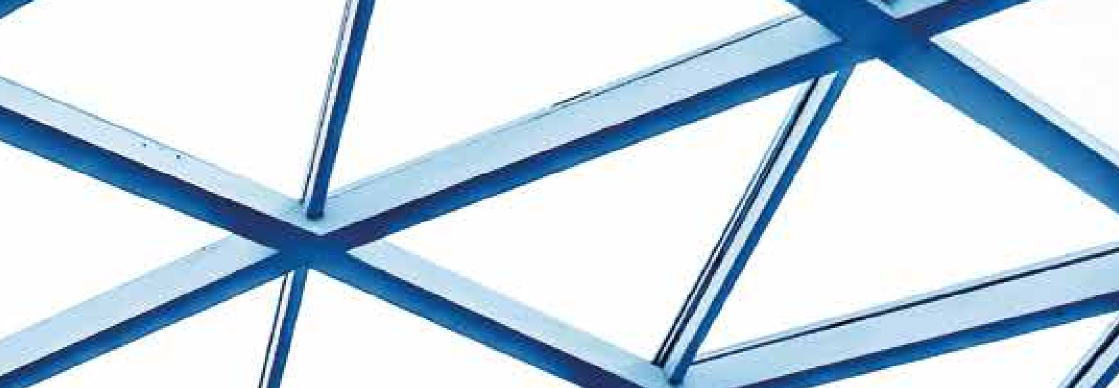

2017

ANNUAL REPORT

Burford

About Burford Capital

Burford Capital is a leading global finance and investment management firm focused on law. Its businesses include litigation finance and risk management, asset recovery and a wide range of legal finance and advisory activities. Burford is publicly traded on the London Stock Exchange, and it works with law firms and clients around the world from its principal offices in New York, London, Chicago and Singapore.

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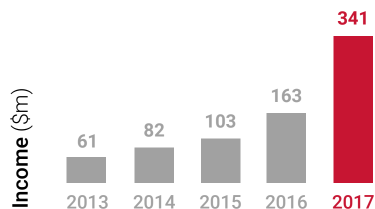
This report is for the use of Burford's public shareholders and does not constitute an offer of any Burford fund.

Full Year Highlights 2017

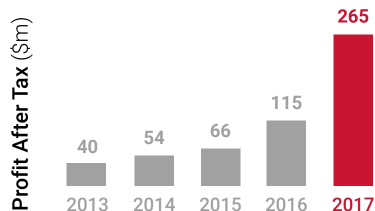
Income up 109% to

$341m



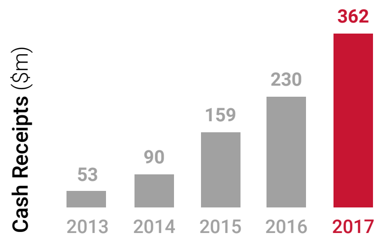
Profit after tax up 130% to

$265m



Cash generation up 57% to

$362m

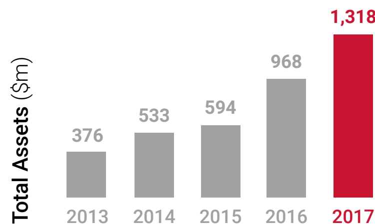


Return on Equity of

37%

Full year dividend up 20% to

11.00¢



Note: As adjusted and defined in each annual report. Please refer to note on page 2 for further details on 2017 figures.

Full audited IFRS consolidated financial statements can be found in the following pages. Below is a summary of Burford's results without third-party interests in consolidated funds. The figures for operating profit, profit before tax and profit after tax also exclude the impact of the amortisation of intangible asset and non-recurring acquisition costs relating to the acquisition of GKC Holdings, LLC and investment banking and brokerage fees and are shown to assist in understanding the underlying performance of the Company. Without these adjustments, reported profit after tax would have been $249.3 million, and the increase over 2016 would have been 129%.

Financial summary

US$'000	2017	2016	% Change
Investment income	$318,234	$140,187	+ 127%
Investment management income	$15,626	$647	
Insurance income	$7,613	$12,923	
New initiatives income	$2,968	$8,849	
Other income	($3,199)	$797	
Total income*	**$341,242**	**$163,403**	**+ 109%**
Operating expenses – investments	($33,540)	($26,017)	
Operating expenses – investment management	($7,159)	($443)	
Operating expenses – insurance	($2,001)	($1,696)	
Operating expenses – new initiatives	($2,271)	($4,895)	
Operating expenses – corporate	($7,298)	($5,975)	
Operating profit*	**$288,973**	**$124,377**	**+ 132%**
Finance costs	($24,251)	($14,108)	
Profit before tax*	**$264,722**	**$110,269**	**+ 140%**
Taxation	$123	$4,817	
Profit after tax*	**$264,845**	**$115,086**	**+ 130%**

* Income, operating profit, profit before tax and profit after tax exclude the impact of amortisation of intangible asset and non-recurring acquisition costs relating to the acquisition of GKC Holdings, LLC, investment banking and brokerage fees and also exclude third-party interests in consolidated funds. Refer to pages 40 and 41 for a reconciliation to the corresponding amounts reported on a consolidated IFRS basis.

Our volume of new commitments in 2017 – $1.34 billion, more than triple the 2016 level and more than 30x the level in 2013, only four years ago – shows that what was once a novel concept is now mainstream.

Introduction

Burford emerged in 2009 from the ashes of the global financial crisis to meet nascent demand from corporate clients for financial alternatives to conventional law firm economic arrangements. Little did we imagine that less than nine years later we would have become a global commercial finance enterprise, committing more than $1.3 billion to new investments in a single year from offices spanning the globe with more than $3.3 billion invested and available for investment.

What we did know was that the legal industry was sorely in need of a financial revolution. Although law firms account for hundreds of billions of dollars of direct economic activity every year, and trillions of dollars of indirect activity, the legal sector has traditionally operated with an antiquated approach to capital, generally eschewing it and running large, highly profitable businesses on a pure cash basis. And corporate clients, beleaguered by ever-increasing spending burdens for regulatory compliance and litigation, have a desperate need for the kind of financial alternatives commonplace in other aspects of their businesses.

Burford provides those financial alternatives through an ever-growing range of products and services, all of which build on our core competency, the assessment of legal and regulatory risk as applied to investment assets. This is our entire business; we have remained true to our core principles and maintained a relentless focus on execution. Indeed, we surely sacrifice some growth given our focus on profitability and quality, and we believe that is the prudent course as stewards of investor capital. Moreover, Burford makes a positive social and economic contribution by ameliorating the negative effects of litigation risk and expense on productive business activity and on the civil justice system.

While we have always been confident about the market opportunity, law is a conservative sector that embraces change slowly. It has thus taken some years to move what were novel concepts into the legal mainstream. Our volume of new business in 2017 – $1.34 billion in new commitments, more than triple the 2016 level of $378 million and more than 30x the level in 2013, only four years ago – shows that this move to the mainstream has now occurred.

Investors are also taking note of Burford's consistent financial performance and attractive, uncorrelated investment returns, which are generated through its legal and financial underwriting acumen. This business can seem esoteric to investors, primarily because investors lack not just exposure to legal finance but generally to the legal industry altogether. Burford is not just the only listed legal finance firm of scale, it is also virtually the only way to invest publicly in the legal sector as a whole. The past year saw yet more investors focusing on the opportunity here. Our share price doubled in 2017 and we created more than $1.5 billion in shareholder value. A shareholder who purchased our stock at our IPO in 2009, a bit more than eight years ago, will have enjoyed 1250% in total shareholder return through the end of 2017 on that initial investment, a 37% annualised return.

Continued

Our financial performance[1] – which for the most part reflects the outcomes of investment decisions made years ago – continues to be robust, and to increase alongside our larger investment portfolio. This is an important point: Our income predominantly comes from the performance of investments made in prior periods. Virtually none of our 2017 income came from investments made in 2017, and thus we are not seeing today the income potentially associated with the higher volume of new investments made this year.

- Our income rose 109% to $341 million, and our profit after tax rose 130% to $265 million
  - Realised gains from investments also more than doubled
  - 20 different investments contributed to 2017's realised gains
  - Unrealised gains remained generally consistent with prior year levels at 53% of income (2016: 54%) and 36% of investments (2016: 31%)
- We generated $362 million in cash, more than 1.5x the prior year's level (2016: $230 million)
- Our total assets rose to $1.3 billion (2016: $968 million)
- Our operating expenses declined sharply as a percentage of income, to 15.3% (2016: 23.9%)
- Our return on equity rose to 37.4% (2016: 21.1%)

Our 2017 results were generated by a combination of a couple of large cases and a significant number of more moderate successes, with 20 investments reporting realised gains. Rather than being unusual or exceptional, this is the nature of our business. Most litigation matters settle, and settlements produce nice returns, while our best returns come from cases that go to trial and win. Cases that produce large returns for us at trial could easily have settled and produced only moderate returns (and vice versa). Part of the secret of litigation investing is having a large, diversified portfolio so that we always have some cases going to trial, with the potential of high returns but the presence of binary risk of complete loss, while benefiting from the tendency of matters to settle and produce desirable returns from the majority of the portfolio without litigation risk.

There is no reason to believe that we will not regularly have outsize successes from those cases that do go to trial and it is simply not correct to treat large gains in this business as being extraordinary.

Moreover, while much is sometimes made of the Petersen investment (discussed below) because of its size, Burford's financial performance is the product of many investments. Although Petersen was certainly a rewarding addition to a successful year, Burford would have posted a robust, record-breaking year without it. Our approach to valuations and our level of unrealised gain remained generally consistent with the prior year, with unrealised gain making up 53% of 2017 income (2016: 54%) and 36% of investment value (2016: 31%). Indeed, the recently announced sale of our Teinver investment for $107 million, a 736% return on invested capital, further supports Burford's approach to valuation. We discuss the question of valuation and unrealised gain later in this report.

While the business satisfies some of its capital needs from reinvesting the considerable amount of cash we are generating, strong demand is causing us to continue to add incremental capital. We have done so through two new bond issues, one in June 2017 for £175 million and one in February 2018 for $180 million (the first-ever US-Dollar-denominated bond offering on the LSE's ORB with the tightest pricing we have ever been able to command, 349 basis points over the US Treasury security of comparable maturity). We also raised a new $500 million private investment fund in June 2017 and we anticipate exploring further investment fund capital raising in 2018. We continue to have low relative leverage levels: Even including our new February 2018 bond our net debt/equity ratio would have stood at 0.46x at year end. We generated cash in 2017 sufficient to cover our debt service costs by 12x. While we don't believe in high levels of leverage, there is clearly room for additional capital from both bonds and investment funds in order to finance growth.

1 Unless otherwise specifically indicated, financial and operational data provided throughout this report is as at 31 December 2017 or for the 2017 fiscal year. Financial statement data generally exclude the impact of amortisation of intangible asset and non-recurring acquisition costs relating to the acquisition of GKC Holdings, LLC, investment banking and brokerage fees and also exclude third-party interests in consolidated funds and are shown to assist in understanding the underlying performance of the Company. Without those adjustments, profit after tax would have been $249.3 million, and the increase over 2016 would have been 129%. A reconciliation is provided on pages 40 and 41 and also in Note 21 to the consolidated financial statements.

We continue to grow our infrastructure to meet demand. We added 23 new employees in 2017, bringing our team to more than 90 people at the end of the year, more than 40 of whom are experienced lawyers. We had our first full year of operation with our Chicago office supplementing our New York and London presence (along with individual people located in Washington, Boston, Texas and California), and late in 2017 we opened an office in Singapore. We are proud of the diversity of our workforce, with 16 women in positions of Vice President or above, more than one-third of our senior team.

In recognition of a strong year and consistent with our dividend policy, the Board is recommending an increased final dividend of 7.95 cents per share, taking the full year dividend to 11.0 cents per share (a 20% increase over last year). We have increased our dividend every year of our short history. Our approach to dividend growth is an attempt to balance the desire of some shareholders for increased dividend income with the opportunity to reinvest profits in the business at desirable returns.

We receive a good deal of positive commentary on our annual report, in which we endeavor to present the business comprehensively, and we always welcome feedback. We are aware that the growth and increased complexity of the business has elongated our narrative, and to assist with navigating what is now quite a lengthy report we have added some key takeaway bullet points at the beginning of most sections that are qualified by the text that follows them.

Buford's core business[2]

Turning the corner into the mainstream

- Significant growth and performance in the core business
- Market research points to rapid rates of continuing growth and adoption
- Media attention corroborates market research

Our core business is the application of capital and specialised expertise to legal claims and assets. We consider the asset value of claims, or the potential impact of other legal or regulatory circumstances, and we invest capital or provide other services to corporate clients and law firms based on that assessment.

