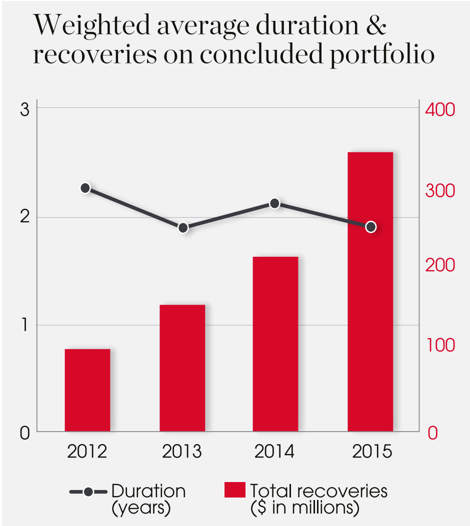


Thus, while 2015 brought our largest investment success ever, a $61 million recovery on a $25 million investment, it also brought a number of other recoveries of varying sizes. For example, a portfolio investment made in 2011 continued to produce profits, with total recoveries rising to $42.5 million (2014: $26.1 million), a 325% return on invested capital, and at the smaller end of the spectrum, a small matter concluded rapidly, with an investment of only $0.2 million producing a gross recovery of $0.9 million in well less than a year, for a 271% return on invested capital (and a 376% IRR).

The weighted average duration of concluded investments has continued to hover around two years, a stable feature of the portfolio for some time (our weighted average duration has been between 1.9 and 2.3 years for the last four years), albeit with meaningful deviations from the mean depending on the progression of individual investments.

We publish later in this report our usual table of concluded investment returns, reported investment by investment. That table illustrates the importance of our strategy of building a large and widely diversified portfolio by showing the spread of results generated by litigation-related investing, from tremendous successes to the inevitable outright losses, and a broad dispersion of results in-between. (All of our reported results are net of all such losses.)

We also provide later in this report some examples of actual investment structures and economics for our concluded investments.



Current investment portfolio

At the end of 2015, Burford had outstanding litigation investments on our balance sheet of $320 million (2014: $266 million). If we were to add the $100 million portfolio investment we made in early January 2016, that number would rise to $420 million. In addition, we have a further $207 million in undrawn commitments made to existing investments.[2] Thus, our current portfolio stands above $627 million in commitments, which have been made across 54 different litigation investments. That translates into an average commitment of $12 million to an investment, although once again there is material deviation from the mean.

Burford counts each of its contractual relationships as an "investment", although many

2 The relationship between committed and deployed capital, and how we think about that relationship, is complex given the varying economics of our investments. In some cases, our returns are tied closely to the amount of capital we deploy and the length of time that capital is outstanding (for example, in appeal financing, our terms may well just be a multiple of capital invested or something akin to an interest rate, with no participation in the actual result). In others, much more of our return is based on the performance of the underlying litigation matter and the amount invested may be irrelevant (for example, in something akin to a synthetic contingency fee, where we are receiving a portion of the ultimate recovery). Historically, we have deployed approximately 82% of our commitments, although the number varies widely by investment.

such relationships are composed of multiple underlying litigation matters that are typically cross-collateralised rather than relying on the performance of a single matter. So, while Burford has 54 "investments", there are now more than 500 separate claims underlying the investment portfolio (and a single claim may well have multiple paths to a recovery).

Burford believes that it has – by a considerable margin – the largest diversified portfolio of litigation investments in the world targeting the kind of returns Burford has historically generated.

In addition to sheer size, Burford's current portfolio of investments is widely diversified across many other metrics:

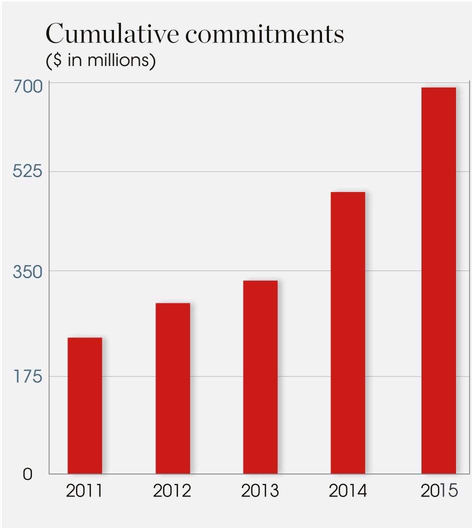
- Our investments relate to litigation matters spread across some 40 US states and countries, and under way in multiple arbitral institutions
- We are presently working with more than 40 different law firms
- Our claim types run the gamut of commercial litigation and arbitration, with no particular concentration in any one area of law – although we do not have any personal, non-commercial claims or clients
- Our clients are located in North America, South America, Europe and Asia
- There is no concentration among defendants/respondents in matters we finance for plaintiffs/claimants – none rises to even 10% of our commitment
- We are involved in every stage of claims, from inception when our financing is secured at the outset of the case through to appeals and to matters where final judgment has already been obtained

Litigation outcomes are risky and inherently difficult to predict individually, but even though our pool of concluded investments continues to grow materially, we have consistently maintained strong returns on invested capital – never falling below 50% across the concluded portfolio during the last five years, and standing at 70% at the close of 2015. Though we repeat our annual caution that individual litigation results are inherently unpredictable – to the point where we could easily have a financial reporting period of volatile earnings if litigation timing causes a loss to occur in a period without an offsetting gain in another matter – we continue to be optimistic about the overall return potential of the portfolio over time.

Commitments to new investments

While the performance of our concluded investments and our financial reporting measures the past, the future belongs to the new investments we are making now.

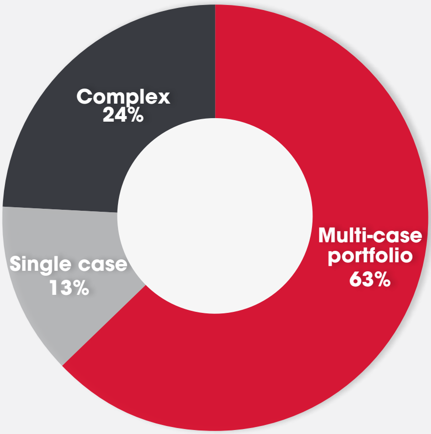
In 2015, we made more new commitments than we ever have before – more than $200 million across 18 investments, an increase of 35% over 2014, which was itself a significant increase over 2013. And 2016 is off to a rousing start with more than $100 million committed in January alone.



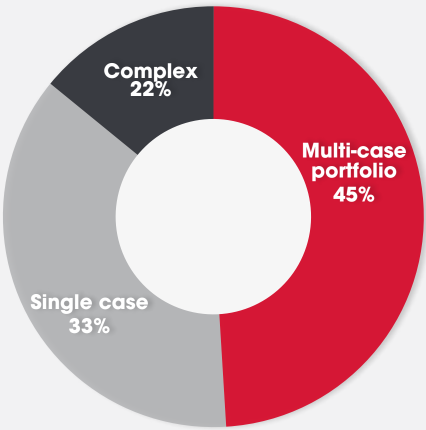
Moreover, we remain happy with the quality, diversity, duration and risk-adjusted return profile of the investments we take on. We are selective and close only a small minority of the potential investments presented to us. Thus, we believe the business is well positioned to continue to generate increasing levels of income from the portfolio.

Looking at the 2015 investments we closed, the 18 commitments ranged in size from $500,000 to $45 million and continued our diversified approach to investing in this market. (We don't make many small investments, but sometimes these are worthwhile or necessary for relationship-building or other reasons.) As noted previously, only 13% of the capital we committed in 2015 was to single case investments.

Composition of new commitments made in 2015



Composition of current portfolio commitments



Geographic expansion

What started as a relatively esoteric and rarefied market only a few years ago has exploded into a global phenomenon.

Burford has always been a leader in the international arbitration field and thus has long had a global orientation, but the level of interest in our offerings around the world continues to increase steadily.

Asia

In 2015, responding to a combination of demand from clients and government interest in litigation finance being available in Hong Kong and Singapore, Burford expanded its activities in Asia. Initially, Burford is focusing on financing litigation claims brought in connection with insolvency in Hong Kong, financing arbitration claims throughout the region, and providing asset tracing and judgment enforcement services. Guiding Burford's expansion into Asia is an advisory board that comprises leading figures in the legal community, including:

- Denis Brock, Chairman, is the Chair of O'Melveny & Myers' International Disputes and Arbitration Practice and the Regional Head of Litigation for Asia[3]
- William Stone, SBS, QC, is the former head of the Hong Kong Commercial Court and now serves as an arbitrator in commercial disputes
- Charles Booth is a Professor of Law at the University of Hawaii and previously the University of Hong Kong, best known for his work on Asian law and as an expert on comparative and cross-border insolvency and commercial law
- Rupert Purser and Paul Deayton, experienced Asian insolvency experts with prior service with Hill International and PricewaterhouseCoopers, will manage Burford's investments locally

We do not expect Asian litigation finance to make a material contribution to Burford's activities in the short term (although we are certainly happy to be surprised), but it is important to plant the flag. Hong Kong and Singapore both continue to struggle with balancing their interest in having litigation finance available to meet client demand with anxiety about litigation proliferation. We believe – and have worked with both governments on this issue for the last several years – that their concern is misplaced but we are also realistic about the pace of change we can expect in these markets, so our current participation is more

3 Mr Brock's law firm affiliation is provided for identification purposes only.

a long-term investment in the future. Today, the process of making a litigation finance investment in Hong Kong or Singapore is constrained by local law and is relatively tortuous, requiring an application to the local courts and judicial review, which imposes more cost on clients already seeking to minimise their legal spending.

Europe

Europe has none of the angst and hand-wringing that characterises Asia and some other jurisdictions. The civil law world takes litigation finance and claim monetisation in stride.

That said, providing litigation finance in civil law countries requires jurisdiction-specific legal expertise and often language skills as well. Thus, we approach purely domestic claims with caution, and we do not routinely provide financing for entirely domestic litigation (such as one French company suing another French company in the French domestic courts) but instead focus our European activity on claim types more likely to have an international or multi-jurisdictional bent.

Our signature European undertaking in 2015 illustrates this approach. In October, we announced a novel arrangement with Hausfeld, a global claimants' law firm dedicated to handling complex litigation with particular expertise in competition (or "antitrust") litigation. Under our agreement, Hausfeld will expand its work in Germany, with the backing of at least €30 million in financing from Burford to fund competition claims through a new office in Berlin. The Burford facility is the largest known facility created to fund such litigation in Germany, where there is significant and growing client demand for litigation financing – especially in the area of competition litigation for which Hausfeld is known. Client demand for Hausfeld's services has grown significantly in Germany based on the rising number of competition claims. This comes in the wake of substantial activity from the European Commission and Bundeskartellamt (German Federal Cartel Office), the adoption of the European Directive on Competition Damages Actions, and Hausfeld's leading reputation for such claims both in London and across Europe. To date, companies bringing claims in Germany have had limited access to the alternative fee and funding arrangements that are often essential for clients pursuing costly and high-stakes competition matters. To meet this growing client demand and provide Hausfeld clients with broader access to innovative funding arrangements, Burford has agreed to provide financing to enable clients to retain Hausfeld's services for competition claims in Germany. Burford's commitment will ensure that these claims have the necessary resources and will be buttressed by Hausfeld's expertise and Burford's stringent case assessment and underwriting.

The past year also of course brought Volkswagen's remarkable corporate malfeasance over its diesel engines, and Burford's prior positioning in Germany with Hausfeld resulted in a natural extension of our joint venture to encompass Hausfeld's pursuit of claims against VW.

We see Europe as a continuing area of growth for Burford.

Common law jurisdictions

There is interest and activity in litigation finance in many common law jurisdictions smaller than the US and the UK. We were asked to become involved in matters around the world in 2015, from Australia to Canada to the Caribbean. We are generally able to manage such matters from our existing bases in London and New York, and indeed have lawyers on staff trained in multiple common law jurisdictions.

Latin America

Burford has been involved in Latin America since our earliest days. As in Europe, our focus in not on domestic disputes, but we regularly consider Latin American matters with a more global orientation and have deep relationships with law firms that focus on the region. Latin America has some ideal characteristics for litigation finance: the underlying civil law environment is unconcerned with issues around funding litigation costs and monetisation of claims; there is a very large volume of litigation and routine recourse to the courts and arbitration to resolve disputes; and there is strong demand for external capital and financial solutions due to the high cost of litigation.