Key metrics[3] for our core balance sheet business – not including our significant investment funds – include:

- Portfolio investment returns (net of losses but before operating expenses) of 31% internal rate of return ("IRR") and 75% return on invested capital ("ROIC") on $773 million of investment recoveries to date, with 2017 performance causing those returns to increase from their 2016 levels of 27% IRR and 60% ROIC
- Current investment portfolio of $1.5 billion, comprised of $982 million in balance sheet assets plus a further $564 million in undrawn commitments (2016: $850 million total; $560 million in assets and $290 million in undrawn commitments)
- Widely diversified portfolio with 82 separate investments and 877 underlying claims (2016: 64 separate investments and 811 underlying claims, respectively)
- New commitments to investments in 2017 of $698 million (2016: $378 million), plus a further $645 million in investment fund commitments for a total of $1.34 billion
- Cash receipts from investments of $336 million in 2017 (2016: $203 million)

2 While much of the commentary in this section may apply equally to the investments we make in our private investment funds, the numbers in this section relate only to investments we make with capital from Burford's balance sheet unless otherwise noted. Also, Burford had a small law firm lending business for a time, originally presented as part of our new initiatives segment and later transferred to our core business. That business made total investments of $28.1 million before it ceased writing new business (and all but one of its investments have now resolved in full and profitably). In general, to give as clear a picture as possible of the core business, we do not include the lending business in our reporting of the core business. However, because the lending numbers do now sit in the core business for financial statement reporting, we include them in numbers drawn from the financial statements to avoid confusion about the numbers in this section not matching to our financial statements. The lending business was not financially material to Burford.

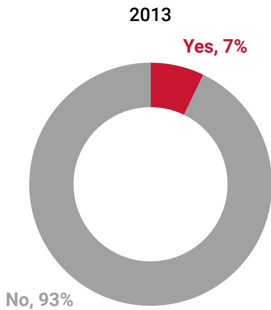
3 Defined and discussed further below.

Continued

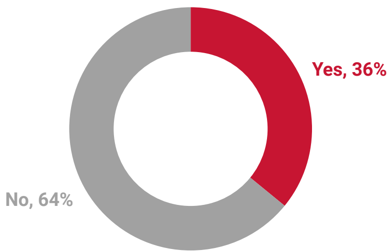
After a period of early adoption, we believe legal finance has entered the mainstream of the legal sector, showing dramatic growth in a few short years with considerable growth still to come as demonstrated by Burford's annual independent market research.

Market research: Reported use of litigation finance by US law firms

2013



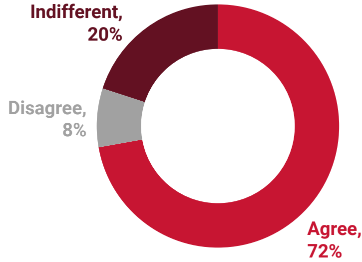
2017



Source: Burford 2017 Litigation Finance Survey

Market research: Litigation finance is growing and increasingly important

Law firm & corporate respondents



Source: Burford 2017 Litigation Finance Survey

The media provides another window into the growth and evolution of legal finance. The number of press stories written about litigation finance in 2017 alone nearly equaled the total number of press stories written on the subject in the preceding seven years together. The trend is continuing: the number of press stories in January and February 2018 is already well over half of the total volume of 2017 coverage. We truly have turned a corner.

In addition to raw growth, we have also seen enormous evolution in the business. We have always had a robust and profitable business around financing single litigation cases – "litigation funding", in the vernacular – and that business continues to be significant in absolute terms. In 2017, between the balance sheet and our investment funds, we made around $75 million in new single case investment commitments.

However, other forms of legal finance have grown so quickly that single case finance accounted for quite a small proportion, around 5%, of our new investment commitments in 2017. Considerable detail about the composition of our portfolio and our new business is contained in the pages that follow.

We provide an extensive financial review of the business in this section, but first we start by presenting the business at a macro level, including comments on the market, competition and global growth. We will then turn to specifics about Burford's performance and existing portfolio.

Key elements of the legal finance business

The trend towards multi-case portfolios and complex structures

- Trend towards reducing binary risk continues
- Multi-case portfolio loss rate of 3% vs single case loss rate of 19%
- Multi-case portfolios generating higher net returns with capital pricing more attractive to clients
- Single case finance remains important and Burford remains the market leader in single case finance – and we have generated 54% ROICs on single case investments

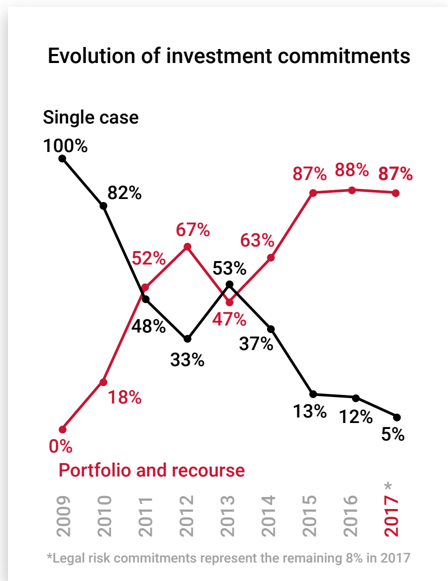
The largest trend in our business is the move to investment transactions that reduce the risk of binary loss associated with litigation investing. Today, the considerable majority of our new investments are in structures where the loss of a single litigation matter will not cause the complete loss of our invested capital.

The simple rationale for this evolution lies in the impact of binary loss on capital pricing. We are experts in the evaluation of litigation risk, but litigation is an inherently high-risk and unpredictable process with a high degree of idiosyncratic variability in outcome. In other words, while we do a considerably better job of predicting outcomes (and thus making investment decisions) than would occur in a passive pool of litigation risk, some number of cases will nonetheless inevitably go against us. That is the nature of litigation and the reason so many cases settle rather than take the risk of trial: there are no 90% odds in litigation, even with the strongest case and the best lawyer. Of all the single cases we have financed, 19% of concluded cases have been complete losses on a dollar-weighted basis, which we believe to be a considerably lower loss rate than in adjudicated litigation generally.

Thus, in order to produce acceptable returns across our portfolio and to absorb the cost of the losses we will experience, we need to charge quite a lot for single case capital, and that pricing is unattractive to some proportion of clients. To put numbers around this, our single case portfolio has over time produced 54% returns on invested capital (net of the impact of losses), but to achieve those results and also to overcome the impact of unsuccessful matters, the weighted average return on invested capital on successful matters has needed to be 90%, which obviously discourages some potential clients.

Continued

The most effective way to reduce the price of our capital is to reduce the risk of loss, and clients are enthusiastic about structures that moderate that risk in exchange for lower pricing. As a result, our business has evolved significantly towards multi-claim portfolios and other complex structures that are more capital protective in various ways. As an example of the rate of change in our business, only around 5% of our new investment commitments in 2017 were in single-case litigation matters. In 2009, that number would have been 100%, and even last year, in 2016, it was 12%. This change has allowed us simultaneously to decrease our portfolio risk (our loss rate using the same methodology as above for investments other than single cases is 3%, dramatically lower than for single cases), deploy considerably more capital than would have been possible if we had focused predominantly on single cases given increased transaction sizes and operating efficiencies, and still produce desirable returns. Indeed, our returns (net of losses) on multi-claim portfolios are presently higher than our returns on single cases.



We hasten to add that even as single-case financing represents a lower percentage of our total commitments, we believe Burford still leads the single-case market. There is still – and will always be – demand for financing the costs of single litigation matters, where clients who are either unwilling or unable to pay legal fees seek a third-party capital solution to do so on their behalf. Many such clients are structurally challenged when it comes to meeting legal fees, such as fund managers wanting to bring claims against fraudulent investees or insolvencies that have distributed out their remaining assets to creditors. There are also litigants whose size, liquidity or capital spending priorities lead them to seek external financing for single matters. Moreover, financing a single case is in many instances the entry level product in our business, the first step in establishing a new relationship with a law firm or a corporate counterparty. By building those relationships, Burford sets the stage to be the provider of choice of a range of products and services that meet the needs of as wide a swath of the legal sector as possible.

The addressable market

- Difficult to size market but very large and thinly addressed to date
- Market data suggest dramatic growth in usage (5x increase since 2013)
- Survey data point to significant continuing growth

We are regularly asked about the size of our potential or addressable market. This is an unanswerable question at this stage of the development of this industry. It is like asking what the addressable market was for iPhones in 2007 – the answer was most of the world's population, but that answer didn't help anyone.

The challenge is distilling the global pool of legal fee spending and claim value – which is almost unimaginably enormous – into the portion of that pool that is theoretically addressable by us, and doing so without history to guide us. We do know that each year (i) vast amounts of money – hundreds of billions of dollars – are spent globally on legal fees and (ii) vast numbers – probably millions – of litigation claims and other matters involving legal or regulatory risk come into being and that hundreds of billions if not trillions of dollars change hands in resolving those claims. But we have no data to enable us to project what proportion of the total legal pie we and our competitors could occupy in the future except to say that we are not worried about market saturation – quite the opposite.

Our business today is much more than financing legal fees; a significant portion of our investments look just to the underlying claim asset value, and legal fee spending is irrelevant. Thus, the relevant addressable market from our perspective is what we believe to be the trillion-dollar or greater annual payment of litigation resolutions.

To add a further dimension to this discussion, and also for the collateral purpose of illustrating market growth and penetration to our client base, for a number of years running we have commissioned third-party research into the industry (available on our website). That research confirms our hypothesis that we remain at a relatively early stage of market adoption as the business turns the corner into the mainstream:

- The number of US private practice lawyers who said their firms have used litigation finance directly grew five-fold from 2013 to 2017, from 7% to 36%, but significant upside remains at firms that have not yet used litigation finance and (because an innovation by one partner may move slowly to colleagues at the firm) among the many still inexperienced litigators at firms that have
- A clear majority – 72% of respondents – agree that litigation finance is a growing and increasingly important area in the business of law
- Indeed, 76% of in-house lawyers predict that litigation finance will continue to grow
- Portfolio financing remains in its relative infancy, with only 31% of litigation finance users having done a portfolio financing transaction compared with 88% for single cases

Competition and barriers to entry

- Burford leads what has always been a competitive market
- At least 11 $100+ million firms have been competing for at least four years
- Multiple factors protect from naked price competition
- Significant barriers to entry exist including scale, data, relationships and people

Another common question we are asked by investors is about competition: Won't your returns attract competition, and won't that competition inevitably drive down returns?

In fact, we operate in what has always been a competitive marketplace. Burford has grown by besting its competition. We were not the first mover in this market and we have always faced robust competition. That competition is not very visible to investors given that Burford is the only listed player of scale in this industry and our largest competitors are structured as private investment funds. Indeed, there are at least 11 firms competing directly with us, each of which has at least $100 million in capital and has been operating for at least four years, with many of them having longevity similar to Burford's.

So, we have in fact been producing our historical returns in the face of substantial competition. Furthermore, a number of factors insulate our business from naked price competition, which should provide some level of confidence in our ability to continue to produce desirable returns:

- *Law in general is not a price-sensitive commodity:* Particularly at the high end of the corporate market, where Burford focuses, law is not generally a commodity product, and lawyers and clients put value on relationships, reputation, pedigree and other factors that weigh in Burford's favour.
- *The extensive diligence process is inconsistent with auction-style processes:* Setting a price in a litigation finance matter requires substantial diligence, including extensive (often unpaid) work from the client's lawyers, and thus the market does not regularly have auction-style competition for investments as neither litigation finance providers nor lawyers are generally willing to spend the uncompensated time necessary to facilitate such a process. Moreover, lawyers' confidential work product (which is important to the diligence process) cannot be widely disseminated without putting its protection at risk.
- *Contingency fee pricing is a useful reference:* The relatively high pricing offered by contingency fee law firms operating in an adjacent but related space can create a benchmark or expectancy divorced from conventional capital market expectations and has remained relatively constant over time.
- *Scale matters:* Our size and expertise are unmatched which gives us a unique ability to serve our clients. While there are other large pools of capital out there, none has our expertise when it comes to litigation evaluation and management, and our competitors with litigation expertise lack anything approaching our capital and scale.

Continued

- *We avoid commoditising our capital:* Litigation finance is not just about capital; Burford provides a host of non-financial benefits to law firms and clients who do business with it.
- *Discounting will depress promised returns:* The legal finance business is capital intensive and participants need to raise capital to compete and grow. The providers of that capital can see Burford's publicly disclosed returns, and sensibly demand comparable returns from new entrants. Thus, discounting to achieve volume will result in relative underperformance for those entrants, which will in turn lead to investor unhappiness and the refusal to advance incremental capital. As such, other players have every incentive to emulate Burford's returns and not try to undercut them.

We are not naive about competition nor do we suggest that price competition will not intensify. And indeed, given our low cost of capital and strong balance sheet, it might be in our long-term interest to take the lead in such competition. But we also believe that we are a considerable distance away from capital being a price-based commodity in this sector, if indeed that ever occurs.

Moreover, there are considerable barriers to entry in this industry – which explains the paucity of large-scale new entry into this market in the last several years:

- *Significant capital required:* A significant pool of capital is necessary to achieve portfolio diversification – $100 million would be very much at the low end, and considerably more would be desirable. Burford raised $300 million during its first year in operation. Entering with a small first fund is simply too risky for investors. This is a significant barrier to entry, as most potential entrants lack the track record and experience to be able to convince investors to provide such a large pool of capital for a first-time team, and it is notable that the bulk of the market is occupied by incumbents who have been in existence for a number of years. Moreover, while entry may be theoretically possible at the $100 million level, Burford's vastly larger capital resources give it an enormous advantage, especially with average transaction sizes on the rise.
- *Relationships matter:* Relationships can be sticky in this business, and Burford has established strong relationships over its long history. For example, we have worked with 88% of the AmLaw 100 (the 100 largest law firms in the US by revenue) and 70 of those firms approached us to do business just in 2017.
- *Pure-play firms dominate:* As a general matter, litigation finance investing tends to occur in pure-play specialist firms (like Burford) that do not provide other kinds of corporate financing, or in funds dedicated to a litigation strategy. Much as we view litigation dispassionately as a financial asset, there is nonetheless emotion associated with litigation, even at a corporate level, and businesses with activities in other parts of the financial services market generally find that the relationship downside of financing corporate litigation to be harmful to their other lines of business, sharply limiting the universe of potential entrants.
- *Large, expensive teams:* This is not a business for dabblers; successful financiers need significant teams of experienced and expensive people to make high quality investment decisions. Burford's investment committee has more than 250 years of collective litigation experience. Assembling such a team is a challenging undertaking when combined with the difficulty of raising a significant pool of capital for a first-time venture.
- *Proprietary data and systems:* Burford has been in this business for almost a decade and has reviewed many thousands of potential investments. We have what we believe is an unmatched and substantial proprietary dataset that we use to assist in our investment decisions. We also have developed bespoke risk assessment and risk management systems that use our data and our experience in our underwriting and investment management process.
- *Absence of liquidity and secondary market:* The absence of liquidity and a secondary market against which to mark position value makes this a complicated proposition for many hedge funds which need to contend with redeemable capital structures.

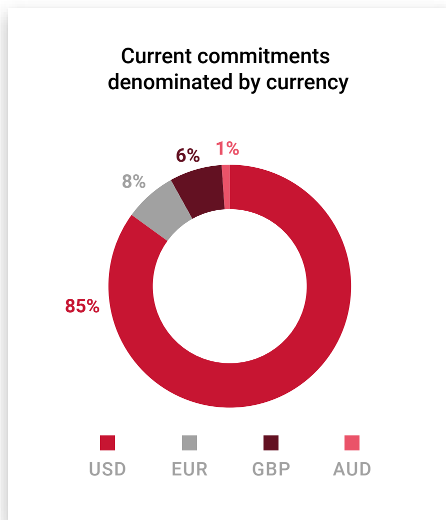
Despite those daunting barriers to entry, our view remains that the potential market for litigation finance remains thinly penetrated at present, and that the addition of competitors (on the occasions when they do appear) and their incremental marketing and visibility serve to expand the active market more than to introduce competition for existing market opportunities.

Geographic activity

- US remains our largest market and US Dollars our largest exposure
- Global expansion ongoing with Burford active all over the world
- Asia opening in 2017 is reason for longer term optimism

Burford has always invested capital in connection with litigation matters pending in any English-language common law jurisdiction. Our largest jurisdiction measured by the location of cases is the US but we are also active in many other markets, such as the UK, Australia, Canada, Singapore, the Cayman Islands, the British Virgin Islands and others. We also have a robust international arbitration practice and are active in specialty areas of law in Brazil, Germany and some other smaller markets. We generally do not participate in investments in jurisdictions where we lack substantive assessment ability; for example, we would not finance Japanese litigation in the Japanese courts, although we would finance Japanese clients in US courts.

As a result, it is difficult to categorise our investments by geography as many of our investments are either transnational or offer multiple paths to a potential resolution, often in different fora. However, looking to currency, although our clients are from all over the world, the business remains heavily US Dollar-weighted between US litigation and transnational matters denominated in USD.[4]



While our business continues to expand globally every year, 2017 brought a particular focus on Asia. Until 2017, both Hong Kong and Singapore had prohibited litigation finance (except in insolvency), and indeed any form of risk-based litigation activity, including lawyers taking risk on their own fees. However, following significant education and lobbying by Burford, both jurisdictions passed legislation in 2017 that enabled litigation finance for arbitration. Notably, they did not expand their tolerance for risk-based litigation beyond litigation financiers, so lawyers remain prohibited from taking on risk; the only way for a client to achieve a risk-based arrangement is with a litigation finance firm.

4 This chart does not capture all of the currency risk to which the business is subject and is not intended to do so; it merely shows the currency in which our investment contracts are written. While generally our returns are computed based on that contractual currency, so that if we advance US Dollars we are entitled to be repaid in US dollars, the underlying litigation may expose us to currency risk. For example, if we finance an arbitration claim in which the underlying damages will be assessed by the court in local currency and if that currency devalues against the US Dollar during the course of our investment, our share of the underlying recovery would be worth less in US Dollars (and we do not generally hedge that risk because of the uncertainty both of outcome and timing of the underlying adjudication). However, we are often entitled to recover our principal in the contractual currency regardless of underlying currency movements, so while the currency movement could reduce (or increase) our profits, it would be less likely to affect the recovery of our US Dollar principal.

Continued

This presents an interesting greenfield market opportunity, to which Burford has responded by opening an office in Singapore and expanding its presence in the region. We also announced Burford's financing of the first-ever Singapore-seated arbitration funded by a third-party finance provider following adoption of the new legislation. At present, we would characterise the region as having significant curiosity but little expertise in financing transactions, leading to quite a long road ahead to build a significant business. However, we are optimistic about the long-term future for Burford in Asia. It is an area to which we intend to devote resources over the next few years despite it being unlikely that we will see substantial immediate financial benefit.

More broadly, it is fascinating to watch – and participate in – the spread of the concept of legal finance around the globe. We are regularly approached by clients, law firms and potential partners across a wide range of jurisdictions. We continue to believe that we stand at the forefront of a global revolution in the provision of legal services.

Principal investing

- Burford expanding its principal investing activities alongside its client-facing financing

We are increasingly interested in investing in litigation risk as a principal, and we have created a dedicated function that engages in principal investing. Principal investing permits us to exercise more control over litigation outcomes than we are permitted to exercise as a financier. We raised a new $500 million investment fund during 2017 to focus on one particular principal strategy, but we anticipate pursuing others as well, with both balance sheet and incremental fund capital.

Fundamentally, our principal investing strategies consist of taking a position in an underlying asset as to which there will be a litigation claim. Our position as an owner of the asset permits us to act as a principal in the ensuing litigation or to be a direct beneficiary of its results, as opposed to our core business in which a client stands between us and the litigation outcome.

An example of such a strategy would be in connection with a business that has been the victim of corporate fraud and where the debtholders have seen the value of the company's bonds decline as a result. Those debtholders may now have a claim against the perpetrator of the fraud, and by purchasing a position in the bonds, Burford could become entitled to assert that claim. The distinction between Burford's approach as opposed to a more conventional distressed-debt approach is that we would look to the litigation outcome as the principal source of our value as opposed to relying on trading in the bonds.

Our principal investing strategies are proprietary and we expect to be circumspect around disclosure of their details for competitive reasons and due to litigation sensitivity.

We envision continuing to grow and expand this area of our business.

Portfolio performance and composition

Just as we did last year, we highlight three fundamental data points for Burford's core business:

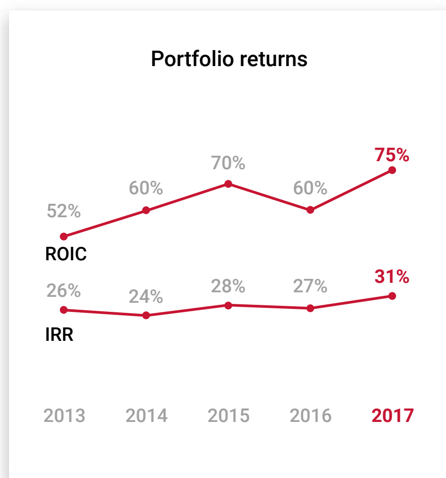
- Burford's performance across investments that have concluded
- Burford's presently outstanding litigation investment portfolio
- Burford's commitments to new investments

We examine each in turn.

It bears mentioning that this section of our reporting is on an actual returns basis, without reference to IFRS. In other words, this is an independent way of looking at our business; it does not build on our IFRS reporting but stands entirely separate from it. We do not take the view that one approach is better than another, but rather want to give investors the opportunity to see our business through two different lenses – IFRS and a more cash-based approach.

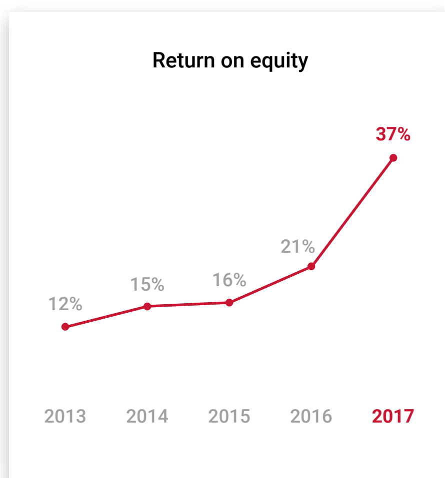
Performance of concluded investments[5]

- $773 million of concluded investments have now produced 75% ROIC and 31% IRR
- Return on equity jumped to 37%
- Weighted average duration of the portfolio fell to 1.5 years
- Deployments continued at historical levels – 83% of commitments deployed
- Receivables balance fell sharply as collections increased significantly
- Cash receipts rose to $336 million (2016: $203 million) enabling reinvestment



Burford has demonstrated consistently strong historical investment performance and enjoys a robust and substantial track record. IRR and ROIC performance (net of losses but before operating expenses) are shown below.[6] Those performance figures have been generated across what is now more than $773 million in investment recoveries. While there remains some risk of period-to-period levels of volatility, Burford's increasing scale mitigates that risk to a considerable extent.

While we publish this return information for the information of investors, we are more focused on our return on equity, which we regard as the best metric for this business as it includes the impact of operating costs, which the returns above exclude. As Burford matures and as its portfolio returns ramp up, Burford's return on equity has been rising (although we do not consider the 2017 level as run rate), and for us it is clearly a key performance metric.



5 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.

6 We compute IRRs by treating our entire investment portfolio (or, when noted, a subset thereof) as one undifferentiated pool of capital and measuring inflows and outflows from that pool. IRRs are computed only as to concluded investments and do not include unrealised gains or losses. The alternative approach to computing IRRs that is also used in our industry is to compute IRRs on individual investment outcomes and then to express portfolio-wide IRRs on a weighted average (or even a simple average) basis. Were we to use this alternative method our IRRs would be considerably higher than reported here (by orders of magnitude) due to the greater impact of some very high IRR resolutions from successful investments of short duration. For example, we have one investment where the IRR was 1,497,414%, which alone would skew our returns on that alternative calculation basis. Investors comparing Burford's performance to its competitors should ensure that they are comparing returns on an apples-to-apples basis.

Continued

Nevertheless, we realise that investors would like as much visibility as possible into investment returns so they can form their own views about the portfolio and our future prospects. We have historically published a chart of individual investment returns. That chart has become too large to publish here and we began last year providing it only on our website; we have updated it there today with data for 2017. However, it has also become increasingly difficult for us to fit different types of investments into that consistent reporting format. For example, when we close a multi-case, complex portfolio arrangement, we may well be embarking on a number of years of capital flows that are essentially revolving and include flows originally attributable to one matter in the portfolio potentially moving to other matters, making it difficult to fit within our historical reporting approach. While we have some question about the utility of that chart in a world where only around 5% of our new investments are in single cases, we are continuing to make the individual line item chart data available, although we continue to consider ways of evolving our reporting and welcome investor feedback.

We have been engaged in a continuous process of expanding our disclosure based on that investor feedback, and last year for the first time we provided a summary of the portfolio's performance by vintage, including providing information about the division between fully and partially concluded matters, with more detail about ongoing matters. We again provide that presentation on the next page. We repeat our caution about reading anything into the early returns in recent vintages; early settlements can have quite silly IRRs and, like wine, vintages need more maturity before judgements should be made about them. At the same time, we would remind readers that we do not include matters here until they are partially or fully concluded, so this table would not, for example, include our significant win (more than $100 million in current entitlement on a $13 million investment) in the 2010 Teinver matter this past summer as it has not yet reached the end of the litigation process; that outcome would obviously alter the 2010 vintage's currently tepid returns.