Looking ahead, we see the potential for continued growth in Latin America. As just one example, Brazil – where Burford has seen activity since 2010 – is an enormous litigation market. Brazil actually has more lawyers per capita than the US, and somewhere in the neighbourhood of 100 million pending litigation claims in its justice system. To be sure, Brazil has its own macroeconomic difficulties and Burford is not focused on directly financing individual Brazilian litigation claims, but there is considerable opportunity for a variety of other Brazil-focused initiatives. For example, Burford today finances the activities of Brazilian liquidators to recover assets located worldwide in connection with Brazilian insolvencies.

Developments in our home markets

Notwithstanding our enthusiasm for geographic expansion and our excitement that litigation finance has become a global concept, the bulk of our business continues to come from our home markets in the US and the UK, where we have around 60 people in offices in New York, London, Washington, Boston and California, and our first priority remains serving those markets.
The past year saw us continuing to grow organically and also embark on some new approaches.

Insolvency claims financing

In July, we launched an exciting and innovative venture in the US insolvency space, preparing ourselves for an uptick in insolvency activity. We partnered with Chilmark Partners, a leading bankruptcy and restructuring firm that has advised on almost $100 billion of restructurings and financings, to launch a new joint venture to provide financing and advisory services for claims brought in connection with US bankruptcies.
The venture provides financing to enable trustees, creditors, trusts and bankruptcy estates to pursue litigation claims that might otherwise be resource constrained, and is also available to act as the trustee itself, or as the administrator or manager of pools of such claims. The venture responds to two conflicting trends that have emerged in the bankruptcy world: more litigation and pressure for speedier resolution. One solution has been to assign to post-confirmation trusts legal claims that do not need to be litigated prior to the resolution of the bankruptcy. The fundamental goal of the venture is to improve the efficiency of these trusts and to better align creditor interests with trust administration.

Intellectual property litigation finance

One of the hallmarks of Burford's business model is that we perform our own due diligence and investment analysis using our own dedicated team.

While our team is broadly experienced, including in intellectual property litigation, we have historically lacked the core patent litigation expertise that we felt was necessary to navigate the complex landscape of US patent litigation. As a result, we have tended to avoid it.

However, patent litigation is an area of substantial client demand and we are regularly asked by both existing and potential clients to support them in the patent area. The challenge with patent litigation is that it has a higher degree of systemic risk than many other kinds of litigation, in that a material portion of patent cases fail to produce a return, and there is also a higher level of appellate risk than in conventional commercial cases.

On the other hand, successful patent cases often produce a higher return on invested cost than do commercial cases, so the economics of doing patent litigation investing well are attractive.

Thus, faced with client demand and an appealing economic case if done right, we set out to build the expertise that would make us comfortable expanding the Burford model into intellectual property litigation. We have started by hiring Justin Daniels, a former partner at a major US law firm and a patent litigator with substantial (and successful) trial experience for a variety of corporate clients. Justin practised law with some of the Burford team before, and we view his addition as the perfect way to expand our offering and meet the significant client demand that we were previously foregoing.

Spanish insolvency finance

As our shareholders know, we do not discuss individual investment matters for a variety of reasons, including the preservation of client confidentiality (because in litigation, confidentiality belongs to the client, not us). However, we are engaged in two significant Spanish insolvency matters that became widely publicised during the course of the year so it is only appropriate for us to comment on them.

In both cases, we have been appointed under the authority of the Spanish bankruptcy courts to provide financing for insolvent Spanish companies that have significant claims to be brought in international arbitration or in US litigation (or potentially in other fora).

In one claim, Argentina expropriated the two leading Argentine airlines, Aerolíneas Argentinas and Austral Líneas Aéreas, from their Spanish corporate owners. The Spanish companies became insolvent as a result and entered bankruptcy, and Burford has been providing financing to the Spanish receivers to enable the pursuit of an international arbitration claim against Argentina. Because the expropriation is admitted by Argentina, the key issues in the arbitration are whether the tribunal will accept jurisdiction and if so what damages are appropriate. The tribunal has indeed accepted jurisdiction and is now considering damages and a number of collateral issues raised by Argentina.[4]

The other claim relates to the 2012 expropriation by Argentina of a majority interest in YPF, the New York Stock Exchange-listed energy company formerly owned by Repsol, the Spanish energy major. At the time of the expropriation, Repsol owned more than 50% of YPF and the Petersen Group, another Spanish firm, owned 25% of YPF. After suing, Repsol ultimately settled its claims and received a payment of approximately $5 billion from Argentina and YPF. Burford has been appointed to provide financing to the liquidators of the Petersen Group, which went bankrupt after the expropriation, which is proceeding with claims against both YPF and Argentina.

Both of these claims are high value and if successful could yield significant returns for Burford.[5] (They are also asymmetrical in their risk/return profile, in that a loss would not be material to Burford, while a complete success could be lucrative.) However, both claims are also risky and include substantive litigation risk as well as sovereign risk, and we comment on them simply because of their exposure in the media[6] as opposed to encouraging shareholders to attach special value to them just because they are large and potentially profitable. We continue to believe strongly in a portfolio approach to litigation investing as opposed to focusing on the individual potential of any single matter, regardless of the size or return possibility.

Competition

As litigation finance has grown in prominence and use, other players have entered the market, a development we regard as positive and necessary for the market to achieve its full potential.

Investors have a natural concern that competition leads to price reduction and margin compression and ultimately to lower returns and deteriorating profitability. We do not believe that is the likely outcome here.

There are a few reasons for our view.

First, pricing of litigation finance is complex and dependent on other non-competitive factors. For example, it often depends on lawyers' sense of appropriate pricing, and in that regard the pricing associated with contingency fee lawyering often creates a pricing benchmark or expectation entirely divorced from competition. Moreover, setting a price in a litigation finance matter tends to require substantial diligence, including extensive work (often unpaid) from the client's lawyers. Neither the litigation finance providers nor the lawyers are generally willing to spend the time necessary to facilitate auction-style competition for investments.

Second, the litigation finance market is still relatively nascent and new entrants need to raise capital to compete. Providers of capital to these new entrants can see Burford's publicly disclosed returns, and sensibly demand comparable returns. Thus, new entrants have every incentive to emulate Burford's returns and not to try to reduce them.

Finally, our view remains that the potential market for litigation finance remains very thinly penetrated at present, and that the addition of competitors and their incremental marketing and visibility serves to expand the active market more than to introduce competition for existing market opportunities.

Before leaving the subject of competition, however, we should touch on the issue of competitors themselves because this is not a commodity business with the price of capital being the sole determinant of making an investment.

4 While we realise Argentina has a well-deserved reputation for being an international scofflaw, it should be noted that Argentina's exploits are the most dramatic when its sovereign debt is concerned (and even there Argentina's new government has recently changed course completely). Indeed, Argentina has paid a number of international arbitration awards in the past. So, while we would never suggest these matters are without sovereign risk, the issues in international litigation and arbitration are not identical to those more commonly featured in the financial press about Argentina's sovereign debt.

5 It is a matter of public record that Burford is entitled to 70% of the recovery in the Petersen matter (from which Burford will need to pay meaningful expenses). In the airline matter, Burford is entitled to varying percentages of the outcome but would be entitled to at least one-third of most potential outcomes. It would be foolhardy to attempt to speculate about any potential return scenario as all litigation must allow not only for risk of outright loss but also for the possibility of deeply discounted settlements and other variables.

6 The final point to mention here is that Argentina is so unhappy about these claims being brought that it has commenced domestic criminal proceedings against Burford and the many lawyers working on these cases (including naming many lawyers personally, all the way down to the associates and paralegals). We think this is a deplorable tactic and commented on it in a blog post: http://www.burfordcapital.com/strong-reactions-to-litigation-usually-mean-money/. (Shareholders may subscribe to receive all our blog posts as well as investor updates by visiting our website.)

There is certainly capital in the market from a variety of players who are not full-time dedicated institutional litigation finance providers, ranging from hedge funds to family offices to wealthy individuals. There is also competition in various ways from law firms, insurers and other participants in the litigation process, although often their competition is indirect (for example, a client may ultimately use a discounted fee arrangement from a law firm instead of taking litigation finance capital). However, the most visible and recurring market participants are other dedicated litigation finance providers. Distinguishing among those other capital providers can sometimes be confusing – and it often seems that the providers encourage that confusion to attempt to obscure their true scale or market presence.

- The concept of reporting claim value – the amount of money the ultimate litigation clients might receive if the claim succeeds at trial – is irrelevant to understanding the size or profitability of a litigation finance provider. Smaller litigation finance providers like to publish and promote claim value as it makes them seem larger than they are. If we were to follow that route, Burford's "claim value" would be considerably in excess of $10 billion. It would be a bit like measuring an equity investor's scale by talking about the market capitalisation of the companies of its shareholdings rather than the size of its investments, and it would say nothing at all about its investment performance.
- Blending together large investments in lower risk, low yielding litigation receivables – an adjacent but unrelated business to higher return litigation finance as we practice it – disguises real scale. It is a bit like Maserati including sales of Fiats in its numbers to suggest it is selling more Maseratis. Firms reporting very large AUM levels typically are reaching those levels by including material volumes of low yield receivable factoring in their numbers.

What <u>is</u> relevant is the historical track record of a litigation finance firm and its financial capacity: How much money has it made, across how many and what kind of investments, over what period of time? How much actual cash does it have invested in comparable litigation today, how much available capital does it have to invest (and how reliable and certain are the sources of that capital), and what is its investment period? Leaving money aside, what other advantages – experience, permanence, team – do you get from your provider? And to lawyers representing clients seeking litigation finance: If you are not diligencing those issues and seeing audited financial statements and investment management agreements, you are doing your clients a disservice.

Burford is by far the leading public player in the world in litigation finance. Our assets are three times larger – and our market capitalisation four times larger – than our nearest public rival. We also believe that there are not any private funds with comparable portfolios approaching the size of ours, although there is less transparency in the private market. Naturally, the best way for a private fund to illustrate its scale and performance is to publish its financials – and refusal to do so should lead to meaningful scepticism. There is no reason for enterprise-level secrecy in this business.

Concluded investments

The table on the following page provides our annual reporting of information about each concluded investment.[7]

2010 vintage investments

The 2010 investment vintage currently looks like a dud. We don't think it will end up that way.

This vintage contains, *inter alia,* three significant outstanding investments in the $10–15 million range. These are by definition high risk investments at this point, because they have been outstanding for a long time and thus the reasonable inference is that they are not settling and instead are proceeding through the adjudication process. Thus, it is entirely possible that some of those investments will end up being total losses, because even terrific lawyers with excellent cases lose some percentage of their matters; such is the dynamic of contested litigation.

However, the potential returns available from these matters are considerable, and thus only one success is needed for the vintage to end up being a considerable success:

- In each investment, Burford is entitled to its investment back first dollar from any proceeds
- All three matters have preferred returns thereafter – a first dollar return for Burford on some basis related to invested capital. Then, Burford is entitled to further return from any ultimate success, usually in a complex waterfall-style structure that depends on the

7 See the definition provided previously.

Concluded investment performance

$ in millions	Total investment	Total recovered	Return on invested capital	IRR
Investments made in 2009 • concluded • 100% of vintage	7.0	35.4	408%	49%
	2.0	2.0	(1%)	(3%)
	2.5	0.0	(100%)	0%
2009 performance to date	11.5	37.4	225%	33%
Investments made in 2010 • concluded • 63% of vintage	2.1	4.5	119%	52%
	1.4	2.5	76%	32%
	6.1	10.5	71%	75%
	4.8	7.8	62%	23%
	2.6	3.5	33%	11%
	9.1	10.2	13%	15590%
	4.5	4.0	(12%)	0%
	3.2	0.2	(95%)	0%
	3.9	0.03	(99%)	0%
	5.6	0.0	(100%)	0%
2010 performance to date	43.3	43.2	(0%)	(2%)
Investments made in 2011* • concluded • 63% of vintage	10.0	42.5	325%	124%
	7.4	21.3	189%	29%
	3.5	6.8	93%	34%
	4.9	6.5	32%	29%
	10.0	7.5	(25%)	0%
	4.0	0.2	(94%)	0%
	4.4	0.0	(100%)	0%
	3.6	0.0	(100%)	0%
2011 performance to date	47.8	84.8	77%	26%
Investments made in 2012 • concluded • 78% of vintage	3.9	10.0	150%	42%
	1.0	2.4	150%	436%
	24.7	61.0	147%	60%
	4.3	8.2	91%	13%
	2.9	5.2	76%	156%
	15.0	26.3	75%	34%
	3.3	4.4	35%	10%
2012 performance to date	55.1	117.5	113%	39%
Investments made in 2013 • concluded • 65% of vintage	0.6**	1.4	146%	2739%
	1.0	2.3	135%	89%
	0.5	1.1	122%	586%
	1.0	2.0	104%	76%
	1.0	1.3	46%	25%
	14.7	18.3	46%	15%
	0.2	0.0	(100%)	0%
	0.7	0.0	(100%)	0%
2013 performance to date	19.7	26.4	34%	24%
Investments made in 2014 • concluded • 24% of vintage	0.2	0.9	271%	376%
	2.7**	8.3	211%	232%
	3.0	4.5	52%	260%
	4.0	5.3	32%	275%
	1.4	1.5	13%	11%
	16.0	17.7	11%	24%
2014 performance to date	27.3	38.2	40%	91%
Total investment recoveries to date	**204.7**	**347.5**	**70%**	**28%**

* Investments with immaterial performance excluded, such as rapidly terminated investment agreements
** Ongoing matters with partial recoveries

total amount of the recovery. The returns in the three investments are:

- Three times the amount invested by Burford as a preferred return plus 40% of the first $100 million of recovery, 30% of the next $400 million, 25% of the next $300 million and 15% thereafter
- 35% IRR as a preferred return plus 37.5% of the first $50 million of recovery, 32.5% of the next $50 million and 22.5% thereafter, all subject to a minimum overall return to Burford of 50% IRR
- One and a half times the amount invested as a preferred return plus 50% of the net recovery, all subject to a minimum overall return to Burford of 40% IRR

So, while we can't predict the outcome of any particular matter or of the remaining investments as a whole, we have reason to be optimistic about the ultimate performance of the vintage.

Commentary on concluded investments
One of the challenges of our business is the strict confidentiality that overlays our investments. Litigation is a delicate and sensitive area for people, and businesses are no exception. It is the rare business that is prepared to reveal publicly anything about its approach to litigation, including its use of our capital, and our existence requires fealty to our clients' desires.

However, we are of course aware that such restrictiveness can make it difficult for investors to understand our business as fully as we and they might wish. Thus, we attempt to provide some colour by commenting on a selection of concluded investments while still remaining within the bounds of our clients' desires for continuing confidentiality.

- Our largest concluded investment in 2015 was a $61 million gross recovery on a Burford investment of $25 million, for a $36 million profit and a 60% IRR. Our investment was in connection with a portfolio of claims being pursued by a US bank – showing again the value attached by an increasing number of large, solvent corporate clients with favourable cost of capital in nonetheless using external capital for litigation matters. Unlike many of our portfolio investments where the portfolio is made up of unrelated matters, here the portfolio contained claims against a number of defendants but all relating to the same subject matter. Thus, while inclusion of multiple defendants lowered the collection risk in that the insolvency of a single defendant would not have imperilled our returns, we were nonetheless exposed to more litigation risk than usual in a portfolio context because the substantive failure of the merits of the claim would have affected all the claims. An unusual feature of this investment was our client's insistence on terms that were purely time-based and did not include any sharing in the ultimate result (because the claim values were very large), so ultimately we agreed on a return on invested capital of 1x initially, rising by 0.6x each year thereafter, reflecting both the higher risk of the portfolio and the absence of any "back end" participation. Our capital was drawn down over time as the litigation proceeded and we received our capital and return back in a lump sum.

- Illustrating the opposite kind of deal structure, 2015 also marked the conclusion of another portfolio arrangement that had been producing returns for us for several years. In this investment, we agreed to defray half of the legal fees as incurred in connection with an 11 case portfolio of substantial financial claims in return for 17.5% of recoveries. Ultimately, we funded $10 million over time, and a total of $255 million in settlements was achieved, with Burford's share being $42.5 million after expenses, all of which has been received, for a 325% return on invested capital and a 124% IRR. This investment also illustrates the point made earlier in footnote 2 that deploying capital is not always the goal; in this investment, our returns were unrelated to the amount of capital deployed. Thus, minimising deployment and duration was in our interest and indeed we ultimately deployed considerably less capital than our $30 million commitment because all of the portfolio matters settled, avoiding the incremental expense of full adjudication (as opposed to the preceding investment, where our returns were tied directly to deployment).

- Of course, not everything in litigation goes as expected. We financed a small technology company in an action against a much larger company over the alleged misuse of the smaller company's technology in the course of a contractual relationship. The lawyers were excellent and had agreed to take the matter with a material portion of their fees contingent on the result, showing their own confidence. The case looked strong in diligence and only became stronger as discovery produced actual evidence of the misuse from the defendant's own files. The trial judge, an experienced commercial jurist, rejected a defence motion to dismiss. However, after more than two years of litigation, the case was reassigned to a newly appointed judge (such docket shuffling occurs as judges come and go from the bench), and the new judge (whose prior experience was in criminal matters) dismissed the case, holding that the small company had not followed all of the contractual provisions around protecting its technology to the letter, in what we continue to believe was both an unjust result and one showing a lack of commercial experience by the new judge. Had the case succeeded, we would have been entitled to our investment back first dollar, a preferred return of 0.4x of our investment, and 33% of any settlement or 40% of any result following a trial on what could have been substantial damages. Instead, we took a loss of $3.6 million.

Looking ahead

These are exciting times for litigation finance as the market for our capital continues to grow in so many different dimensions. Clients of all different sizes and financial conditions are seeking capital from us to meet different financial needs all over the world, and we are continuing to grow and expand to meet that demand. Burford has a leadership position in this active and growing market that we intend to maintain and capitalise upon.

At its heart, however, Burford is a business built on and driven by client demand. We have relationships with some of the world's most successful law firms. Their use of litigation finance is evolving and expanding, and our strategic priority is to support those evolutions, even as they take us in directions that none of us might have contemplated a mere five years ago – with our touchstones of high quality people, strong risk management and diversification, and creativity.

Insurance

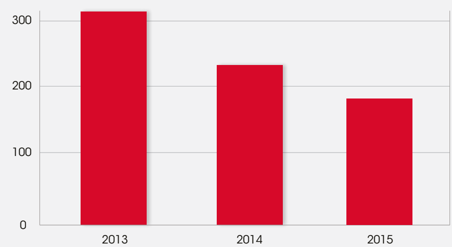
We have commented extensively on our UK insurance business in prior reports and don't intend to repeat the background to the structure and operation of the business here.

There are two separate questions around the insurance business – the present (or indeed, the past contribution from the existing back book) – and the future.

First, there is the question of how much the insurance back book, the bulk of which was written in the pre-Jackson period up to April 2013, will generate in income as it runs off. To answer that question requires looking not only at the annual income statement performance of the business, but also the extent to which the REME (the realistic estimated maximum exposure, the measure of our at risk exposure against which premiums are generated) has changed.

In 2015, the income contribution from the insurance business fell markedly, from $24.3 million in 2014 to $12.8 million in 2015. (The drop was exacerbated by the weakening of the pound; if 2015's income had been reported at 2014's foreign exchange rates, it would have been around $1 million higher.) However, REME did not fall nearly as significantly – it ended 2015 at $180 million (around $190 million on a constant FX basis, an 18% decline), compared to $232 million at the end of 2014. What that means is that the income figure alone is not a proxy for the rate of the business' decline, because we closed the year with a smaller than expected reduction in the back book. In fact, while in 2014 we had five matters generate premiums of more than $750,000 each, we had no such matters in 2015 – but we had no losses of that size either. It was just a pretty quiet year – and in the insurance business, given that our premium potential rises as lawyers spend money in the absence of a resolution, a quiet year is not a bad thing even though it caused a drop in income.

REME outstanding
($ in millions)



So, while we do expect the income contribution from the back book to decline over time and ultimately run off completely, we do not see 2015's income figure as a data point along a linear declining trend line as there remains a material amount of REME to work through – which we expect to provide income to Burford over the next several years, continuing the performance of what has already been an excellent acquisition. Indeed, while we decline to predict the future, we will be disappointed if we do not generate $20–30 million more in insurance income from the back book, and perhaps more.

We would also note that the insurance buffer on MunichRe's balance sheet, to which we ultimately become entitled (see our discussion last year), stood at $11.4 million at the end of 2015 (2014: $11.7 million, meaning that the buffer went up on a constant FX basis). That suggests that our claims performance continues to be exemplary.

Second, there is the question of the state of the market today and the future potential we have to write new insurance business.

There is no question that our insurance products remain in demand in litigation. There are a variety of UK litigation situations where it is difficult to proceed without insurance coverage, group actions being a notable example. However, there is similarly no question that some of the pre-Jackson purchasing of insurance was motivated by the sense that the insurance was free because its premium would be paid by the defendant in a successful case. (The fact that there is no free lunch seems to have been lost on most such purchasers, who blithely overlooked commercial reality, but that does not change the market dynamic.) Thus, the market is clearly materially smaller post-Jackson than it was previously.

That is not the end of the inquiry, though. Burford sits at the top of the market: we have, as far as we know, the largest insurance capacity available in the market on a per matter basis, and we are no strangers to complex and risky matters. However, we are resolute that we will not write insurance at a premium rate that we regard as uneconomic or insufficient to compensate us for the risk we are taking.

What is happening today is that legacy insurance providers have seen, as we have, a decline in their business volumes post-Jackson. Some of those providers do not have Burford's diversified sources of income and thus they are desperate to write new insurance business, even if they do so at premium levels we consider uneconomic. We are thus today ceding business to those providers by declining to match their prices, although we do not believe that is sustainable for them in the long term (at least at margins we find interesting). In 2015, we wrote $13 million of new REME business (versus $25 million in 2014 and around $90 million on average in the years leading up to the Jackson reforms). We do not yet know if this year's decline in new business reflects us maintaining market share in a still smaller market or if we have lost market share to other players who have further discounted their prices (and if the latter, there will at some point presumably be a correction).

Nonetheless, as we have said before, we should be clear that we do not think we are likely to see a return to the halcyon pre-Jackson days and, it is in our view unlikely to provide anything approaching the level of contribution it did in the past.

We are nevertheless thrilled with having entered the insurance business. We paid an effective cash price for this business of $18.75 million, and we have already generated $74.2 million in income and $54.3 million in operating profit since our 2012 acquisition – with tens of millions more to come.

New initiatives

We started our new initiatives segment last year as a way of clearly identifying and reporting on small start-up ventures for Burford – essentially, as our internal incubator as we explore business expansions that do not fit precisely within our other business segments.

We presently include two businesses within our new initiatives segment – lending to smaller US law firms, and international judgment enforcement. In 2016, a third may be added, that of investing in law firms themselves.

In 2015, we are pleased with the segment's performance. We generated $3.5 million in income (versus $0.2 million in 2014) and closed the year with $18 million of investments on the balance sheet. While reported operating expenses at $4.5 million exceeded income somewhat, those expenses include internal allocations that distort cash performance; for example, we allocate some portion of office rent and other overhead to this segment even though we would be paying the same rent expense if we did not have these businesses at all. At bottom, the businesses did not require substantial investment from Burford in 2015 – a very nice result in what is essentially an internal venture capital context.

Judgment enforcement

Once a matter has been litigated through to a final judgment and all appeals have been exhausted, that judgment is generally enforceable in many jurisdictions as a debt obligation of the judgment debtor. While many litigants do pay their judgments when they ultimately lose a matter, some do not, and further effort is needed to collect the judgment debt.

Our judgment enforcement business provides expert assistance to lawyers and clients around global asset location and enforcement. We provide our services on a fee-for-service basis or in a variety of contingent ways that permit judgment creditors to continue to enforce their rights without incurring a continuing cash drain to do so.

As one might expect given Burford's background and orientation, we approach this business as lawyers, not as on-the-ground private investigators. The business is run by an English barrister and an English solicitor, and our work tends to be heavily research-intensive. With the results of our research, we then use global legal tactics and strategies to obtain yet more information and ultimately to seize (typically financial) assets to satisfy the judgment.

The conundrum facing this business is client enthusiasm and pent-up demand. Our competitors in this space tend to be very large law and professional services firms who are generally not willing to operate on a contingent basis. Thus, our introduction of a contingent solution into the market has led to significant demand. However, just like conventional litigation financing, contingent work can take several years to produce any revenue – even though, if we are decent at doing this, the returns from contingent work will significantly exceed the margin on fee-for-service work. Thus, we continue to wrestle with the balance between fee-for-service work (which will produce immediate cash returns) and contingent work (which has the potential to produce much higher returns over time).

Law firm lending

Another initiative in which we are engaged is the provision of revolving credit lending to law firms that tend to work on contingency or alternative fee arrangements.