Investment performance

$ in millions	# of investments	Total commitments	Total invested	Total recovered	ROIC	IRR
Concluded	3	$11.5	$11.5	$40.1	**251%**	**32%**
Partial realisation	–	–	–	–		
Ongoing	–	–	–	–		
2009 vintage total	**3**	**$11.5**	**$11.5**	**$40.1**		
Concluded	12	$70.5	$57.8	$75.6	**31%**	**10%**
Partial realisation	–	–	–	–		
Ongoing	4	$44.8	$44.8	–		
2010 vintage total	**16**	**$115.3**	**$102.6**	**$75.6**		
Concluded	9	$78.9	$55.9	$85.3	**51%**	**16%**
Partial realisation	1	$15.6	$15.8	$1.4		
Ongoing	4	$28.1	$23.7	–		
2011 vintage total	**14**	**$122.6**	**$95.4**	**$86.7**		
Concluded	8	$61.5	$56.7	$119.4	**110%**	**42%**
Partial realisation	–	–	–	–		
Ongoing	1	$2.0	$0.5	–		
2012 vintage total	**9**	**$63.5**	**$57.2**	**$119.4**		
Concluded	8	$20.8	$19.7	$25.0	**30%**	**22%**
Partial realisation	2	$3.5	$3.5	$2.1		
Ongoing	2	$13.6	$10.1	–		
2013 vintage total	**12**	**$37.9**	**$33.3**	**$27.1**		
Concluded	11	$61.8	$43.3	$63.6	**61%**	**57%**
Partial realisation	4	$47.8	$33.2	$22.2		
Ongoing	8	$53.1	$38.8	–		
2014 vintage total	**23**	**$162.7**	**$115.3**	**$85.8**		
Concluded	7	$68.2	$55.5	$62.9	**183%**	**205%**
Partial realisation	3	$44.5	$21.1	$107.6		
Ongoing	7	$80.5	$41.0	–		
2015 vintage total	**17**	**$193.2**	**$117.6**	**$170.5**		
Concluded	3	$12.4	$12.4	$18.3	**36%**	**36%**
Partial realisation	4	$155.9	$151.8	$136.1		
Ongoing	13	$185.0	$59.6	–		
2016 vintage total*	**20**	**$353.3**	**$223.8**	**$154.4**		
Concluded	–	–	–	–	**13%**	**250%**
Partial realisation	1	$160.4	$163.9	$13.1		
Ongoing	28	$537.4	$151.0	–		
2017 vintage total	**29**	**$697.8**	**$314.9**	**$13.1**		
Total investment recoveries to date	**61**	**$515.6**	**$442.8**	**$772.7**	**75%**	**31%**
Total ongoing investments	**82**	**$1,242.2**	**$628.8**	**–**		

* An investment initially closed in 2016 has been rolled into a portfolio investment in 2017

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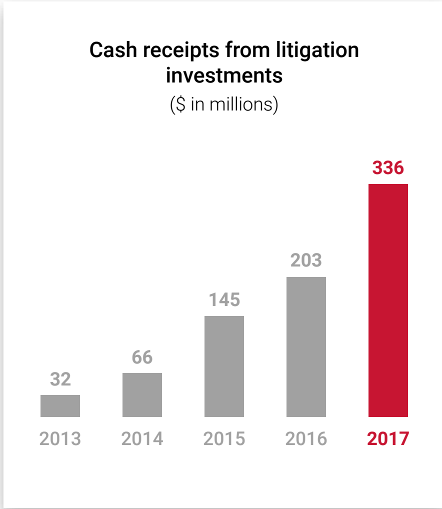
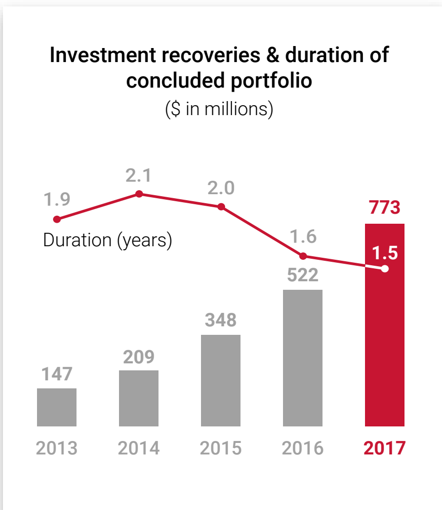
In 2017 we saw a further acceleration of cash from investment recoveries to record-breaking levels.

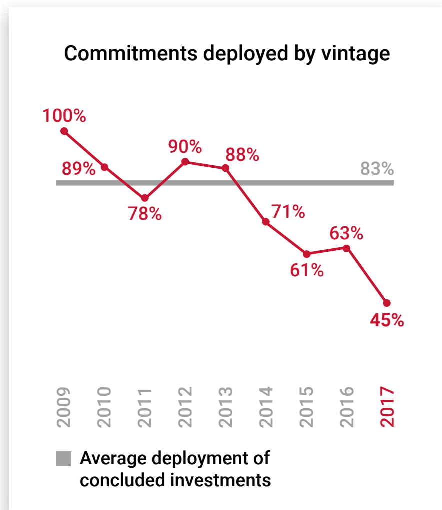


We think of the weighted average duration of the concluded portfolio as being around two years, which is consistent with our view of the average length of a litigation matter when settlement is taken into account. Last year, that duration fell to 1.6 years and this year the weighted average has fallen still further, to 1.5 years, but we are still not prepared to suggest that is a trend in the business. Nonetheless, it is clear that this is not a long duration asset class.



We have commented before on the manner in which our capital flows to investments. When we enter into an investment transaction, we set out the maximum amount of capital we will provide in connection with that investment. (We do not enter into open-ended commitments, such as an agreement to pay all of the legal fees associated with a matter; rather, we enter into finite financing arrangements.) In some instances, all of our capital is deployed immediately, such as when we are buying an award or monetising a position. In others, our capital flows out over time, typically as the underlying litigation matter needs capital to proceed. Given the high settlement rates of litigation, it is inevitable that some of our investments will not draw all of the capital that we have committed to them before they resolve; moreover, in some portfolio investments, the portfolio will never reach the total size to which we have potentially committed.

Historically, we have ended up deploying 83% of the capital we have committed when measured across concluded investments. Unsurprisingly, when examined by vintage, the newer vintages have lower deployment levels which tend to rise over time. This permits, of course, quite a bit of visibility into our capital planning needs which gives us confidence about being able to manage our current level of undrawn commitments.

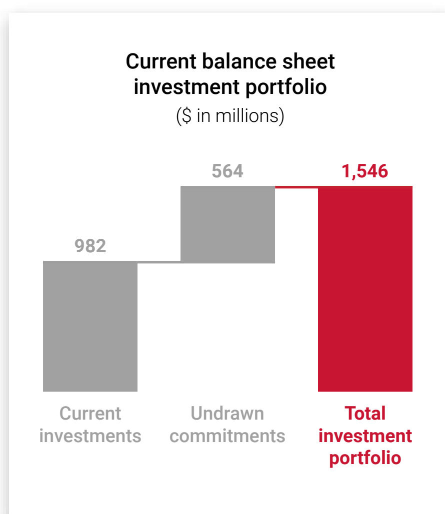


We would also note a significant change in our investment receivables balance. In many cases, a resolution of the underlying litigation is accompanied by a cash payment of our entitlement rapidly thereafter. However, there are some matters that take time to pay, often through agreement with the defendant, and those matters become receivables on our balance sheet. Our long-running and lucrative Arizona real estate matter that we won in 2010 and for which we ultimately received our core payment in 2016, with a 448% ROIC, would have been an example of a litigation receivable. We have an excellent success rate on collecting such receivables; indeed, we have never failed to do so. Moreover, we often garner considerable economic benefit from the delay, as was the case in the real estate matter. This year, however, we saw tremendous collections success, and our receivables balance has fallen to $3.2 million (from $39.4 million at the end of 2016). This is an area to which we devote significant attention and we are pleased with our continuing success.

Current investment portfolio

- Very large and widely diversified investment portfolio – $1.5 billion on balance sheet, $2.4 billion when adding the investment funds
- 877 individual litigation claims underlying balance sheet portfolio
- No concentration – no defendant represents even 5% of total commitments, no single case capital loss would amount to more than 2% of total commitments and our largest law firm relationship accounts for 14% of investments across more than 30 different partners

At the end of 2017, Burford had outstanding investments on our balance sheet of $982 million (2016: $560 million). In addition, we have a further $564 million in undrawn commitments made to existing investments. Thus, our current balance sheet portfolio stands at $1.5 billion in investments and commitments (2016: $850 million) across 82 different investments. When including our fund investments, we have a total of $2.4 billion in investments and commitments. We do not generally include our fund investments in this discussion, but it is useful to understand the total scale of Burford's business, which we believe positions us as one of the largest purchasers of litigation services in the world.



This is obviously a significant expansion of Burford's portfolio.

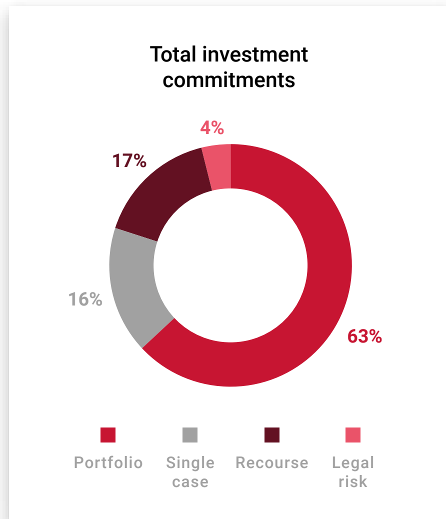
Burford counts each of its contractual relationships as an "investment", although many such relationships are composed of multiple underlying litigation matters that are typically cross-collateralised rather than reliant on the performance of a single matter. So, while Burford has 82 balance sheet "investments", there are now 877 separate claims underlying the investment portfolio (and a single claim may well have multiple paths to a recovery), although some of those claims relate to the same underlying legal theory.

Burford makes investments using a wide range of economic structures. The starting point in a single-case investment is typically an arrangement under which Burford will receive its invested capital back as a first dollar matter followed by some preferred return on that capital along with a share of the ultimate recovery. Even in straightforward investments, the terms agreed will vary widely based on our assessment of the risk and likely duration of the matter as well as the individual needs and preferences of the client. Moreover, the larger or more complex a matter, the more likely it is to have an individually designed transactional structure to fit the needs of the matter, to accommodate what are often multiple parties with economic interests and to align interests and incentivise rational economic behavior. It is impossible to generalise about the financial terms of litigation finance.

Continued

Burford engages in portfolio construction with an eye towards balancing risk and return, managing duration and achieving broad diversification. 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.

At the half-year, Burford began providing incremental granularity around new investment commitments and classifying them in four categories which we discuss below in the context of new investment commitments. We have now classified our total pool of commitments on that basis:



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

- Our investments relate to litigation matters spread across more than 30 US states and countries, and underway in multiple arbitral institutions
- We presently have active investments with more than 40 different law firms – and, last year alone, worked with 70% of the AmLaw 100 (the largest US law firms by revenue) on potential investments
- Even when we have multiple matters with a single law firm, we often work with multiple partners at such firms
- Our claim types run the gamut of complex commercial litigation and arbitration; we don't specialise in any one area of law
- Although we focus on English common law jurisdictions and international arbitration, our clients who bring actions in those fora are located around the world
- There is no capital risk concentration among defendants/respondents in matters we finance for plaintiffs/claimants – none rises to even 5% of our commitments
- We are involved in every stage of claims, from claims where our financing is obtained at the beginning of the matter to matters where judgment has already been obtained and an appeal is pending

While our relationships with law firms are now resulting in some law firms doing a significant amount of repeat business with Burford, that business tends to have its own internal diversification across partners and clients. Our investment with our largest law firm relationship comprises 14% of our balance sheet investments, but that relationship is made up of matters litigated by more than 30 different partners at the firm.

Litigation investing has the benefit of considerable asymmetry, in that potential losses are much smaller than potential recoveries. On a single case basis, the loss of any case would not result in a loss of capital of more than 2% of Burford's total commitments.

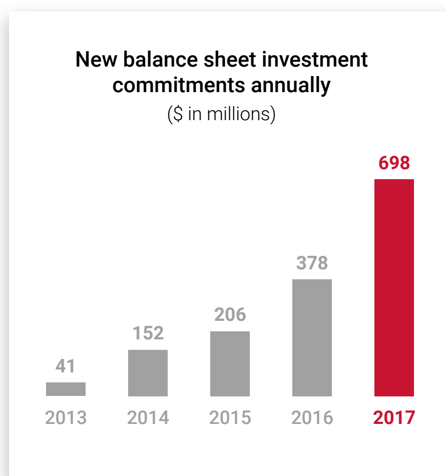
Commitments to new investments

- New commitments rose sharply, to $698 million on balance sheet (2016: $378 million) and $1.34 billion in total
- Average commitment size continued to increase, to $24 million (2016: $18 million)
- Highly selective process – closed 59 investments (fewer than 4%) of 1,561 requests for capital

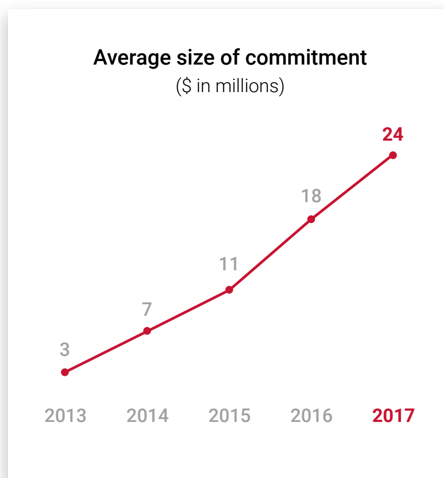
New commitments are a valuable but imperfect leading indicator for our business. New commitments set the business up for future realisations as those commitments turn into (hopefully) profitable investments.

The reason new commitments are an imperfect indicator is that our enthusiasm for committing capital depends on deal structures and terms. When a significant part of our economics in a matter comes from our preferred return on the amount of capital we actually invest, we are clearly incentivised to commit and deploy capital. However, some of our investments take most or even all of their economics from sharing in the outcome on some formulaic basis (e.g., 40% of whatever is recovered). In those instances, our recovery is not related to the amount of our invested capital, and we are instead incentivised to commit as little capital as possible.

In 2017, we saw significant growth in the level of new litigation finance commitments on the balance sheet.



Last year we wondered if large dollar commitments were anomalies. This year, we answered that question with a resounding "no"; indeed, our average commitment size increased from $17.5 million in 2016 to $23.7 million in 2017.



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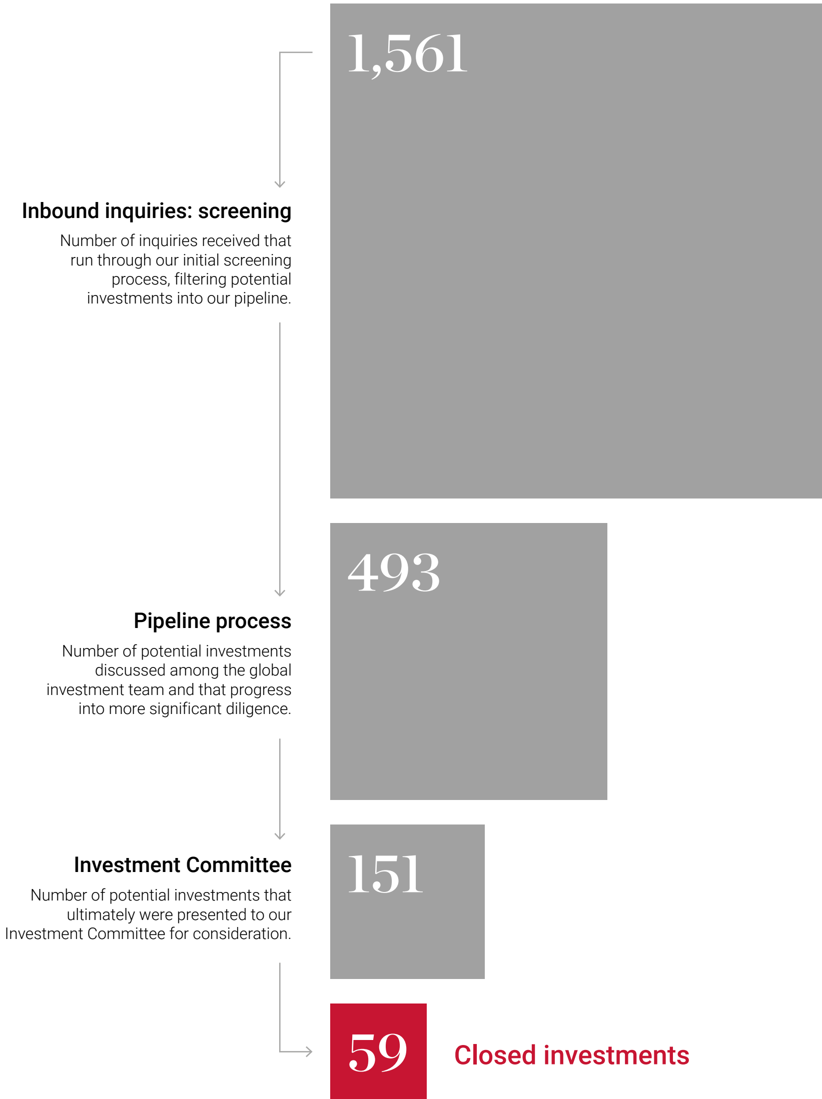
Moreover, we continue to be happy with the diversity, the pricing and the quality of the investments we take on – as well as the rigour and discipline of our investment process. We close only a small minority of the potential investments presented to us – indeed, in 2017, we closed fewer than 4% of the inquiries we received.



Our new 2017 commitments were as follows, shown by category and divided between the balance sheet and our investment funds.

Total 2017 investment commitments: $1.344 billion

$ in millions	Balance sheet commitments		Investment fund commitments	
Investment commitments made during 2017				
Single case finance: Investments subject to binary legal risk – in other words, Burford's traditional litigation finance investments, such as financing the costs of pursuing a single litigation claim	**$34.4**	**5%**	**$38.3**	**6%**
Portfolio finance: Investments with multiple paths to recovery where Burford's returns come entirely from litigation outcomes – in other words, many of Burford's traditional complex and portfolio investments, such as financing a cross-collateralised pool of a client's litigation claims	**$377.8**	**54%**	**$347.7**	**54%**
Recourse finance: Investments in connection with legal claims where Burford has recourse to an underlying asset beyond the legal claim – in other words, investments where Burford would not expect to suffer a complete loss upon failure of the claim, such as the Rurelec investment concluded in 2014 where the bulk of Burford's profits came from an interest in a claim outcome but where Burford expected to recover its principal from Rurelec's assets even if the claim had been unsuccessful	**$226.9**	**33%**	**$248.4**	**38%**
Legal risk management: Investments where Burford is providing some form of legal risk arrangement pursuant to which Burford does not generally expect to deploy capital unless there is a failure of the claim, such as providing an indemnity for adverse costs	**$59.2**	**8%**	**$10.8**	**2%**
Total	**$698.3**	**100%**	**$645.2**	**100%**
Total investment commitments	**$1.344 billion**			

Continued

Valuations and the impact of fair value accounting

- Significant majority of our investments are held at fair value equivalent to invested cost with no valuation change
- Investment portfolio comprised of 64% cost and 36% unrealised gain
- Portion of income from unrealised gain consistent – 53% in 2017, 54% in 2016
- Petersen appropriately carried well below secondary trading market value of smaller parcels; Teinver appropriately carried well below entitlement value
- Only 0.2% of write-ups have ever turned into a loss

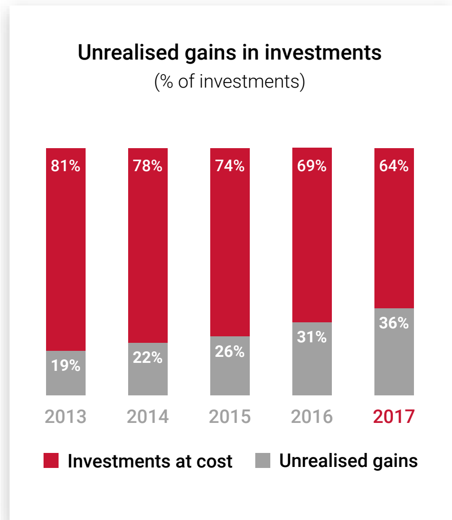
We have written at length in the past about IFRS and its approach to litigation investing. We add below our current perspective to that discussion.

The portfolio generally

We have used the same accounting principles and the same philosophy for many years: We only adjust asset values and thus experience unrealised gains (or losses) when there is some objective basis in the underlying litigation to support such a change.

As the portfolio continues to grow and mature and as our track record continues to solidify, it is only natural for more such valuation adjustments to arise, which we think is entirely appropriate. However, we would emphasise our continuing conservatism in this area by providing two key metrics.

First, the portion of our balance sheet asset value attributable to valuation changes remains modest. It is notable that the realised gains we experienced in 2017 more than doubled from the prior year. At the end of 2017, 36% of our balance sheet investment value was due to unrealised gains, which is not a dramatic change from 2016's level of 31%, and the share of income contributed by unrealised gains fell slightly, from 54% in 2016 to 53% in 2017. In other words, as the business grows, we are continuing to see balance between realised gains and the recognition of unrealised gains as the portfolio continues to mature. Given our historic returns, it is clear that we are applying valuations that are well below the level of returns we have traditionally generated on our concluded litigation investments – which is appropriate given the idiosyncratic risk associated with each individual investment.



Second, it is rare for us to increase the carrying value of an asset and then later have a result that causes us to need to write down that value. Indeed, we have only twice ever written up an investment that later turned to a loss, amounting to 0.2% of our total write-ups by dollar value.

The reality is that we all live in a world of market valuations of assets. Fund managers mark their entire portfolios to market all the time. We operate much more cautiously, given that the secondary market for litigation risk is less developed, but fair value accounting is a fact of life and our marks have historically been shown to be reliable. We expect our income going forward to continue to be a mix of realised and unrealised gains. Our track record in estimating unrealised gains that are subsequently confirmed as realised gains makes that entirely appropriate.

We now turn to three matters in the public domain that had valuation or accounting significance in 2017; there are other matters in the portfolio with valuation changes that are not in the public domain.

Petersen

We have commented on the Petersen investment, its litigation progress and our secondary market activity with respect to the investment in prior reports and we will not repeat all of that discussion here. In short, Petersen is a claim against Argentina and its energy major, YPF, arising out of Argentina's

expropriation of YPF without compensation for shareholders like Petersen, a Spanish group that was one of YPF's largest shareholders before the expropriation and which went bankrupt as a result of it.

Substantively, the last event in Petersen was the oral argument in June 2017 of Argentina's appeal against the trial court's finding that the case should remain and be litigated in US federal court. We await a decision on that appeal; there is no deadline for the court to release a decision. The outcome of the appeal is procedural as opposed to substantive; in other words, the decision will impact whether the case is to be heard in US federal court or before an arbitration panel constituted by an arm of the World Bank, but in either event the substantive claim is the same.

In late 2016 and the first half of 2017, Burford sold 25% of its interest in the Petersen outcome into a secondary market we are working to build. The sale price of that interest was $106 million; Burford's investment to date was approximately $17 million. Thus, Burford has no risk of principal loss in the matter and continues to hold 75% of its entitlement.

Since the secondary sales, there has been trading activity in the secondary market throughout the year at varying price levels, with the weighted average price in 2017 implying a value of around $660 million for Burford's total original investment – in other words, the value placed on Petersen by third party investors has continued to climb from the $440 million valuation implied by our final tranche of sales.

We have thus increased the carrying value of our remaining investment in Petersen. We do not release individual investment carrying values for reasons of client confidentiality and litigation strategy but we can say that we have acted conservatively with respect to Petersen as is our general practice. In the end, we altered the carrying value of 15 investments in 2017 and the net increase in value across all of those investments was $181 million, so it is clear that we have not increased the carrying value of Petersen to anything approaching its secondary market trading level, which we do not regard as determinative of our own carrying value.

Teinver

We enjoyed a significant win in July 2017 in the Teinver case, an arbitration matter arising out of the expropriation of two major Argentine airlines by Argentina's government, plunging their prior Spanish owners into bankruptcy. We invested approximately $13 million in the matter, and the carrying value subsequently increased to $30 million several years ago following a mid-case success on an important jurisdictional matter. Ultimately, the arbitration tribunal rendered an award with a face value in excess of $325 million. Were that award to be paid in full, Burford's entitlement at the time the award was issued would have been more than $100 million. The reality of such awards, however, is that they are often discounted in return for prompt payment, and Burford would not necessarily expect to recover its full entitlement. Nonetheless, this is clearly a valuable asset, and our valuation policy has caused its carrying value to be increased somewhat. The respondent in this matter has now sought annulment (a limited form of appeal) and thus the timing of the resolution of this matter remains uncertain. We have just announced the sale of our Teinver investment into the secondary market which we continue to develop for $107 million, a $94.2 million investment gain and a 736% return on invested capital.[7]

Jaguar Health

We have repeatedly commented on the increasing complexity of Burford's investment transactions, and the Jaguar investment is an example of both investment and accounting complexity – but also an illustration of our success in turning complexity into profit. Jaguar is a NASDAQ-listed pharmaceutical company. Burford provided financing in connection with a litigation matter involving one of Jaguar's predecessors. In the end, Jaguar was not successful in the litigation although it did succeed in using the litigation to reach a desirable non-financial settlement. The structure of our investment and of Jaguar's subsequent corporate changes have led us to be paid a sum of cash in 2017 that more than recovered our invested capital with the remainder of our return coming in the form of

7 The Teinver award is the subject of ongoing annulment proceedings (a limited form of appeal). Only 6% of awards ever rendered by the World Bank's arbitration institution have been annulled (and only 3% in the current decade). Were the award to be annulled, the sale transaction could be rescinded at the option of the buyers, although in that unlikely event Burford would retain a $7 million fee and would also have its original entitlement back and be free to pursue the claim again.

Continued

a series of complex equity transactions that now leave us holding around 6% of Jaguar's voting common stock along with rights over a further interest in the company (collectively worth approximately $6 million at the end of 2017). Because Jaguar is publicly traded in an active market, we are obliged to mark our equity position to market, which in 2017 caused an unrealised loss of $6.95 million as the stock price declined from a formulaic deal price at which our equity interests were initially issued (which we are reporting separately as "net loss on equity securities" on the income statement). Stocks like Jaguar are notoriously volatile in the US equity markets and we expect the potential of continued market price volatility for so long as we hold this position, which will have non-cash earnings impact. Some of our interest in Jaguar remains locked-up and we have not yet determined our path forward with respect to the investment, but every incremental dollar for us from this investment will be pure profit as we have already recovered our invested capital and a cash profit from our initial investment.

Recourse investing

We have reported elsewhere an increase in the volume of recourse investing we do – investing where we have recourse to an asset in addition to the underlying litigation claim, which benefits us by lowering the risk of binary loss and expanding our market opportunity. This practice gives rise to further potential accounting complexity as the asset to which we have recourse may be an asset as to which there is a trading market or a reasonably ascertainable third-party value. At this point we have not had meaningful valuation adjustments based on such asset value but it is certainly possible that we will see further activity in this area in the future.

An exemplary concluded investment

Given our general inability to discuss pending investment matters, we have a custom of discussing concluded ones to give investors some color about the business.

Last year, we described an exciting – and lucrative – multi-jurisdictional enforcement action that ended up being featured as a front-page story in *The Wall Street Journal*. This year, we will report on an investment that exemplifies our business: Garden-variety, rather dull corporate litigation that is just about money.

Our client was a business that rehabilitated moribund oil fields in an effort to increase production. It was typically compensated for doing so with a small fee and a share of the additional production its efforts generated. Having achieved success across multiple fields, the oil field owner purported to terminate the contract and avoid liability for the success payments to our client. Our client brought a commercial arbitration proceeding to enforce the contract and to obtain payment of its success fees.

Given the loss of expected cash flow from this project as well as its desire to invest all of its available capital in the development and growth of its business, our client sought financing from us for the bulk of its legal expenses related to the arbitration claim. Burford agreed to finance up to $4.7 million for the pursuit of the claim.

Unusually, the case did not settle and proceeded to adjudication. The arbitration tribunal found unanimously in our client's favour, upheld the contract and awarded damages.