We often speak about the financial structure of law firms as cash partnerships and their inability to run risk-based balance sheets. Contingent fee law firms face some further challenges. First, just as Burford's returns take time to arrive, so too do the payments for cases to these firms, and while awaiting those returns they are unable to finance growth themselves. Second, the US tax treatment of litigation is peculiar in many respects. For example, law firms that advance client expenses are generally not permitted to deduct those expenses and must fund them with after-tax dollars – whereas they can deduct the interest expense of having a third party finance those expenses, and in many states pass on the interest expense to the client. So, there is in fact a powerful incentive for law firms of this sort to use external loan capital. That capital, however, has been in short supply because commercial banks tend not to be comfortable with the nature of the underlying collateral (forthcoming payments from pending litigation).

We saw significant demand in 2015 for our offering, but we elected to be extremely conservative, so out of more than $500 million in demand for capital, we ultimately provided only $21 million in commitments, of which $15 million was outstanding at year end. We continue to develop this business and explore the best ways to meet the financial needs of this segment of law firms.

Law firm investing

Law firms have historically not had access to external equity capital (or indeed structural debt beyond bank revolving credit). That is changing, and Burford is part of the change.

In the UK, Burford has been granted a licence by the Solicitors Regulation Authority to own and operate an Alternative Business Structure – in short, a law firm with external ownership. Through this vehicle, Burford can both operate its own law firm and take equity interests in other law firms. This is an early step for Burford to expand the ways in which it can provide capital to law firms and the benefits of external capital to clients. We expect to have more to say about these initiatives in 2016.

Corporate and financial matters

Risk management

Burford has historically managed risk in a number of ways.

In the investment portfolio, Burford employs a disciplined, comprehensive, multi-stage process to evaluate potential investments and obtain the benefit of the judgement and experience of Burford's highly qualified team of experienced lawyers and finance professionals. Burford also uses an internal, proprietary risk tool to assess risk during the investment process and regularly after the investment has been made, and engages in substantial portfolio management activities using a risk-based approach. We believe that our approach to risk management has enabled Burford to improve materially on investment results in challenged situations where a more conventional approach would likely have yielded diminished performance.

Burford has also regularly considered business and systemic risk in its business units and overall.

Moreover, while perhaps trite to say, Burford is fundamentally a business run by experienced lawyers, including some who have functioned in senior legal roles in major global corporations. The challenge in many businesses is reining in the business people who take on unacceptable or ill-considered risk, and it is the function of the lawyers to hold those reins – so here, we have a business run by the people accustomed to that role. Burford's culture is a disciplined, risk-focused one.

All of that said, given our continuing growth, we have recently added yet more heft to our risk management activities. Ross Clark, who has been Burford's UK Chief Investment Officer since our UK launch in early 2012 and comes from an insurance background with a focus on risk assessment, has recently been named Burford's global Chief Risk Officer, with a mandate to consider both substantive investment risk and business risk in all its dimensions across Burford's entire business and to report regularly to the Burford Board in that regard.

Regulation and public policy

Burford is presently subject to formal regulation from three sources:

- Burford's UK insurance business is regulated by the UK's Financial Conduct Authority
- Burford's fledgling UK legal business is regulated by the UK's Solicitors Regulation Authority
- As an issuer of public securities Burford is regulated by the public securities apparatus (including both government regulators and exchanges) in both the UK and the Channel Islands

Burford is also a founding member and director of the UK's Association of Litigation Funders, a self-regulatory body operating under the auspices of the UK's Ministry of Justice that promulgates basic standards around domestic UK single case litigation funding.

Burford has previously been regulated by both the US Securities and Exchange Commission and the Guernsey Financial Services Commission, but is not today regulated by those bodies because it does not presently act as an investment adviser to third parties.

The bulk of Burford's business is commercial finance – providing capital to businesses in multi-million dollar transactions. As a general proposition, commercial finance activities of the size conducted by Burford are not regulated in most jurisdictions. Company X is generally free to lend money to Company Y, or to lease equipment, or to factor receivables, without a governmental regulatory agency becoming involved or overseeing those activities. To be sure, some commercial financial providers are regulated for other reasons – banks are regulated for being banks, for example – but we do not see any significant movement to introduce regulation of commercial finance generally.

However, that is not the end of the story, because most of the assets that Burford is financing are related to litigation or arbitration and exist within and under the supervision of the judicial system. That system is not a regulatory one in the sense to which investors have become accustomed in the financial services world, and it tends not to operate through regulatory agencies, but instead pursuant to complex rules enforced by the justice system itself which vary widely by jurisdiction (and can even vary considerably within a single jurisdiction based on type of case). For example, different adjudicative systems require different types or levels of disclosure of interests in a litigation matter or in the litigants, or prior approval of various economic arrangements. Burford complies with the rules applicable to its activities in each jurisdiction and adjudicative system in which it operates.

As a result of this existing and pervasive system of judicial supervision, many jurisdictions, including the US, have concluded that no specific regulation of litigation finance is needed. For example, the Advisory Committee for the US Federal Rules of Civil Procedure has concluded that US judges already have the powers they need to obtain any desired information about litigation funding, and that no further action was needed. That is a sensible decision; it would be wrong-headed to suggest that litigation finance firms like Burford should be treated differently than the many other constituents with interests in pending litigation.

There are nonetheless occasionally suggestions (generally from special interest groups opposed to litigation proliferation generally) that a further regulatory envelope should be created specifically for litigation finance. Given Burford's size and the pace of the development of the litigation finance market, such an approach might well be to Burford's benefit in creating barriers to entry for smaller, less experienced and less well-capitalised firms, but we nonetheless see no need for it nor do we see a groundswell of activity in that direction.

Capital structure and cash management

Burford's capital structure is straightforward – a single class of equity and a single tranche of public debt.[8]

As Burford continues to grow and need more capital, we have considered a variety of alternatives. Notwithstanding the strong share price appreciation we have experienced in the recent past, Burford continues to trade at a multiple that is well below the median of comparable specialty finance firms and issuing incremental equity in such circumstances – especially when low cost debt appears to be available – seems undesirable.

We have also explored traditional bank revolving credit availability, but the reality in the bank market today when confronted with our kind of esoteric assets is that the traditional benefit of a revolving credit (i.e., not having to pay interest on undrawn funds) is largely dissipated by quite high stand-by charges, and in the end, we have concluded that seeking another bond issue is a more sensible approach.

Thus, we are announcing concurrently with the release of these results a roadshow for a possible second bond issue with a structure essentially identical to our first issue – with an intermediate maturity and a bullet payment at maturity and a comparable covenant package. Our decision to launch an offer will of course be subject to market conditions, but the bond market is probably more susceptible to macro shocks at present than to Burford-specific issues.

When we do have surplus cash, as we would have following a successful bond issue, we manage that cash conservatively in short duration fixed income investments and outsource its administration to an arrangement with Bank of America Merrill Lynch.

Foreign exchange

Burford is a US dollar reporting business reflecting the majority of its operations occurring in dollar-denominated activities. Burford experiences three different kinds of foreign exchange exposure.

First, in some portion of its underlying investments, Burford is exposed to foreign currency risk. This can occur in one of two ways:

- Burford's investment agreement may be denominated in a currency other than US dollars. At 31 December 2015, approximately 12% of Burford's investment commitments were denominated in Sterling and 19% in Euros.
- Even when Burford's investment agreement is denominated in US dollars, the litigation returns underlying an agreement may be denominated in another currency. While sometimes this is a risk for Burford's counterparty and not Burford (such as when Burford advances US dollars for an international litigation matter and expresses its returns as a function of the amount advanced), the foreign exchange risk can become relevant to Burford when (i) the underlying assets which will form the basis for the recovery are denominated in a foreign currency or (ii) the claim relates to foreign currency assets and the adjudicative process applies discount or conversion rates based on current or prior foreign exchange rates. It is very difficult to assess the impact of this foreign exchange exposure in advance of knowing investment results, but Burford does not believe that the foreign exchange exposure from such matters will be material in the aggregate.

Second, Burford's insurance business is denominated entirely in Sterling. We have already commented on the negative impact the strengthening of the US dollar played on the business' reported results in 2015.

Third, Burford has a variety of Sterling-denominated obligations, including its 2014 bond and its UK operating expenses.

As a general matter, Burford's non-US dollar cash flows are too unpredictable in amount and timing to be capable of efficient hedging, and Burford has generally not hedged its foreign exchange exposures, which largely

8 Burford also has a callable preferred share issue in place in the event it needs incremental capital but it has never called capital under that instrument.

are accounted for "below the line" as non-cash adjustments to comprehensive income. However, in 2015, Burford did engage in some Sterling hedging (which has now concluded) to reduce the potential volatility of the "above the line" foreign exchange exposure to which the business was subject during the course of 2015, and may explore hedging strategies in the future when circumstances warrant.

Operating expenses

Burford expenses its operating costs as they are incurred. We don't capitalise them as part of our investment portfolio as some of our competitors do, making their businesses seem lower cost than they really are. Moreover, we perform virtually all of our investment activities internally, with our own staff, as opposed to outsourcing diligence or legal work and adding those external costs to the investment balances as opposed to expensing them.[9]

As a result, the operating expenses you see on our accounts are essentially what we are actually spending in cash each year to operate the business. Excluding the new initiatives segment, Burford's operating expenses rose 8% last year – a year in which income rose by 22% and new commitments rose by 35%.

This is a transparent and conservative way of proceeding. However, it introduces a timing mismatch between expenses (current) and portfolio income (future). As we grow the portfolio, we take on immediately higher levels of activity around (i) making new commitments and (ii) managing a higher level of portfolio activity. While our model is scalable to some extent, increases in business activity will drive increased current costs – and the profit those costs are working to achieve may only be seen in the future.

Candidly, the reason costs rose more slowly than the business grew is because we probably did not hire as many people as we should have in early 2015. (Staff costs make up the majority of our operating expenses.) We tend to do the bulk of our hiring at the beginning of the year, after the people we are recruiting have been paid their annual bonuses by their current employers, and with the benefit of hindsight after seeing the amount of activity and growth in 2015 we could have used more people. We are hiring at present

9 As noted in our accounting policies, the one exception is with respect to our judgment enforcement business, where we treat billable time from our judgment enforcement staff as part of the investment we are making – akin to outside lawyer billings (and that time is often recoverable separately).

Sir Peter Middleton GCB
CHAIRMAN

Sir Peter Middleton was until 2013 UK Chairman of Marsh & McLennan Companies and Chairman of Mercer Ltd. He was previously Permanent Secretary at HM Treasury and Group Chairman and Chief Executive of Barclays Bank PLC. Recently, he was appointed Chairman of The Resort Group PLC. Sir Peter Middleton remains active in a number of other business ventures which are set forth on our website.

Hugh Steven Wilson
VICE CHAIRMAN

Mr Wilson was a senior partner with Latham & Watkins, where he was Global Co-Chair of the Mergers and Acquisitions Practice Group and former Chairman of both the National Litigation Department and the National Mergers and Acquisitions Litigation Practice Group. He is the former Managing Partner of Tennenbaum Capital Partners. He is a director of other US entities as set forth in his bio on our website.

David Lowe OBE
DIRECTOR

David Lowe was until recently Senior Jurat of the Guernsey Royal Court. He was previously the Chief Executive of Bucktrout & Company Limited and a former director of Lazard and Barclays Capital in Guernsey.

Charles Parkinson
DIRECTOR

Charles Parkinson is formerly the Minister of Treasury and Resources for the States of Guernsey. He is a past Partner/Director of PKF Guernsey, accountants and fiduciaries, and is a barrister and an accountant.

to redress that situation. Our staff costs as a percentage of income are much lower than many comparable financial services firms and while we will do our best to avoid needless cost inflation, at the same time we do not expect the growth rate in costs to lag the business' overall growth rate as they did in 2015.

Corporate governance

Burford is composed of its publicly traded parent company, Burford Capital Limited, and a number of wholly owned subsidiaries in various jurisdictions through which it conducts its operations and makes its investments. Burford Capital LLC is the principal operating entity in the US and Burford Capital (UK) Limited is the principal operating entity in the UK. Those two entities provide various management services to other Group companies. Burford Capital Limited, the public parent, does not have any employees itself.

Burford Capital Limited has a single class of ordinary shares which are traded on the AIM market of the London Stock Exchange. Subsidiaries have issued bonds traded on the Main Market of the London Stock Exchange, and contingent preferred shares listed on the Channel Islands Securities Exchange.

Burford Capital Limited is governed by its four member Board of Directors. All four Directors are independent non-executives, and all four have been Directors since Burford's inception.