Under its agreement, Burford was entitled to its invested capital back on a first dollar basis, a preferred return of 2.8x of invested capital, and a portion of the net damages based on a formula. Ultimately, Burford received $16.0 million in proceeds, for a profit of $11.3 million on its $4.7 million investment, generating a 112% IRR and a 240% ROIC.

This is an example of how the process is supposed to – and often does – work. We selected a strong case on the merits from among the many we see each year. The case was a corporate dispute about money, without significant emotion or personal animosity. Our client made a rational economic decision about the allocation of its own resources and opted to make use of external financing to pursue its claim. The matter proceeded through adjudication in a relatively conventional way, taking 23 months from filing to result. After losing, the respondent paid the award without the need for any enforcement proceedings or further delay, and Burford received its agreed entitlement immediately. About the only surprise was the failure of the case to settle, the more typical outcome of many such cases.

So, while this example isn't exciting or dramatic, it is indeed a good illustration of our core business – where 20 different investment resolutions contributed to our realised results this year.

Investment management[8]

- Burford is the largest investment manager in our sector; our AUM grew to $1.7 billion
- $13 million in management fee income earned in 2017
- New $500 million complex strategies fund raised in 2017; $320 million already invested and first investment resolved less than six months after launch at 16% ROIC/324% IRR
- Existing Partners funds are paying performance fees and are close to fully committed; new fundraising is anticipated in 2018

Burford operates five private investment funds as an investment adviser registered with and regulated by the US Securities and Exchange Commission ("SEC").[9] At the end of 2017 our assets under management were $1.7 billion (2016: $1.3 billion).[10] We believe that we are the largest investment manager in the legal finance sector by a considerable margin. The two largest categories of investors in our funds have historically been pension funds and university endowments.

Four of our funds were part of our December 2016 entry into the investment management business through the acquisition of Gerchen Keller Capital ("GKC"), a leading asset manager in the litigation finance space, and we raised the fifth fund in June 2017, taking advantage of our new investment management platform. The five funds encompass three distinct investment strategies; we provide details of the funds and their strategies below.

We have been very pleased with the acquisition and our subsequent activities in the investment management space. We rapidly integrated the investment teams so that we run one seamless investment process without regard to the source of the capital we are investing. We were delighted to be able to raise a new $500 million fund in June. The availability of capital from our funds was critical to our ability to do the level of new business we experienced in 2017 and we see fund capital as an ongoing part of our investing activity.

Going forward, we expect to be in the fundraising market again this year, and we see considerable investor appetite for investment in the legal finance sector.

The funds

We now manage five investment funds along with various sidecar vehicles with total investor commitments of about $1.6 billion at 31 December 2017. We earn management and performance fees from the closed-end funds; we provide more details of those fees in our discussions of the individual funds. We earned $13 million in management fees and $2.7 million in performance fees from the funds in 2017.

We conduct the sponsorship and management of our funds through limited partnerships. Each investment fund that is a limited partnership has a general partner that is responsible for the management and operation of the fund's affairs and makes all policy and investment decisions relating to the conduct of the investment fund's business. The limited partners of such funds take no part in the conduct or control of the business of such funds, have no right or authority to act for or bind such funds and have no influence over the voting or disposition of the securities or other assets held by such funds. Each investment fund engages an investment adviser. Burford Capital

8 Burford Capital Investment Management LLC ("BCIM"), which acts as the fund manager of Burford's investment funds, is registered as an investment adviser with the U.S. Securities and Exchange Commission. The information provided herein is for informational purposes only. It describes multiple investment vehicles focused on multiple investment strategies. Nothing herein should be construed as solicitation to offer investment advice or services. Information about investing in BCIM-managed funds is available only in the form of private placement memoranda and other offering documents. The information contained herein does not purport to present a complete picture of the actual or anticipated financial position, activities, results, actions and/or plans of the Fund or any other fund or account managed by the Firm. Past performance is not indicative of future results.

9 In SEC parlance we have more than five "funds" when one includes sidecars and various fund structures but for ease of the discussion that follows we ignore sidecars unless specifically included and we collapse fund structures into overall strategies, ignoring, for example, onshore and offshore separations. With the exception of the new complex strategies fund whose IRR is based on a single resolved investment, the IRR is calculated for each fund as a whole, based on the timing of capital contributions/distributions and ending fund net asset value (either on a gross or net basis, as denoted within).

10 Consistent with its status as a registered investment adviser with the SEC, Burford reports publicly on its investment management business on the basis of regulatory assets under management ("AUM"). For the benefit of non-US investors, the SEC's definition of AUM may well differ from that used by European investment managers. AUM as we report it means the fair value of the capital invested in funds and individual capital vehicles plus the capital that we are entitled to call from investors in those funds and vehicles pursuant to the terms of their capital commitments to those funds and vehicles (including capital committed by Burford). Our AUM will fluctuate as we raise new funds and other investment vehicles, and as existing funds and vehicles mature and no longer represent sources of callable capital in the future; there is no direct translation from AUM to investment management income.

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Investment Management LLC serves as the investment adviser for all of our funds and is registered under the Investment Advisers Act of 1940, as amended.

When there is overlap between investments suitable for Burford's balance sheet and for one of its investment funds, we invest jointly pursuant to a formulaic allocation policy, which provides that the first $15 million of such an investment commitment will be allocated on a 50/50 basis between Burford's on-balance-sheet capital and the investment fund, with Burford's balance sheet taking any commitment in excess of $15 million until it reaches its maximum risk tolerance, after which the fund may again take up any remainder consistent with the fund's risk concentration limit. We believe that this kind of clear and formulaic approach to investment allocation is fair and transparent both to Burford's public investors and its fund investors. This dual approach broadens significantly Burford's access to capital and permits Burford to engage in a range of investment strategies.

One common feature across the current funds other than the new complex strategies fund is the use of a so-called "European" structure for the payment of performance fees, in which the investment manager is not paid any performance fees until fund investors have had their entire capital investment repaid, as opposed to performance fees being paid on profitable resolutions as they occur. The impact of this structure is to delay the receipt of performance fees, and thus while many fund investments have already successfully and profitably concluded, leading to a steadily growing expectation of performance fees, few of those performance fees have yet been paid. Burford reports on its investment management business as a separate accounting segment. Management fee income is reported as income as earned; management fees are generally paid quarterly. Because of the funds' European performance fee structure, performance fees will only be reported as income once crystallised.

The Partners funds

Three of the funds (the "Partners funds") invest in legal finance assets in a manner comparable to Burford's core business. This part of the business is also often called "pre-settlement" financing, in that the focus is on assets with legal or regulatory risk that has not yet been resolved or adjudicated.

When considering the economic potential of the Partners funds, it is important to look at management and performance fees holistically, rather than attempting to separate those two income streams. Unlike some asset classes, properly underwritten portfolios of litigation finance investments should reasonably be expected to deliver positive returns in excess of any applicable fund hurdle rates, thereby entitling Burford to performance fees. However, just as in Burford's litigation finance business, the timing of resolutions and payments is unpredictable, and that unpredictability will affect the balance between management and performance fees at any point in time.

A theoretical example may assist. Assume a fund with a 2% management fee on deployed capital and a 20% performance fee. The fund invests $10 million in a litigation matter. The fund will begin earning $200,000 annually in management fees when it makes the investment and will continue to do so for so long as the litigation is continuing and the investment is outstanding. Then, assume the litigation matter resolves favorably and the fund receives $50 million, representing its capital back and a 4x profit. At that point, the fund will cease earning management fees but will become entitled to a performance fee of $8 million (20% of the $40 million profit, ignoring for the sake of simplicity expenses and hurdles, if applicable) – but under the funds' structure, that performance fee may well not be paid for some time. Because it is difficult to predict the timing of the litigation resolution, it is also difficult to predict the amount of management fee income in any given period for a fund with fees paid on the basis of committed or deployed capital because a paid litigation resolution will bring the management fees associated with that investment to an end, and it is similarly difficult to predict the timing of performance fees. Indeed, in some instances a decline in management fees in such a fund could be regarded as a positive development as it would signal that resolutions were occurring, thus unlocking performance fees, which over time should produce considerably more income than management fees.

This theoretical example is just that: The actual funds have a wide variety of economic terms and structures as discussed in more detail below, including the ability to re-deploy capital during a fund's investment period if an investment resolves successfully, adding more complexity to the example above. But the fundamental point

remains: The fund structures and terms are desirable and crafted for (and work well in) the litigation finance market, and we expect their addition to Burford's business to be lucrative, but they may not suit the kind of granular analysis and predictability that may be more available in other asset classes, especially as to the timing and quantum of the receipt of performance fees.

Partners I

Partners I, GKC's inaugural small fund with $45.5 million in investor commitments, was raised in March 2013 and began investing immediately. Partners I invested in a diversified range of litigation finance assets, ultimately making 17 investments, of which 13 have already resolved. The fund has been successful on a returns basis (39% net IRR and 140% net ROIC to date) but its investments were relatively small; ultimately, it deployed $31.1 million in capital, or an average of $1.8 million per investment. It has generated $1.3 million in performance fees for Burford and we expect incremental performance fees in the future, especially as one of the four outstanding investments is a potentially significant investment success making its way through the appellate process, with Partners I's current entitlement being more than $31 million net of invested capital or almost $5 million in performance fees. (This illustrates the outsized significance of performance fees in this business; this one investment is capable of generating several times the fee income in performance fees than the entire fund will generate over its entire life in management fees.)

Partners I is no longer generating significant management fees given its maturity; Burford earned $0.2 million in management fees in 2017 from the fund.

Partners II

Partners II was raised in December 2013 following the rapid commitment of Partners I. Partners II was a significantly larger fund, with $259.8 million in investor commitments. Its investment period ended at the end of 2015, having made 36 investments.

While Partners II has a diverse pool of investments, it has a particular emphasis on intellectual property investments. Those investments tend to be characterised by longer duration and higher risk, but also higher return when successful. Thus, compared to Partners I, it is not surprising that a smaller proportion of investments (11 in total) have resolved, and the remaining active investments represent a significant proportion of the fund's outstanding commitments. A number of investments in the fund have had early success but have not yet completed the litigation process; the two largest pending resolutions are today collectively entitled to more than $22 million in proceeds based on their current posture (vs. $9 million in invested capital).

Partners II paid $2.2 million in management fees in 2017. Future fees will depend on the speed of resolutions, as noted in the theoretical example above. The fund has not yet reached the stage of returning all of investors' capital and thus has not yet paid any performance fees. It is worth noting that $85.5 million of investor commitments in Partners II were made on the high-octane basis of 0% management fees and 50% performance fees, as opposed to the more traditional 2% management fee and 20% performance fee. For all of those reasons, it is difficult for us to project the quantum and timing of future fee income from Partners II – but we remain of the view that significant performance fee income is entirely possible.

Partners III

Partners III began investing in January 2016, following the close of the Partners I and II investment periods. Partners III has $412 million in investor commitments; we are actively investing the fund, which has a four-year investment period ending 1 January 2020 (and the ability to recycle capital within that investment period).

Although Partners III was a legacy GKC fund, its investment portfolio is fundamentally from Burford's pipeline. At the closing of Burford's acquisition of GKC, Partners III had committed $92 million to investments. Little more than a year later, Partners III stands with around $334 million committed, approximately 81% of the fund, as of 31 December 2017, and investing activity has continued into 2018 leaving the fund close to fully committed. As a result, Partners III's performance should be comparable to Burford's ultimate balance sheet performance – and notably, Partners III is not focused on intellectual property (although it certainly contains IP investments), which should result in a shorter average duration than Partners II.

Partners III is at an early stage of delivering performance given that the bulk of its investments were made in 2017. However, early indications are promising. In 2017, the fund generated $13.2 million

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in investor profits on $31.8 million of proceeds, a 71.4% ROIC, and litigation returns tend to increase with time.

Partners III has a somewhat different fee structure than our other funds. Investors in Partners III pay a 2% management fee on their total capital commitments during the four-year investment period (2016-2019), regardless of deployment levels, and then they do not pay any management fees once the investment period ends. Burford earned $6.2 million in management fees from Partners III in 2017. The fund has two investment classes: (i) Class A, 75% of total commitments, pays 2% management fees and receives full investment returns subject to 20% performance fees; and (ii) Class B, 25% of total commitments, which does not pay a management fee and which is not entitled to investment returns but receives only an 8% coupon if drawn (and Class A must be drawn in its entirely prior to Class B being drawn). The nature of litigation finance investments suggests that it is unlikely that Class B will ever be drawn. As such, it should be thought of as a form of synthetic leverage, with the result that Class A performance fees are likely to be enhanced by its presence.

Because of the close-to-full commitment of Partners III, we expect to be in the fundraising market this year. We are enthusiastic about the potential for our core funds business.

Post-settlement investing

In addition to our conventional pre-settlement litigation finance, we also have a fund that monetises post-settlement and other legal receivables – a sort of law-focused factoring. There are frequently significant delays between the point at which parties to a litigation matter agree upon a settlement and the finalisation of and payment under the settlement. Often, those delays are due to the operation of the judicial process, which may require notice periods and fairness hearings before approval of settlements. In the interim period, both law firms awaiting payment of their fees and clients eager for cash to flow may well find it attractive to secure financing against those expected receipts, and our post-settlement fund provides such financing, at return levels considerably lower than traditional litigation finance.

The post-settlement fund commenced in September 2014. At 31 December 2017, the fund had $296.1 million of investor commitments and an investment period (including the ability to recycle capital) extending until 30 September 2019. In addition to the core fund, GKC has also made active use of sidecars in the post-settlement space, investing several hundred million dollars provided by investors since April 2014 with widely varying structures and economics.

This strategy is not especially remunerative for Burford given the significantly lower returns available in this area. We value the strategy not so much for its cash income but for its expansion of our offering to clients. Management fees in the post-settlement fund are an average of 1.6% on drawn capital, with performance fees of generally 20% after investors receive a 5% preferred return. In 2017, the fund paid $3.4 million in management fees and no performance fees were yet earned.

The structure of our fund permits investors to elect to discontinue participation in future investments while remaining bound to existing investments, and as time passes, some investors are rotating out of this fund. We regard this as entirely expected given our fund structures and investor time horizons, just as the turnover in our public shares continues to increase.

Complex strategies

We believe that there are incremental opportunities to deploy capital profitably in other complex and proprietary strategies based on our assessment of legal and regulatory risk and the skills we have developed in understanding the underlying value of legal assets. We are particularly interested in investing as a principal in such areas as discussed above in the section on principal investing. We are recognised for those skill sets, and we are regularly approached by investors seeking exposure to various expressions of this fundamental investment theme, which combines attractive risk-adjusted returns and a lack of correlation to market and economic fluctuations.

In June 2017 we raised a new fund to exploit certain of those opportunities in connection with one particular principal investing strategy. That fund closed at $500 million, including a $150 million commitment from Burford. In the first six months of the fund's operation the fund has invested $319.7 million and has continued to make new investments in 2018.

Burford earns management fees of 2% on funded capital. We do not receive any fees for uncalled investor capital commitments. We also earn 20% performance fees (over a 5% annual preferred return with a full catch-up) on the investment strategy. Thus far, we have had one investment resolve, which generated significant returns in light of its short duration – 324% gross IRR and 16% ROIC on an investment of $22.8 million. In the six months of 2017 following the fund's closing, we earned $0.9 million in management fees and $0.3 million in performance fees from the fund.

As an accounting matter, because of Burford's significant investment in this fund, we are required to consolidate the fund and then show separately the entitlement of other investors. That creates some noise in our financials and we have generally excluded the impact of that fund consolidation in our presentation of results and our discussion of the business; if we had included it, it would have increased our income and total assets by $1.4 million and $181.3 million respectively. A line-by-line reconciliation is provided on pages 40, 41 and also in Note 21 of our financials.

Sidecars

We occasionally make use of sidecar investment vehicles when individual investments are too large for our direct investment capacity. The scale of Burford's own investment capacity means that fewer investments require the use of sidecars but they remain a useful addition to our capital mix. During 2017, we had four active sidecars although by 31 December 2017 three of the four had concluded, leaving just one in operation. We earned $1.2 million in fee income from sidecars in 2017. While the remaining sidecar facilitated the making of larger investments, it is unlikely to produce additional income in the future given its structure.

GKC principals

As previously announced, following the successful and rapid completion of the integration of the fund business within Burford, the GKC principals stepped back from their operating roles at Burford as of 31 December 2017 and took on advisory and investment committee functions, leaving them free to pursue other non-competitive opportunities. The entrepreneurial zeal of the principals made this a natural outcome. We continue to have an excellent relationship with the principals and look forward to continuing collaboration with them.

The GKC principals are subject to stringent non-compete provisions that do not expire until December 2020. They are also subject to non-solicit and no-hire provisions. Moreover, the shares that the principals hold are subject to a lock-up until December 2019.

Insurance

Our legacy insurance business has been in run-off since the end of 2016 and as expected saw a decline in income in 2017 as we continue to see the back book mature. The legacy business delivered $7.6 million in income (2016: $12.9 million) and $5.6 million in operating profit (2016: $11.2 million). The business has some distance still to go; for example, we still have 19 cases in the £250,000+ category (2016: 41).

Thus far, the insurance business has generated $94.7 million in income and $71.2 million in operating profit since our acquisition of it in 2012, when we paid an effective cash price of $18.75 million to purchase it. Moreover, there is a further reserve that sits on MunichRe's balance sheet and not on ours to which we become entitled at the conclusion of the run-off; that reserve stood at $12.0 million at the end of 2017 although it can fluctuate in the future based on the outcomes of individual matters.

In addition to the cash profitability of the business, we have the benefit of an extensive track record. The insurance business has written 56,985 insurance policies to cover adverse costs risk during its life. Of those matters, 77.2% have resolved favorably and only 20.4% have suffered losses (and 2.4% remain unresolved). That represents an enormous body of litigation assessment data and experience in addition to our core business.

The legacy insurance business was more of a middle market business than our core business and we only infrequently wrote more than £3 million coverage for a single case. As we have discussed before, demand for adverse cost insurance in that market has declined because of regulatory changes implemented in 2013, and that decline in demand coupled with increasing platform costs caused us to terminate our arrangement with MunichRe at the end of 2016 – particularly as our core business is not particularly focused on the middle market.

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However, adverse cost risk remains a key issue in the kind of larger complex litigation that is squarely the focus of our core business. Today, it is difficult to find a path forward on litigation claims once the adverse cost exposure approaches £20 million as there is limited capacity in the insurance market for such claims – and while those numbers seem large, the costs of defending RBS from actions relating to its financial crisis conduct handily exceeded £100 million and we have had requests for even larger levels of adverse cost protection. Moreover, adverse cost protection is often a prerequisite in large cases as individual defendants are typically unwilling to take on the kind of joint and several adverse cost exposure that can exist in such cases.

Thus, given our historic experience as an insurance provider and our expertise in litigation risk assessment, we have decided to re-enter the adverse cost insurance business – but with our own wholly-owned insurer (as opposed to our agency relationship with MunichRe) and at the large case end of the market where we have historically focused. We have thus created Burford Worldwide Insurance Limited, a Guernsey insurer that will offer adverse cost insurance globally in both litigation and arbitration subject to final regulatory approval, and we have arranged substantial reinsurance capacity for that insurer from leading reinsurers.

Initially, we do not expect a material financial contribution from this venture – we see it more as facilitating cases we want to invest in as a funder and providing us with a competitive advantage in the litigation finance market – but we will remain open to the potential expansion of this business as time passes.

New initiatives

Our new initiatives segment principally contains our asset recovery business at this point and its associated law firm, Burford Law.

Once a matter has been litigated through to a final judgment and all appeals have been exhausted, that judgment is enforceable globally as a debt obligation of the judgment debtor. While many tenacious litigants do pay their judgments when they ultimately lose a matter (as illustrated earlier in our discussion of the oil field services case), some do not, and further effort is needed to collect the judgment debt.

Our asset recovery business provides expert assistance to lawyers and clients around global asset location and enforcement. As one might expect given Burford's background and orientation, we approach this business as lawyers, not as on-the-ground private investigators. Our asset recovery business is run by an English barrister and an English solicitor, and 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 judgments.

We also operate a small law firm inside Burford, called Burford Law, under license from the Solicitors Regulation Authority. Burford Law today provides specialised services to our asset recovery business and also offers those services to other clients.

As noted previously, 2017 marked the migration of this asset recovery business from a fee-for-service model to a contingent risk one. In other words, instead of our prior model of billing clients for our time, the bulk of our business is now done on risk in exchange for a share of whatever recovery is generated. Under most potential scenarios, the contingent risk model will be more profitable. However, the migration to that model will take some time to generate income, as the business will immediately lose its fee-for-service income and will not receive its contingent income until the conclusion of a matter, and there is also the potential for lumpy returns. As a result, 2017 income for the business is considerably below its prior year level. However, investments have soared – from \$2.3 million at the end of 2016 to \$10.2 million at the end of 2017 – which positions the business for future success from those investments.

Forecasting and guidance

Burford is, as far as we know, unique among public companies in the world. We know of no other large business with a management team composed largely of veteran litigation lawyers. We make this point because as corporate litigators we have spent decades of our professional lives seeing, and dealing with, the misjudgements and other fallacies of corporate executives and market participants. We were the people called in when companies got into trouble. Collectively, we have hundreds of years of such experience, addressing corporate peccadillos measured in the many billions of dollars.

This experience leaves us skeptical about predictions and deeply reluctant to try to make them, particularly in the kind of business we have. Our view is that it is our function as corporate managers to be excellent stewards for shareholders' capital and to provide investors with data and with commentary on the past, and that it is for investors to form their own individual views about what the future holds.

We are repeating this annual homily because as we have grown in size and prominence, we have attracted an expanding audience that takes the view that we should give "guidance" on not only what is going to happen in the future but when it is going to happen. With respect, we decline to do so.

This philosophy is particularly appropriate for our line of business. We are dependent for much of our income on the outcomes of legal proceedings. While we have shown some level of ability to predict substantive outcomes (although we are certainly fallible), we are simply incapable of predicting the timing of those outcomes finely enough to produce a financial model to estimate quarterly earnings. We do, however, have the comfort of knowing that all legal proceedings do come to an end – and do so on an uncorrelated basis.

What we can say is that we assemble our large and diversified portfolio with great care, and more than eight years in this business and more than $773 million in investment proceeds have shown that we have a level of competence in doing so. We also manage our costs aggressively. We are investing personally in Burford and are highly exposed to its success – collectively, our team owns 13% of Burford's shares. We believe that our portfolio will generate a desirable level of profits as it matures, and we believe that our investment funds will generate appealing performance fee income from their own litigation resolutions. But we are not going to try to predict precisely when or how much income we will generate, despite mounting pressure to conform and pretend we can.

And now for some disclaimers, which we have provided before and also appear on our web site:

Burford cautions that its earnings for any financial period partly depend on judgements made by management, which are then included in the audit process and ultimately determined by Burford's board of directors. That review process often results in adjustments to initial expectations and continues right up until the finalisation and release of these results.

Burford values transparency in its presentation of financial results and wants to be clear with investors about its approach to those results. Most of Burford's income comes from its litigation finance business. Within that business, there are two principal sources of income for accounting purposes, realised gains on investments and unrealised gains on investments. (Realised and unrealised losses will naturally negatively affect income and the principles we set forth here apply equally to losses.)

Realised gains are straightforward: they represent the amount of profit, net of the return of Burford's invested capital and any previously recognised unrealised gains, on an investment that has either resolved entirely or has been settled or adjudicated such that, in Burford's view, there is no longer litigation risk associated with the investment. (In the latter event, Burford may discount the anticipated profit in respect of an investment to account for any continuing uncertainty as to the recoverability of any amount.) Burford announces individual investment results that will produce realised gains separately from its financial results only when the individual gain is new information which may be material to Burford.

Unrealised gains are more complex: They represent the fair value of Burford's investment assets, as determined by Burford's board of directors in accordance with the requirements of the relevant IFRS standards, as at the end of the relevant financial reporting period. There is no active secondary market for litigation risk, and thus there is generally no market-based approach to assessing fair value; to the extent that a secondary market transaction does take place with respect to an investment, the implied value of that transaction is a relevant valuation input. In the absence of such a transaction, we are mindful that the outcome of each matter Burford finances is likely to be inherently uncertain, may take several years to conclude and is often difficult to predict with accuracy. Moreover, litigation matters frequently experience multiple significant shifts in sentiment during their evolution. Burford thus eschews fair values based solely on current sentiment, and focuses on objective events (such as court rulings or settlement offers) to ground its assessment of fair value.

Burford's Board of Directors assesses the fair value of Burford's investments after the close of each financial reporting period and therefore investors should not expect updates about potential

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changes in fair value during the course of any given reporting period. Following the close of each financial reporting period, Burford's Board determines the fair values of investments after taking into account the views of management, the operation of the audit process and input from external experts (as it considers appropriate). Generally, that process does not conclude finally until shortly before the release of Burford's financial results for the relevant period.

Burford is pleased to be followed by a number of research analysts and we are grateful for their efforts to understand and explain our business. They perform a valuable role in assessing our operating performance, the evolution of the litigation finance market and interpreting other relevant industry developments. However, prospective investors and other market participants must appreciate that, due to the confidential, potentially privileged, long-term and uncertain nature of each investment asset, it is very difficult for research analysts to project accurately the likely investment income of the business. Any projections produced by research analysts are not produced on behalf of Burford and Burford takes no responsibility for such projections. As a result, prospective investors and other market participants should not treat, and Burford does not intend to treat, the financial projections produced by research analysts as indicative of the market's expectations of Burford's future financial performance. We specifically eschew any obligation to correct estimates made by financial analysts or to inform the market should we come to believe that our actual performance will diverge from those estimates. This is, of course, different to the approach taken by most operating companies, in respect of which research analysts can produce relatively reliable estimates and the relevant company will advise the market if it expects to see performance materially different from the consensus of analyst forecasts. It is important that investors understand that Burford takes a different approach as a result of the different nature of its business.

Corporate and financial matters

Finance function and controls

Burford operates an extensive and sophisticated finance function, with 13 dedicated finance staff located throughout the business and present in all three of our significant offices, including nine with public accounting qualifications. By having the finance team embedded in the business and privy to investment activity, we gain considerable control benefits in addition to a more effective operation. It bears remembering that Burford does a relatively small number of large investments each year; we are closing about one new investment per week on average. Thus, there is abundant opportunity for the finance team to be intimately familiar with the activity in the business.