The Board holds an in-person meeting every quarter during which it reviews thoroughly all aspects of the business' strategy and performance; the Directors spend at least one evening and one full day together for each meeting, and every Director attended all meetings held in 2015 (other than Mr Lowe, who missed one meeting for a conflict with a surgical procedure), as did senior members of management. The Board reviews its performance and Director compensation annually and regularly discusses succession planning and management oversight. The Board meets in closed session without management present at each of its meetings. The Board also operates through three committees, Audit, Investment and Remuneration, all of which meet throughout the year as required. The Remuneration Committee reviews and approves compensation for all senior staff. No members of management sit on the Board; while atypical for a UK business, we believe this structure maximises independent oversight of the business. The Board composition is also dictated by the provisions of Burford's Articles, which limit the number of US persons who can be Directors.

We are proud to have assembled what is clearly the leading and most experienced team in the litigation finance industry. Not only do we bring hundreds of years and billions of dollars of litigation experience, but our team is multi-disciplinary as well, with senior and experienced finance and investment professionals – a critical component in any investment decision making. We would encourage shareholders to visit our website to review the biographies of all of our team members.

We are pleased to present these results, which show another year of growth and performance. We continue to set our sights high in this rapidly evolving industry, and look forward to communicating our future progress to you, just as we thank you for your support and enthusiasm for the business to date.

Sir Peter Middleton GCB
Chairman

Christopher Bogart
Chief Executive Officer

Jonathan Molot
Chief Investment Officer

March 2016

The Directors present their Annual Report and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Business activities

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, financing and risk solutions with a focus on the litigation and arbitration sector. The Company is incorporated under The Companies (Guernsey) Law, 2008. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009.

Corporate governance

The Directors recognise the high standards of corporate governance demanded of listed companies. The Company has adopted and complied with the Guernsey Code of Corporate Governance (the "Code"). The Code includes a number of the principles contained in the UK Corporate Governance Code. While the Company is no longer required to comply with the Code following the 2012 Reorganisation, it has nevertheless elected to continue to do so.

Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 25.

The Directors propose to pay a final dividend of 5.67¢ (United States cents) per ordinary share in the capital of the Company during 2016. Together with the interim dividend of 2.33¢ paid in October 2015, this makes a total 2015 dividend of 8.0¢. A resolution for the declaration of the final dividend shall be put to the shareholders of the Company at the Company's forthcoming Annual General Meeting (scheduled for 17 May 2016). If approved by shareholders, the record date for this dividend will be 27 May 2016 and payment of this dividend would then occur on 17 June 2016.

Because the Company is a dollar-denominated business, dividends are declared in US Dollars. For UK shareholders, those dividends will then be converted into Sterling shortly before the time of payment and paid in Sterling. Any UK shareholder who would like to receive dividends in Dollars instead of Sterling should contact the Registrar. US shareholders will automatically receive their dividends in Dollars unless they request otherwise.

The Directors proposed and, following shareholder approval, paid a 1.74¢ interim dividend in December 2014 and a final 2014 dividend of 5.26¢ per share on 5 June 2015 to shareholders on the register as at close of business on 15 May 2015.

Directors

The Directors of the Company who served during the year and to date are as stated on page 50.

Directors' interests

	Number of Shares	% Holding at 31 December 2015
Sir Peter Middleton	100,000	0.05
Hugh Steven Wilson	200,000	0.10
David Charles Lowe	160,000	0.08

Further it can be disclosed that David Charles Lowe holds 300,000 bonds as issued by the Group's subsidiary Burford Capital PLC, and Hugh Steven Wilson holds 5 Units representing BC Capital Limited preference shares.

Statement of Directors' responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards.

Under Company Law, the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the Directors are required to:

- Select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;

- State that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with The Companies (Guernsey) Law, 2008 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to Auditors

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Charles Parkinson
Director

22 March 2016

To the members of Burford Capital Limited

We have audited the consolidated financial statements of Burford Capital Limited for the year ended 31 December 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on pages 22 to 23 the Company's Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the consolidated financial statements. In addition we read all the financial and non-financial information in the report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of affairs of the Group as at 31 December 2015 and of its profit and comprehensive income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you, if, in our opinion:

- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP
London

22 March 2016

Notes:

1. The maintenance and integrity of the Burford Capital Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Guernsey governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

for the year ended 31 December 2015

	Notes	2015 $'000	2014 $'000
Income			
Litigation investment income	7	**86,903**	47,847
Insurance income		**12,763**	24,338
New initiatives income	9	**3,484**	222
Cash management income and bank interest	6	**671**	1,093
Foreign exchange (losses)/gains		**(814)**	8,534
Total income		**103,007**	82,034
Operating expenses	10	**(25,840)**	(21,323)
Operating profit		**77,167**	60,711
Finance costs		**(9,290)**	(3,652)
Profit before tax and the impact relating to the Burford UK acquisition		**67,877**	57,059
Amortisation of embedded value intangible asset arising on Burford UK acquisition		**–**	(9,735)
Profit for the year before taxation		**67,877**	47,324
Taxation	4	**(2,204)**	(2,906)
Deferred tax credit on amortisation of embedded value intangible asset	4	**–**	2,219
Total taxation		**(2,204)**	(687)
Profit for the year after taxation		**65,673**	46,637
Attributable to contingent preference shares		**1,200**	1,200
Attributable to ordinary shareholders		**64,473**	45,437
		65,673	46,637
Other comprehensive income			
Exchange differences on translation of foreign operations on consolidation		**2,542**	(15)
Total comprehensive income for the year		**68,215**	46,622
Attributable to contingent preference shares		**1,200**	1,200
Attributable to ordinary shareholders		**67,015**	45,422
		Cents	Cents
Basic and diluted profit per ordinary share	18	**31.52**	22.21
Basic and diluted comprehensive income per ordinary share	18	**32.76**	22.21

The notes on pages 29 to 49 form an integral part of these consolidated financial statements.

as at 31 December 2015

	Notes	2015 $'000	2014 $'000
Assets			
Non-current assets			
Litigation investments	7	**319,615**	266,292
New initiatives investments	9	**18,106**	539
Due from settlement of litigation investments	8	**30,421**	56,888
Deferred tax asset	4	**1,970**	1,822
Goodwill		**1,109**	–
Tangible fixed assets		**563**	386
		371,784	325,927
Current assets			
Cash management investments	6	**140,206**	95,984
Due from settlement of litigation investments	8	**31,188**	6,619
Receivables and prepayments	11	**5,510**	11,076
Cash and cash equivalents		**45,417**	93,640
		222,321	207,319
Total assets		**594,105**	533,246
Liabilities			
Current liabilities			
Litigation investments payable	12	**16,441**	1,939
Payables	12	**7,015**	4,974
Taxation payable		**942**	2,378
Loan capital interest payable	13	**3,174**	3,352
Unrealised loss on forward foreign currency contract		**128**	–
		27,700	12,643
Non-current liabilities			
Deferred tax liability	4	**1,098**	–
Loan capital	13	**131,280**	138,066
Total liabilities		**160,078**	150,709
Total net assets		**434,027**	382,537
Represented by:			
Ordinary share capital	16	**328,749**	328,749
Revenue reserve		**102,550**	53,602
Other reserves		**2,866**	324
Total equity attributable to ordinary shareholders		**434,165**	382,675
Equity attributable to contingent preference shares	17	**(138)**	(138)
Total equity shareholders' funds		**434,027**	382,537

The notes on pages 29 to 49 form an integral part of these consolidated financial statements.

The financial statements on pages 25 to 49 were approved by the Board of Directors on 22 March 2016 and were signed on its behalf by:

Charles Parkinson
Director

22 March 2016

for the year ended 31 December 2015

	2015 $'000	2014 $'000
Cash flows from operating activities		
Profit for the year before tax	67,877	47,324
Adjusted for:		
Fair value change on cash management investments	2,177	2,186
Realised (gains) on realisation of litigation investments	(60,351)	(11,964)
Realised loss on new initiatives investments	263	–
Realised losses/(gains) on disposal of cash management investments	824	(2,700)
Interest and other income from litigation activities	(4,546)	(16,396)
New initiatives income	(2,925)	(222)
Fair value change on litigation investments	(22,006)	(18,400)
Fair value change on new initiatives investments	(822)	–
Unrealised loss on forward foreign currency contract	128	–
Amortisation of embedded value intangible asset	–	9,735
Depreciation of tangible fixed assets	241	211
Bond finance costs	8,917	116
Effect of exchange rate changes	(3,257)	(5,447)
	(13,480)	4,443
Changes in working capital		
Proceeds from litigation investments	140,196	63,010
Proceeds from new initiatives investments	6,196	2,504
Funding of litigation investments	(91,392)	(91,022)
Funding of new initiatives investments	(21,265)	(2,821)
Net proceeds from (purchases)/disposals of cash management investments	(47,223)	(69,224)
Decrease in receivables	7,385	516
Increase in payables	2,064	3,582
Taxation paid	(2,620)	(3,308)
Net cash (outflow) from operating activities	(20,139)	(92,320)
Cash flows from financing activities		
Issue of loan capital	–	148,194
Issue expenses – loan capital	–	(2,522)
Interest paid on loan capital	(8,926)	–
Issue expenses – contingent preference shares	–	(50)
Dividends paid on ordinary shares	(15,525)	(14,257)
Dividends paid on contingent preference shares	(1,200)	(1,289)
Net cash (outflow)/inflow from financing activities	(25,651)	130,076
Cash flows from investing activities		
Purchases of tangible fixed assets	(421)	(100)
Purchase of subsidiary	(1,489)	–
Net cash (outflow) from investing activities	(1,910)	(100)
Net (decrease)/increase in cash and cash equivalents	(47,700)	37,656
Reconciliation of net cash flow to movements in cash and cash equivalents		
Cash and cash equivalents at beginning of year	93,640	57,667
(Decrease)/increase in cash and cash equivalents	(47,700)	37,656
Effect of exchange rate changes on cash and cash equivalents	(523)	(1,683)
Cash and cash equivalents at end of year	45,417	93,640

Supplemental Disclosure	2015 $'000	2014 $'000
Cash received from interest income	4,439	6,214

The notes on pages 29 to 49 form an integral part of these consolidated financial statements.

for the year ended 31 December 2015

31 December 2015	Share capital $'000	Revenue reserve $'000	Foreign currency consolidation reserve $'000	Equity attributable to ordinary shareholders $'000	Contingent Preference Shares $'000	Total $'000
As at 1 January 2015	**328,749**	**53,602**	**324**	**382,675**	**(138)**	**382,537**
Profit for the year	**–**	**64,473**	**–**	**64,473**	**1,200**	**65,673**
Other comprehensive income	**–**	**–**	**2,542**	**2,542**	**–**	**2,542**
Dividends paid (Notes 17 & 19)	**–**	**(15,525)**	**–**	**(15,525)**	**(1,200)**	**(16,725)**
Balance at 31 December 2015	**328,749**	**102,550**	**2,866**	**434,165**	**(138)**	**434,027**

31 December 2014	Share capital $'000	Revenue reserve $'000	Foreign currency consolidation reserve $'000	Equity attributable to ordinary shareholders $'000	Contingent Preference Shares $'000	Total $'000
As at 1 January 2014	328,749	22,422	339	351,510	1	351,511
Profit for the year	–	45,437	–	45,437	1,200	46,637
Other comprehensive income	–	–	(15)	(15)	–	(15)
Dividends paid (Notes 17 & 19)	–	(14,257)	–	(14,257)	(1,289)	(15,546)
Contingent preference shares (Note 17)	–	–	–	–	(50)	(50)
Balance at 31 December 2014	328,749	53,602	324	382,675	(138)	382,537

The notes on pages 29 to 49 form an integral part of these consolidated financial statements.

1. Legal form and principal activity

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, financing and risk solutions with a focus on the litigation and arbitration sector.

The Company was incorporated under The Companies (Guernsey) Law, 2008 (the "Law") on 11 September 2009. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009.

These financial statements cover the year from 1 January 2015 to 31 December 2015.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of accounting
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets that are not apparent from other sources. Actual results may differ from these estimates. The consolidated financial statements are presented in United States Dollars and are rounded to the nearest $'000 unless otherwise indicated.

Significant estimates and judgements
The most significant estimates relate to the valuation of litigation investments at fair value through profit or loss which are determined by the Group.

Fair values are determined on the specifics of each investment and will typically change upon an investment having a return entitlement or progressing in a manner that, in the Group's judgement, would result in a third party being prepared to pay an amount different from the original sum invested for the Group's rights in connection with the investment. Positive, material progression of an investment will give rise to an increase in fair value whilst adverse outcomes give rise to a reduction. The quantum of change depends on the potential future stages of investment progression. The consequent effect when an adjustment is made is that the fair value of an investment with few remaining stages is adjusted closer to its predicted final outcome than one with many remaining stages.

In litigation matters, before a judgment is entered following trial or other adjudication, the key stages of any matter and their impact on fair value is substantially case specific but may include the motion to dismiss and the summary judgment stages. Following adjudication, appeals proceedings provide further opportunities to re-assess the fair value of an investment.

The estimation of fair value is inherently uncertain. Awards and settlements are hard to predict and often have a wide range of possible outcomes. Furthermore, there is much unpredictability in the actions of courts, litigants and defendants because of the large number of variables involved and consequent difficulty of predictive analysis. In addition there is little activity in transacting investments and hence little relevant data for benchmarking the effect of investment progression on fair value.

Continued

2. Principal accounting policies continued

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention adjusted to take account of the revaluation of certain of the Group's financial assets to fair value.

Early adoption of IFRS 9: Financial Instruments

The Group adopted IFRS 9 Financial Instruments (2010) ("IFRS 9") with a date of initial application of 1 January 2012. The Group elected to adopt it early, with AIM's consent, to achieve reporting consistency between unrealised and realised gains and losses that was not available under the previous accounting policy.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Burford Capital Limited and its Subsidiaries. All the Subsidiaries are consolidated in full from the date of acquisition.

All intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full.

The Subsidiaries' accounting policies and financial year end are consistent with those of the Company.

Insurance income

Insurance income comprises income derived from the sale of legal expenses insurance policies issued in the name of Great Lakes Reinsurance (UK) Plc, a subsidiary of MunichRe, under a binding authority agreement. Insurance income is calculated as the premium earned, net of reinsurance and Insurance Premium Tax, less an allowance for claims, sales commissions, fees and the other direct insurance related costs such as Financial Services Compensation Scheme Levy. The payment of premiums is often contingent on a case being won or settled and the Group recognises the associated income only at this point, whilst a deduction is made for claims estimated to be paid on all policies in force.

Segment reporting

Management consider that there are three operating business segments in addition to its corporate functions, being (i) provision of litigation investment (reflecting litigation and arbitration-related investment activities anywhere in the world); (ii) provision of litigation insurance (reflecting UK and Channel Islands litigation insurance activities); and (iii) exploration of new initiatives related to application of capital to the litigation and arbitration sector until such time as those initiatives mature into full fledged independent segments.

Embedded value intangible asset

The embedded value intangible is recognised at fair value when acquired as part of a business combination. It represents the excess of the fair value of the future cash flows over the amount recognised in accordance with the Group's policy for recognising insurance related income. This intangible is amortised to the income statement over the expected life of the business written.

Financial instruments

The Group classifies its financial assets into the categories below in accordance with IFRS 9.

1) Cash management investments through profit or loss

Investments for the purpose of cash management, acquired to generate returns on cash balances awaiting subsequent investment, and which are managed and evaluated on a fair value basis at the time of acquisition. Their initial fair value is the cost incurred at their acquisition. Transaction costs incurred are expensed in the Consolidated Statement of Comprehensive Income.

2. Principal accounting policies continued

Recognition, derecognition and measurement
Cash management investments through profit or loss are recorded on the trade date, and those held at the year end date are valued at bid price.

Listed interest-bearing debt securities are valued at their quoted bid price. Interest earned on these investments is recognised on an accruals basis. Listed corporate bond funds are valued at their quoted bid price. Unlisted managed funds are valued at the Net Asset Value per share published by the administrator of those funds as it is the price at which they could have been realised at the reporting date.

Movements in fair value and realised gains and losses on disposal or maturity of investments, including interest income, are reflected in cash management income and bank interest in the Consolidated Statement of Comprehensive Income.

2) Litigation investments at fair value through profit or loss
Litigation investments are categorised as fair value through profit or loss. Investments are initially measured as the sum invested. Attributable due diligence and closing costs are expensed.

Recognition, derecognition and measurement
Purchases and sales of litigation investments at fair value through profit or loss are generally recognised on the trade date, being the date on which the Group disburses funds in connection with the investment (or becomes contractually committed to pay a fixed amount on a certain date, if earlier). In some cases multiple disbursements occur over time. Investments are initially measured as the sum invested. A litigation investment that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated asset is substantially a different financial instrument.

Movements in fair value on litigation investments are included within litigation investment income in the Consolidated Statement of Comprehensive Income.

3) Financial assets and liabilities at amortised cost
Financial assets and liabilities, including loan capital and amounts due from settlement of litigation investments, that have fixed or determinable payments representing principal and interest that are not quoted in an active market, are measured at amortised cost using the effective interest method, less any impairment.

4) New initiatives investments
New initiatives investments are held at amortised cost using the effective interest method, less any impairment, for loan investments in the law firm lending business and at fair value for investments in the judgment enforcement business.

New initiatives income comprises interest and other income from the law firm lending business and professional services and investment income from the judgment enforcement business. Interest income is recognised on an accruals basis. Professional services income is recognised as services are provided.

Continued

2. Principal accounting policies continued

Fair value hierarchy of financial instruments
The financial assets measured at fair value are disclosed using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements, as follows:

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

Valuation Processes for Level 3 Investments
The Group's senior professionals are responsible for developing the policies and procedures for fair value measurement of assets and liabilities. At each reporting date, the movements in the values of assets and liabilities are required to be re-assessed as per the Group's accounting policies. Following investment, each investment's valuation is reviewed semi-annually. For this analysis, the reasonableness of material estimates and assumptions underlying the valuation are discussed and the major inputs applied are verified by agreeing the information in the valuation computation to contracts, investment status and progress information and other relevant documents.

The semi-annual reviews are presented to the Audit Committee and the Group's independent auditors.

Valuation Methodology
Fair value represents the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants as of the measurement date.

The methods and procedures to fair value assets and liabilities may include, but are not limited to: (i) obtaining information provided by third parties when available; (ii) obtaining valuation-related information from the issuers or counterparties (or their advisors); (iii) performing comparisons of comparable or similar investment matters; (iv) calculating the present value of future cash flows; (v) assessing other analytical data and information relating to the investment that is an indication of value; (vi) reviewing the amounts invested in these investments; and (vii) evaluating financial information provided by the investment counterparties.

The material estimates and assumptions used in the analyses of fair value include the status and risk profile of the litigation risk underlying the investment, the timing and expected amount of cash flows based on the investment structure and agreement, the appropriateness of discount rates used, and, in some cases, the timing of, and estimated minimum proceeds from, a favourable litigation outcome. Significant judgement and estimation goes into the assumptions which underlie the analyses, and the actual values realised with respect to investments could be materially different from values obtained based on the use of those estimates.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company, as determined in accordance with IFRS, is the United States Dollar ("US Dollar") because this is the currency that best reflects the economic substance of the underlying events and circumstances of the Company and its Subsidiaries. The consolidated financial statements are presented in US Dollars, the presentation currency.

Burford UK and certain other subsidiaries operate and prepare financial statements denominated in Sterling. For the purposes of preparing consolidated financial statements, those subsidiaries' assets and liabilities are translated at exchange rates prevailing at each balance sheet date. Income and expense items are translated at average exchange rates for the year.

2. Principal accounting policies continued

Exchange differences arising are recognised in other comprehensive income and accumulated in equity (foreign currency consolidation reserve).

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies including intragroup balances are recognised in the Consolidated Statement of Comprehensive Income as part of the profit or loss for the year.

Bank interest income
Bank interest income is recognised on an accruals basis.

Expenses
All expenses are accounted for on an accruals basis.

Finance costs
Finance costs represent loan capital interest and issue expenses which are recognised in the Consolidated Statement of Comprehensive Income in line with the effective interest rate method.

Cash and cash equivalents
Cash and cash equivalents are defined as cash in hand, demand deposits, and highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents at the balance sheet date comprised amounts held on current or overnight deposit accounts.

Taxation
Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted.

To the extent that any foreign withholding taxes or any form of profits taxes become payable these will be accrued on the basis of the event that creates the liability to taxation.

Deferred tax is provided on the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Dividends
Dividends paid during the year are shown in the Statement of Changes in Equity. Dividends proposed but not approved by Shareholders are disclosed in the notes.

Tangible fixed assets
Fixed assets are recorded at cost less accumulated depreciation and provision for impairment. Depreciation is provided to write off the cost less estimated residual value in equal instalments over the estimated useful lives of the assets. The expected useful lives are as follows:

Leasehold improvements	Life of lease
Fixtures, fittings and equipment	5 years
Computer hardware and software	3 years

Continued

2. Principal accounting policies continued

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in income.

Receivables and prepayments

Receivables and prepayments are recognised at nominal value, less provision for impairments for non-recoverable amounts. They do not carry any interest.

Payables

Payables are recognised at nominal value and are non-interest-bearing.

Capital and reserves

Ordinary shares are classified as equity in share capital. Contingent preference shares issued by a subsidiary do not give rise to a contractual obligation and are therefore classified as a non controlling interest. Profits are allocated to the contingent preference shares based on their cumulative dividend entitlements. Incremental costs directly attributable to the issue of new shares are deducted from equity in share capital or contingent preference shares as appropriate.

3. Material agreements

During 2015 there were no material agreements in place between Group entities and third parties. The administration agreement with International Administration Group (Guernsey) Limited was amended, effective 1 January 2014, with responsibilities for maintaining the Group's accounting records now being transferred to the Group's internal finance function.

4. Taxation

The Company has obtained exempt company status in Guernsey. In certain cases, a subsidiary of the Company may elect to make use of investment structures that are subject to income tax in a country related to the investment. The Company's subsidiaries in Ireland, the UK and the US are subject to taxation in such jurisdictions as determined in accordance with relevant tax legislation.

The taxation charge for the year ended 31 December 2015 comprises:

	2015 $'000	2014 $'000
US Subsidiaries	**659**	39
Irish Subsidiaries	**490**	–
UK Subsidiaries	**23**	3,872
Non-resident taxation	**83**	122
Deferred taxation charge	**949**	(1,127)
Taxation	**2,204**	2,906

Deferred tax asset	**2015 $'000**	2014 $'000
Balance at 1 January	**1,822**	695
Movement on UK deferred tax – temporary differences	**172**	8
Movement on US deferred tax – temporary differences	**(23)**	1,119
Foreign exchange adjustment	**(1)**	–
Balance at 31 December	**1,970**	1,822

4. Taxation continued

During the year ending 31 December 2015, the Group also has a deferred taxation credit of $nil (2014: $2,219,000) relating to the amortisation of the embedded value intangible asset.

Deferred tax liability	2015 $'000	2014 $'000
Balance at 1 January	–	2,227
Tax released on amortisation of embedded value intangible asset	–	(2,219)
Movement on UK deferred tax – temporary differences	45	–
Movement on US deferred tax – temporary differences	1,053	–
Foreign exchange adjustment	–	(8)
Balance at 31 December	1,098	–

5. Segmental information

Management consider that there are three operating business segments in addition to its corporate functions, being (i) provision of litigation investment (reflecting litigation and arbitration-related investment activities anywhere in the world), (ii) provision of litigation insurance (reflecting UK and Channel Islands litigation insurance activities) and (iii) exploration of new initiatives related to application of capital to the litigation and arbitration sector until such time as those initiatives mature into full fledged independent segments.

Segment revenue and results

31 December 2015	Litigation Investment $'000	Litigation Insurance $'000	New Initiatives $'000	Other corporate activity $'000	Total $'000
Income	86,903	12,763	3,484	(143)	103,007
Operating expenses	(13,953)	(2,577)	(4,498)	(4,812)	(25,840)
Finance costs	–	–	–	(9,290)	(9,290)
Profit/(loss) for the year before taxation	72,950	10,186	(1,014)	(14,245)	67,877
Current taxation	(2,225)	(1,186)	–	1,207	(2,204)
Other comprehensive income	–	–	–	2,542	2,542
Total comprehensive income	70,725	9,000	(1,014)	(10,496)	68,215

31 December 2014	Litigation Investment $'000	Litigation Insurance $'000	New Initiatives $'000	Other corporate activity $'000	Total $'000
Income	47,847	24,338	222	9,627	82,034
Operating expenses	(10,416)	(5,396)	(1,561)	(3,950)	(21,323)
Finance costs	–	–	–	(3,652)	(3,652)
Amortisation of embedded value intangible asset	–	–	–	(9,735)	(9,735)
Profit/(loss) for the year before taxation	37,431	18,942	(1,339)	(7,710)	47,324
Current taxation	611	(3,864)	469	(122)	(2,906)
Deferred tax credit	–	–	–	2,219	2,219
Other comprehensive income	–	–	–	(15)	(15)
Total comprehensive income	38,042	15,078	(870)	(5,628)	46,622

Continued

5. Segmental information continued

Segment assets

31 December 2015	Litigation Investment $'000	Litigation Insurance $'000	New Initiatives $'000	Other corporate activity $'000	Total $'000
Non-current assets					
Litigation investments	319,615	–	–	–	319,615
New initiatives investments	–	–	18,106	–	18,106
Due from settlement of litigation investments	30,421	–	–	–	30,421
Deferred tax asset	1,779	–	–	191	1,970
Goodwill	–	–	–	1,109	1,109
Tangible tax asset	148	415	–	–	563
	351,963	415	18,106	1,300	371,784
Current assets					
Cash management investments	–	–	–	140,206	140,206
Due from settlement of litigation investments	31,188	–	–	–	31,188
Receivables and prepayments	500	4,322	688	–	5,510
Cash and cash equivalents	39,203	3,470	378	2,366	45,417
	70,891	7,792	1,066	142,572	222,321
Total assets	422,854	8,207	19,172	143,872	594,105
Current liabilities					
Litigation investments payable	16,441	–	–	–	16,441
Payables	4,981	1,040	647	347	7,015
Taxation payable	942	–	–	–	942
Loan capital interest payable	–	–	–	3,174	3,174
Unrealised loss on forward foreign currency contract	–	–	–	128	128
	22,364	1,040	647	3,649	27,700
Non-current liabilities					
Deferred tax payable	1,053	45	–	–	1,098
Loan capital	–	–	–	131,280	131,280
	1,053	45	–	131,280	132,378
Total liabilities	23,417	1,085	647	134,929	160,078
Total net assets	399,437	7,122	18,525	8,943	434,027

5. Segmental information continued

31 December 2014	Litigation Investment $'000	Litigation Insurance $'000	New Initiatives $'000	Other corporate activity $'000	Total $'000
Non-current assets					
Litigation investments	266,292	–	–	–	266,292
New initiative investments	–	–	539	–	539
Due from settlement of litigation investments	56,888	–	–	–	56,888
Deferred tax asset	1,333	20	469	–	1,822
Tangible fixed assets	265	121	–	–	386
	324,778	141	1,008	–	325,927
Current assets					
Cash management investments	–	–	–	95,984	95,984
Due from settlement of litigation investments	6,619	–	–	–	6,619
Receivables and prepayments	295	10,761	–	20	11,076
Cash and cash equivalents	12,989	15,132	–	65,519	93,640
	19,903	25,893	–	161,523	207,319
Total assets	344,681	26,034	1,008	161,523	533,246
Current liabilities					
Litigation investments payable	1,939	–	–	–	1,939
Payables	3,195	1,455	–	324	4,974
Taxation payable	–	2,378	–	–	2,378
Loan capital interest payable	–	–	–	3,352	3,352
	5,134	3,833	–	3,676	12,643
Non-current liabilities					
Loan capital	–	–	–	138,066	138,066
	–	–	–	138,066	138,066
Total liabilities	5,134	3,833	–	141,742	150,709
Total net assets	339,547	22,201	1,008	19,781	382,537

Continued

6. Cash management investments

	2015 $'000	2014 $'000
Money market funds	9,008	–
Listed fixed income and investment funds, including mutual funds	131,198	95,984
Total cash management investments	140,206	95,984

Reconciliation of movements	2015 $'000	2014 $'000
Balance at 1 January	95,984	26,147
Purchases	223,728	152,494
Proceeds on disposal	(176,365)	(83,171)
Realised (losses)/gains on disposal	(824)	2,700
Fair value change in year	(2,177)	(2,186)
Change in accrued interest	(140)	–
Balance at 31 December	140,206	95,984

As at 31 December 2015, cash management investments were invested primarily in fixed income securities and listed investment funds.

The cash management income and bank interest on the face of the Consolidated Statement of Comprehensive Income comprise:

	2015 $'000	2014 $'000
Realised (losses)/gains on cash management investments	(824)	2,700
Fair value movement on cash management investments	(2,177)	(2,186)
Interest and dividend income from cash management investments	3,658	508
Bank interest income	14	71
Total cash management income and bank interest	671	1,093

7. Litigation investments at fair value through profit or loss

	2015 $'000	2014 $'000
Balance at 1 January	266,292	214,873
Additions	105,894	77,378
Realisations	(134,233)	(55,925)
Net realised gain for year	60,351	11,964
Fair value movement (net of transfers to realisations)	22,006	18,400
Foreign exchange loss	(695)	(398)
Balance at fair value at 31 December	319,615	266,292

The litigation investment income on the face of the Consolidated Statement of Comprehensive Income comprise:

	2015 $'000	2014 $'000
Net realised gains on litigation investments (above)	60,351	11,964
Fair value movements on litigation investments (above)	22,006	18,400
Net decrease in liabilities for investment sub-participations	–	1,087
Interest and other income on due from settlement of litigation investments (Note 8)	4,068	13,318
Interest and other income from continuing litigation investments	478	3,078
Total litigation investment income	86,903	47,847

8. Due from settlement of litigation investments

Amounts due from settlement of litigation investments relate to the recovery of litigation investments that have successfully concluded and where there is no longer any litigation risk remaining. The settlement terms and duration vary by investment. The carrying value of these assets approximate the fair value of the assets at the balance sheet date.

	2015 $'000	2014 $'000
Balance at 1 January	63,507	50,899
Transfer of realisations from litigation investments (Note 7)	134,233	55,925
Interest and other income on due from settlement of litigation investments (Note 7)	4,068	13,318
Additions to due from settlement of litigation investments	–	205
Proceeds from settled litigation investments	(139,971)	(56,378)
Proceeds from interest income on due from settlement of litigation investments	(225)	(462)
Foreign exchange loss	(3)	–
Balance at 31 December	61,609	63,507
Split:		
Non-current assets	30,421	56,888
Current assets	31,188	6,619
Total due from settlement of litigation investments	61,609	63,507

Continued

9. New initiatives investments

New initiatives investments represent capital deployed in the exploration of new initiatives related to the litigation and arbitration sector until such time as those initiatives mature into full fledged independent segments. New initiatives investments are comprised of some assets at amortised cost and some at fair value. As at 31 December 2015, new initiatives investments at amortised cost is $14,597,000 (2014: $539,000) and new initiatives investments at fair value is $3,509,000 (2014: $nil), totalling $18,106,000 as shown on the Consolidated Statement of Financial Position.

New initiatives investments at fair value	2015 $'000	2014 $'000
Balance at 1 January	–	–
Additions	3,006	–
Realisations	–	–
Net gains on new initiatives investments	559	–
Foreign exchange loss	(56)	–
Balance at 31 December	3,509	–

The total new initiatives income on the face of the Consolidated Statement of Comprehensive Income, including interest income on balances carried at amortised cost, is $3,484,000 for the year ended 31 December 2015 (2014: $222,000).

10. Total operating expenses

	2015 $'000	2014 $'000
Staff costs	16,535	13,155
Pension costs	438	419
Non-executive Directors' remuneration	348	381
Non-staff operating expenses	7,670	5,967
Investment related costs	849	1,401
	25,840	21,323

Directors' remuneration* comprise:

	2015 $'000	2014 $'000
Sir Peter Middleton	114	125
Hugh Steven Wilson	106	116
David Charles Lowe	64	70
Charles Nigel Kennedy Parkinson	64	70
	348	381

* Directors' remuneration is Sterling denominated.

Fees paid and payable to Ernst & Young LLP comprise:

	2015 $'000	2014 $'000
Audit fees	466	545
Interim review fees	36	35
Tax compliance fees	387	399
Tax advisory fees	364	150
Other advisory fees	–	44
	1,253	1,173

11. Receivables and prepayments

	2015 $'000	2014 $'000
Trade receivable – insurance segment	**4,231**	10,678
Trade receivable – new initiatives segment	**674**	–
Prepayments	**124**	210
Other debtors	**481**	188
	5,510	11,076

12. Payables

	2015 $'000	2014 $'000
Litigation investments payable	**16,441**	1,939
Audit fee payable	**384**	406
General expenses payable	**6,631**	4,568
	23,456	6,913

13. Loan capital

On 19 August 2014, the Group, through a 100% owned subsidiary, Burford Capital PLC, issued retail bonds to the value of $149,562,000 (£90,000,000). The bond proceeds were converted to US Dollars in the weeks following the offering, producing $149,937,975 of proceeds. The bonds are listed on the London Stock Exchange's Order Book for Retail Bonds. The bonds will mature on 19 August 2022, and pay a fixed rate of interest of 6.5% per annum. The fair value of the loan capital at year end, based upon the market value of the bonds at that time, is $140,473,000.

Retail bonds	**2015 $'000**	2014 $'000
As at 1 January	**141,418**	–
Retail bonds issued	**–**	149,562
Bond issue costs	**–**	(2,522)
Finance costs	**9,290**	3,652
Interest paid	**(8,926)**	–
Exchange movements	**(7,328)**	(9,274)
As at 31 December	**134,454**	141,418
Split		
Loan capital	**131,280**	138,066
Loan capital interest payable	**3,174**	3,352
	134,454	141,418

Loan capital interest expense	**8,917**	3,536
Bond issue costs incurred as finance costs	**373**	116
Finance costs	**9,290**	3,652

Continued

14. Fair value of assets and liabilities

The financial assets measured at fair value are disclosed using a fair value hierarchy that reflects the market price observability of the inputs used in making the fair value measurements, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities;
Level 2 – Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3 – Those inputs for the asset or liability that are not based on observable market data (unobservable inputs). The inputs into determination of fair value require significant management judgement and estimation.

Valuation Methodology

Financial assets and financial liabilities measured at fair value continue to be valued using the techniques set out in the accounting policies in Note 2.

Fair Value Hierarchy

31 December 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Litigation investments	–	–	319,615	319,615
New initiatives investments*	–	–	3,509	3,509
Cash management investments:				
Listed fixed income and investment funds	140,206	–	–	140,206
Forward foreign currency contracts	–	(128)	–	(128)
Loan capital, at fair value	(140,473)	–	–	(140,473)
Total	**(267)**	**(128)**	**323,124**	**322,729**

* The carrying value of other assets at amortised cost approximate fair value and have not been included in this table.

31 December 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Litigation investments	–	–	266,292	266,292
Cash management investments:				
Listed fixed income and investment funds	95,984	–	–	95,984
Loan capital, at fair value	(143,176)	–	–	(143,176)
Total	(47,192)	–	266,292	219,100

14. Fair value of assets and liabilities continued

Movements in Level 3 fair value assets

The table below provides analysis of the movements in the Level 3 financial assets.

	Litigation investments $'000	New initiatives investments $'000	Total Level 3 assets $'000
Balance at 1 January 2015	266,292	–	266,292
Additions	105,894	3,006	108,900
Realisations	(134,233)	–	(134,233)
Net gains on investments recognised in the Income Statement	82,357	559	82,916
Exchange adjustment	(695)	(56)	(751)
Balance at 31 December 2015	319,615	3,509	323,124

	Litigation investments $'000	Total Level 3 assets $'000
Balance at 1 January 2014	214,873	214,873
Additions	77,378	77,378
Realisations	(55,925)	(55,925)
Net gains on investments recognised in the Income Statement	30,364	30,364
Exchange adjustment	(398)	(398)
Balance at 31 December 2014	266,292	266,292

Sensitivity of Level 3 valuations

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2015, should the value of investments have been 10% higher or lower than provided for in the Group's fair value estimation, while all other variables remained constant, the Group's income and net assets would have increased and decreased respectively by $32,312,000 (2014: $26,629,000).

Reasonably possible alternative assumptions

The determination of fair value of litigation and new initiative investments involve significant judgements and estimates. Whilst the potential range of outcomes for the investments is wide, the Group's fair value estimation is its best assessment of the current fair value of each investment. That estimate is inherently subjective being based largely on an assessment of how individual events have changed the possible outcomes of the investment and their relative probabilities and hence the extent to which the fair value has altered. The aggregate of the fair values selected falls within a wide range of reasonably possible estimates. In the Group's opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the values of the investments are correlated.

Continued

15. Financial risk management

Market and investment risk

The Group is exposed to market and investment risk with respect to its cash management investments and its litigation investments at fair value through profit or loss. The maximum risk equals the fair value of all such financial instruments.

With respect to the Group's cash management investments, including interest-bearing securities, corporate bonds and investment funds, market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as interest rates, credit risk, security and bond prices and foreign exchange rates. Investments in cash management investments are made in line with pre-agreed parameters and subject to Board oversight. At 31 December 2015, should the prices of the investments in interest-bearing securities, corporate bonds and investment funds have been 10% higher or lower while all other variables remained constant, the Group's income and net assets would have increased and decreased respectively by $14,021,000 (2014: $9,598,000).

With respect to the Group's litigation and the relevant new initiative investments, market and investment risk is the risk that the fair value of the investments (which tend to be of durations in excess of one year will fluctuate substantially during the life of the investment and indeed that the investments may ultimately result in widely varying ranges of outcomes from a total loss to a substantial gain.

The Group only makes investments following a due diligence process. However, such investing is high risk and there can be no assurance of any particular recovery in any individual investment. Certain of the Group's litigation investments or similar investments comprise a portfolio of litigation investments thereby mitigating the impact of the outcome of any single investment.

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2015, should the value of investments have been 10% higher or lower than provided for in the Group's fair value estimation, while all other variables remained constant, the Group's income and net assets would have increased and decreased respectively by $32,312,000 (2014: $26,629,000).

Whilst the potential range of outcomes for the investments is wide, the Group's fair value estimation is its best assessment of the current fair value of each investment. That estimate is inherently subjective being based largely on an assessment of how individual events have changed the possible outcomes of the investment and their relative probabilities and hence the extent to which the fair value has altered. The aggregate of the fair values selected falls within a wide range of reasonably possible estimates. In the Group's opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the values of the investments are correlated.

Liquidity risk

The Group is exposed to liquidity risk. The Group's investment in litigation investments requires funds for ongoing settlement of operating liabilities and to meet investment commitments (see Note 20). The Group's investments (as described in Note 2) typically require significant capital contributions with little or no immediate return and no guarantee of return or repayment. In order to manage liquidity risk the Group makes investments with a range of anticipated durations and invests in cash management investments which can be readily realised to meet those liabilities and commitments. Cash management investments include investments in listed fixed income instruments and investment funds that can be redeemed on short notice or can be sold on an active trading market.

During 2014 the issue of $150 million retail bonds raised sufficient extra capital to help mitigate liquidity risk. Interest payments on the bonds will total $59 million over the remaining seven year period until maturity in August 2022, at which point the principal amount shall be repaid. The $40 million contingent preference shares issued in 2013 further mitigate liquidity risk.

15. Financial risk management continued

Credit risk

The Group is exposed to credit risk in various investment structures (see Note 2), most of which involve investing sums recoverable only out of successful investments with a concomitant risk of loss of investment cost. On becoming contractually entitled to proceeds, depending on the structure of the particular investment, the Group could be a creditor of, and subject to credit risk from, a claimant, a defendant, both or other parties. Moreover, the Group may be indirectly subject to credit risk to the extent a defendant does not pay a claimant immediately notwithstanding successful adjudication of a claim in the claimant's favour. There is a level of concentration risk present, however this is mitigated by the fact that no more than 8% of total net asset value is invested in any single litigation investment.

The Group is also exposed to credit risk in respect of the cash management investments and cash and cash equivalents. The credit risk of the cash and cash equivalents is mitigated as all cash is placed with reputable banks with a sound credit rating (A-1). The credit risk of the cash management investments is mitigated by investment restrictions as regards security type, geographical origin and acceptable counterparties; those investments are entirely or largely made in investment securities of investment grade quality, such as commercial paper with an A-1 or P-1 rating or investment grade bonds with a corporate rating of BBB or better. There are no significant concentrations of credit risk. At the year end the Group is invested in 78 (2014: eleven) securities with the bulk of its cash management investments held in fixed income securities.

The Group is also exposed to credit risk from opponents in litigation insurance. The underwriting process includes an assessment of counterparty credit risk and there is a large diversification of counterparties and therefore no concentration of risk.

The maximum credit risk exposure represented by cash, cash equivalents and investments is as stated on the Consolidated Statement of Financial Position.

Currency risk

The Group holds assets denominated in currencies other than US Dollars, the functional currency of the Company, including Sterling, the functional currency of Burford UK. Further, the Group issued Sterling loan capital during 2014. It is therefore exposed to currency risk, as values of the assets denominated in other currencies will fluctuate due to changes in exchange rates. The Group may use forward exchange contracts from time to time to mitigate currency risk. During the year the Group entered into such hedging contracts that resulted in a net foreign currency loss of $720,000 for the year, comprised from a loss on the hedge contracts of $4,254,000 and a corresponding gain of $3,534,000 on the underlying position.

At 31 December 2015, the Group's net exposure to currency risk can be analysed as follows:

	Investments $'000	Forward foreign currency contract $'000	Other net assets/ (liabilities) $'000
US Dollar	510,968	(39,597)	19,329
Sterling	15,498	39,469	(124,710)
Euro	13,070	–	–
	539,536	(128)	(105,381)

Continued

15. Financial risk management continued

At 31 December 2014, the Group's net exposure to currency risk could be analysed as follows:

	Investments $'000	Other net assets/ (liabilities) $'000
US Dollar	419,301	75,280
Sterling	7,021	(119,065)
	426,322	(43,785)

At 31 December 2015 should Sterling have strengthened or weakened by 10% against the US Dollar and all other variables held constant, the Group's net profit and net assets would have decreased and increased respectively by $6,974,000 (2014: decreased and increased respectively by $11,204,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

At 31 December 2015 should Euro have strengthened or weakened by 10% against the US Dollar and all other variables held constant, the Group's net profit and net assets would have increased and decreased respectively by $1,307,000 (2014: $nil) from instruments denominated in a currency other than the functional currency of the relevant entity.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in floating interest rates relates primarily to the Group's cash and certain cash management investments. All cash bears interest at floating rates. There are also certain litigation investments, due from settlement of litigation investments and cash management investments that earn interest based on fixed rates; however those assets do not have interest rate risk as they are not exposed to changes in market interest rates. The Group's loan capital incurs interest at a fixed rate and so is not exposed to changes in market interest rates. The following table sets out the Group's exposure to interest rate risk at 31 December 2015:

	2015 $'000	2014 $'000
Non-interest-bearing	**282,604**	363,160
Interest-bearing – floating rate	**54,425**	95,039
Interest-bearing – fixed rate	**96,998**	(75,662)
Total Net Assets	**434,027**	382,537

The interest-bearing floating rate assets are denominated in both US Dollars and Sterling. If interest rates increased/decreased by 25 basis points while all other variables remained constant, the profit for the year and net assets would increase/decrease by $136,000 (2014: $238,000). For fixed rate assets and liabilities it is estimated that there would be no material profit or net assets impact. Fixed rate liabilities include the loan capital and loan capital interest payable as disclosed in Note 13.

15. Financial risk management continued

The maturity profile of interest-bearing assets and liabilities is:

Maturity period at 31 December 2015	Floating $'000	Fixed $'000	Total $'000
Assets			
Less than 3 months	54,425	46,069	100,494
3 to 6 months	–	18,429	18,429
6 to 12 months	–	38,062	38,062
1 to 2 years	–	77,541	77,541
Greater than 2 years		51,351	51,351
Liability			
Less than 3 months	–	(3,174)	(3,174)
Greater than 2 years	–	(131,280)	(131,280)
	54,425	96,998	151,423

Maturity period at 31 December 2014	Floating $'000	Fixed $'000	Total $'000
Assets			
Less than 3 months	94,414	–	94,414
3 to 6 months	375	920	1,295
6 to 12 months	250	–	250
1 to 2 years	–	27,377	27,377
Greater than 2 years	–	37,459	37,459
Liability			
Less than 3 months	–	(3,352)	(3,352)
Greater than 2 years	–	(138,066)	(138,066)
	95,039	(75,662)	19,377

Management of capital

The Company's objective is to provide shareholders with attractive levels of dividends and capital growth. Cash management assets are managed to ensure adequate liquidity to meet commitments and to ensure resources are available to finance investments as opportunities arise. The issuing of contingent preference shares in 2013 addresses the potential risk of a mismatch between commitments and inflows that might arise in the future. The issuing of loan capital in the form of retail bonds during 2014 further addressed this potential risk by raising significant amounts of capital.

Continued

16. Share capital

Authorised share capital	2015 $'000	2014 $'000
Unlimited Ordinary Shares of no par value	–	–

Issued share capital	Number	Number
Ordinary Shares of no par value	**204,545,455**	204,545,455

80,000,001 Ordinary Shares were issued at 100p each on 21 October 2009. A further 100,000,000 Ordinary Shares were issued at 110p each on 9 December 2010. A further 24,545,454 shares were issued on 12 December 2012.

	2015 $'000	2014 $'000
Balance at 1 January and 31 December	**328,749**	328,749

17. Contingent preference shares

The Group, through a 100% owned direct subsidiary listed on the Channel Islands Securities Exchange, BC Capital Limited, listed 400 units (contingent preference shares) with a nominal value of $100,000 each (the Units) at an issue price of $3,000 per Unit, each representing on issue 10 'A' preference shares and zero 'B' preference shares (together, the Preference Shares), on 5 December 2013. Prior to the fifth anniversary of issue, the Group has the right to make capital calls in multiples of $10,000 per unit up to a maximum of $100,000 per unit, or $40,000,000 in aggregate, which will oblige the unitholder to pay the amount called within one month and an 'A' preference share will convert into a 'B' preference share for each $10,000 paid. 'A' preference shares, subject to Board approval, accrue a 3% dividend. 'B' preference shares, subject to Board approval, accrue dividends at a rate of 30 day LIBOR + 700 basis points. The Group has the right to redeem all the outstanding 'A' preference shares for an amount representing unpaid dividend rights and to redeem some or all of the 'B' preference shares for $10,000 each plus any unpaid accumulated dividend.

Issued contingent preference shares	2015 $'000	2014 $'000
400 Contingent preference share units at $100,000 nominal value per unit	**40,000**	40,000

Contingent preference shares	2015 $'000	2014 $'000
Balance at 1 January	**(138)**	1
Attributable profit for the period	**1,200**	1,200
Dividends paid	**(1,200)**	(1,289)
Share issue costs	**–**	(50)
Balance at 31 December	**(138)**	(138)

18. Profit per ordinary share and comprehensive income per ordinary share

Profit per ordinary share is calculated based on profit attributable to ordinary shareholders for the year of $64,473,000 (2014: $45,437,000) and the weighted average number of ordinary shares in issue for the year of 204,545,455 (2014: 204,545,455). Comprehensive Income per ordinary share is calculated based on comprehensive income attributable to ordinary shareholders for the year of $67,015,000 (2014: $45,422,000), and the weighted average number of ordinary shares in issue for the year of 204,545,455 (2014: 204,545,455).

19. Dividends

The Directors propose to pay a final dividend of 5.67¢ (United States cents) per ordinary share in the capital of the Company during 2016. Together with the interim dividend of 2.33¢ paid in October 2015, this makes a total 2015 dividend of 8.00¢. A resolution for the declaration of the final dividend shall be put to the shareholders of the Company at the Company's forthcoming Annual General Meeting (scheduled for 17 May 2016). If approved by shareholders, the record date for this dividend will be 27 May 2016 and payment of this dividend would then occur on 17 June 2016. The proposed dividend is being proposed, and will be paid, in US Dollars, and will be converted to and paid in Sterling for non-US shareholders not electing to receive it in US Dollars.

The Directors proposed and paid a 2014 interim dividend of 1.74¢ in December 2014 and a final dividend of 5.26¢ per share on 5 June 2015 to shareholders on the register as at close of business on 15 May 2015.

20. Financial commitments and contingent liabilities

As a normal part of its business, the Group routinely enters into some investment agreements that oblige the Group to make continuing investments over time, whereas other agreements provide for the immediate funding of the total investment commitment. The terms of the former type of investment agreements vary widely; in some cases, the Group has broad discretion as to each incremental funding of a continuing investment, and in others, the Group has little discretion and would suffer punitive consequences were it to fail to provide incremental funding.

The Group's funding obligations are capped at a fixed amount in its agreements. At 31 December 2015, the Group had outstanding commitments for $213 million (2014: $137 million). Of the $213 million in commitments, the Group expects less than 50% to be sought from it during the next 12 months.

21. Related party transactions

Directors' fees paid in the year amounted to $348,000 (2014: $381,000). There were no Directors' fees outstanding at 31 December 2015 or 31 December 2014.

There is no controlling party.

22. Subsequent events

In January 2016, an indirect subsidiary of the Company entered into a portfolio financing arrangement in the ordinary course of business in the amount of $100 million as described further in the Company's report to shareholders.

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