We also have an extensive system of internal controls around access to payment systems and the release of payments. For example, for any payment, regardless of size, to be released, that payment must be created in our internal systems by one of several team members, none of whom have the authority to release payments, and then the payment's release must be authorised by two other team members separately, neither of whom is able to create a payment. Thus, at least three different people from two different groups are required to provide sign-off before a single dollar leaves Burford's hands. Moreover, payments are not even created without a formal process of approval, with investment payments being circulated widely among and approved by the investment team. Senior executives in the business, including the Chief Executive Officer and the Chief Investment Officer, do not have access to our payment systems and cannot release payments as a control matter.

In recognition of its growth and increasing complexity, Burford recently created the position of Chief Accounting Officer, which has been filled by Charles Utley, a former Barclays Managing Director, where he spent 11 years in a variety of senior accounting roles, including Head of Technical Accounting for the Americas and Head of Product Control Valuation for the Americas, and previously spent eight years at PwC, rising to the level of Director, with a particular focus on complex accounting in the financial sector.

Risk management

Burford manages risk in a number of ways.

In the investment portfolio, Burford employs a disciplined, comprehensive, multi-stage process to evaluate potential investments and benefit from 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. Burford believes that its approach to risk management has enabled it to improve materially on investment results in challenging situations where a more conventional approach would likely have yielded diminished performance.

Burford also regularly considers business and systemic risk in its business units and overall. We have long been focused on operational risk and have a system of internal controls around the integrity of our internal processes and data. Among other steps, we have a dedicated team focused on operational controls and data.

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 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. We augment that culture with a seven-member in-house legal team.

In addition to our ongoing risk management activities within the business, we make a comprehensive risk presentation to the Burford Board at every quarterly meeting.

IT and cybersecurity

While a species of risk, IT and cybersecurity risk deserve their own dedicated discussion.

Burford has always been very alive to the risk associated with the dissemination of its confidential information publicly, especially as that information contains highly sensitive client litigation information. We have also focused on the risk associated with attacks on our financial systems.

From Burford's inception, sensitive to these issues, Burford has operated on an entirely cloud-based platform. Our data does not sit on our own servers, even virtual cloud servers, but rather on the servers of world-class technology companies such as Microsoft and Salesforce. While that is no guarantee of perfect security, it is probably as close as one can come in this day and age. The use of those platforms also comes with built-in disaster recovery protection.

However, data security is much more than protecting data against invasive hacking. Human error and inattention is arguably a greater risk than sophisticated penetration attacks. Thus, we engage in a variety of training and testing, and we also introduce restrictions on technology use designed to minimise those risks. We regularly review best practices from both the legal and the financial services industries and are engaged in a programme of continuous improvement, including adopting a wide range of measures designed to improve security and minimise risk.

Finally, we are focused on tone from the top when it comes to these issues. Burford's senior management regularly spends time on these issues and communicates about their importance to all staff.

In addition to data security we are also focused on privacy, and are sensitive to the various obligations we face in that regard. Given that Burford does not deal with consumers and is purely a corporate business, the burdens on us are far less than on businesses amassing considerable personal data.

Compliance

While Burford has always had a robust compliance programme, showing the internal emphasis we put on compliance, 2017 saw the hiring of our first full-time Chief Compliance Officer, Anne Duffy, formerly Vice President and Chief of Staff in Compliance at Nuveen Investments and before that Compliance Director at Fidelity. Our compliance regime is global in scope and addresses our various legal and regulatory obligations, including our obligations in light of our registration with both the US Securities and Exchange Commission and the UK Financial Conduct Authority along with the myriad laws and codes to which we are subject.

Capital structure and leverage

Burford's capital structure is straightforward: we have a single class of equity and four essentially identical tranches of public debt, including our latest bond issue ($180 million) raised in February 2018 and denominated in US Dollars.

Burford today is operating at a net debt/equity ratio of around 0.46x (measured at 31 December 2017 but including the February 2018 bond offering as though it had been issued in 2017), a low level of leverage for a specialty finance firm,

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with abundant interest coverage. That is possible because we re-invest many of our capital receipts and manage our expenses closely. We do not favour a highly leveraged platform, but there is clearly room for us to absorb some additional leverage should market conditions and our financing needs suggest that we tap the debt markets again. Moreover, our access to investment fund capital through our investment management platform also provides a considerable potential source of incremental capital as needed.

Burford has for some time had an investment banking relationship with Morgan Stanley, and our principal banker there, Jim Kilman, a Morgan Stanley Vice Chairman and highly experienced specialty finance banker, retired in 2016. We have been fortunate in having Jim join Burford on a part-time basis as a Senior Advisor, augmenting the advisory talent we had already through Marshall Heinberg, former Senior Managing Director and Head of Investment Banking at Oppenheimer & Co., another of our Senior Advisors.

During the course of 2017, Jim led a team that conducted a comprehensive review of our capital structure and our listing position, including seeking advice from three different investment banking firms and culminating in a fulsome presentation to the Burford Board in November 2017. The advice from all three firms and our own internal analysis all led to the same set of conclusions:

- Burford would not see any meaningful benefit from a move to the LSE Main Market for its equity, and indeed Burford's liquidity is already comparable to a Main Market stock of its size. The fact that Burford's bonds trade on the Main Market under a full prospectus is also a useful governance and disclosure factor
- A cross-listing in the US or a US-traded ADR would likely offer no advantage for Burford. We are already seeing significant investment flows from US institutional investors who are not experiencing any difficulty in accessing Burford stock
- Burford's corporate structure with a Guernsey parent company and UK and US operating company subsidiaries is appropriate given the multiple jurisdictions in which Burford operates
- While an offering of additional equity cannot be ruled out, the availability of debt capital and the investment funds likely counsels against such an issuance in the immediate future[11]

Foreign exchange

Burford is a US Dollar reporting business with the considerable majority of its operations occurring in dollar-denominated activities. We also declare our dividends in US Dollars. However, our first three bond issues, totaling £365 million, are denominated in Sterling and thus Burford is exposed to currency risk. Burford also has a minority of its investments denominated in currencies other than US Dollars. Burford generally does not hedge this currency exposure although its exposure to different currencies, especially Sterling, does provide a degree of natural hedging.

Brexit

Burford does not anticipate any negative impact from Brexit, in whatever form it were to take. Indeed, Brexit creates uncertainty, and uncertainty is generally good for the legal sector as it drives demand for services and creates disputes, so from that perspective Brexit is probably positive for Burford. It is possible that Brexit will pose a risk to London's prominence as a global litigation center, but that is of no moment to us as we are perfectly happy doing transnational litigation and arbitration all over the world and already do so in Europe and elsewhere. In fact, moving some dispute resolution from London to Europe is arguably also good for us as adverse costs are less of an issue in Europe than in England; even without Brexit, the English preoccupation with adverse costs is increasingly making England an unfavorable jurisdiction for commercial litigation.

Operating expenses

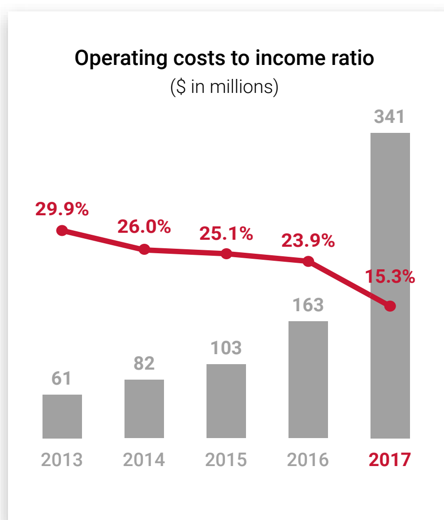
Burford expenses its operating costs as they are incurred. We don't capitalise them as part of our investment portfolio. Moreover, we perform virtually all of our investment activities internally, with our own staff, as opposed to outsourcing diligence or legal work. Thus, we do not add external costs to our investment balances as opposed to expensing them. As a result, the operating expenses on our accounts are essentially what we are actually spending in cash each year to operate the business.

11 Note that Burford does not undertake any obligation to update investors should its views on the foregoing issues change and in particular Burford does not accept any obligation to notify investors should it proceed to explore an equity offering.

This is a transparent and conservative way of proceeding, and we believe it provides the best quality of outcome. 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.

It isn't possible to describe staff costs or operating leverage on some sort of formulaic basis – x people per y dollars of new commitments, for example. Litigation is simply too idiosyncratic for that – which is why law firms hold large teams of staff in reserve. One matter will consume thousands of staff hours, and another matter will coast to an easy and early settlement with virtually no effort from us. We use decades of litigation experience to run this business and staff it appropriately based on our knowledge of the portfolio and our sense of the market.

Our operating expenses (principally staff costs) rose in 2017, but even with the addition of the costs associated with the investment management business we acquired (the principal basis for the increase, which was more than offset by management fee income), our total operating expenses fell sharply as a percentage of income (2017: 15.3%; 2016: 23.9%). We continue to balance the desirability of investing in the growth of the business and the maintenance of prudent levels of spending.



Employee compensation, retention and other issues

Burford's team is one of its key competitive advantages, and we expend considerable effort to create an environment that is appealing to the kind of people we recruit. Competitive compensation is certainly an important part of that dynamic, but so too is a collaborative environment and mutual respect. We also devote considerable resource to training and developing our team, especially as incoming employees are generally coming into the litigation finance industry from adjacent industries for the first time – and indeed that is a limitation on our growth, as we believe that there is a limit to the number of people we can properly assimilate at any given time in light of the need to develop them and inculcate them in not only Burford's approach but the fundamentals of the industry.

In 2017 we made new hires in key positions including Chief Compliance Officer, Chief Accounting Officer, General Counsel, UK/European Corporate Counsel, the Director of our new Singapore office, and a Director, Investor Relations. Two new Directors joined Burford to build our expertise in bankruptcy and insolvency and securities litigation, and four new Vice Presidents added further depth and breadth to our investment team.

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Our new hires are veterans of companies and firms including Barclays, Brookfield Asset Management, Goldman Sachs, Freshfields Bruckhaus Deringer, Herbert Smith Freehills, Lehman Estate/Lehman Brothers, Loeb & Loeb, Nuveen Investments, Oppenheimer Funds, Quinn Emanuel Urquhart & Sullivan, RPX Corporation and UBS.

We also promoted Elizabeth O'Connell as Burford's Chief Financial Officer; Aviva Will as Senior Managing Director with responsibility for Burford's underwriting and investment management in its core litigation finance business, Emily Slater as Managing Director overseeing Burford's business development activities with US law firms; Katharine Wolanyk as Managing Director overseeing Burford's Chicago office and its intellectual property business, John Lazar as Director of Burford's investment team; and Eric Carlson as IP Principal.

We have always recognised that diversity and inclusion are key values in fielding a market-leading team, particularly in activity like litigation where assessment of human conduct is a key factor in what we do. Since inception, Burford has worked to build a best-in-class diverse team. Women hold key leadership positions including its Chief Financial Officer, its Senior Managing Director, its Chief Marketing Officer, Chief Process & Innovation Officer, CFO-Funds, and a variety of other Managing Directors and Directors, making up more than one-third of Burford's senior team.

As to compensation, our traditional model is that of base salaries and performance-based annual bonuses. Historically, that has made up the considerable majority of our compensation and reflects the origins of our team members, who typically hail from law firms and finance firms that also use this compensation approach.

In 2016, shareholders approved a long-term incentive plan and we have added grants under that plan to our compensation mix beginning in 2017, which creates additional alignment between the team and public shareholders and also creates a long-term retention vehicle. We made an initial LTIP grant to every employee in the business at the time of the plan's inception, and we make grants to most new employees as they join. We also use annual LTIP grants as a further compensation vehicle for our investment team and other senior employees.

We also use more tailored compensation devices for incentivisation and retention depending on individual circumstances. However, our general compensation philosophy is team-based rather than individual as we believe that investing in this asset class benefits from a team approach and not from assigning individual ownership of and responsibility for individual investments. When we use incremental compensation devices, our focus is on a combination of performance incentivisation and retention.

Burford has historically enjoyed quite low employee turnover after employees have been with us for a period of time. There can, however, be an assimilation period upon joining that does lead to some turnover as we are generally hiring people who have not done litigation finance before, and some recruits ultimately do not fit as litigation financiers. Of the 30 employees who have worked for Burford for at least three years, only two left during 2017, neither of whom was part of the investment function.

Burford makes active use of non-compete agreements as part of its employment arrangements, with the length of the non-compete period rising proportionately with seniority.

In the last few years, Burford has evolved from a relatively small platform with a degree of key person risk to a much larger and more developed management structure that minimises or eliminates key person risk. As we continue to build out a multi-layered management team, we are inherently engaging in succession planning at the same time, and we are confident the business would weather the departure of any or several of our senior team given the cadre of experienced, capable people we now have in senior positions. Nevertheless, Christopher Bogart and Jonathan Molot, respectively Burford's Chief Executive Officer and Chief Investment Officer, both renewed their employment agreements with Burford through the end of 2020.

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 multidisciplinary as well, with senior and experienced finance and investment professionals – a critical component in any investment decision making undertaking. We would encourage shareholders to visit our website to review the biographies of all of our team members.

Tax

Burford's gradual progression from a tax-free fund prior to 2012 to a multinational taxpayer was altered somewhat by the GKC acquisition. Under US tax law, given that GKC had very few tangible assets, the bulk of the acquisition was characterised as goodwill and other intangible assets for US tax purposes, and those assets are amortised for tax purposes, significantly reducing future US taxable income. Thus, Burford's tax expense will reflect this dynamic given the deferred tax impact of various acquisition-related matters.

The impact of the recent passage of tax reform legislation in the US has the positive impact of lowering the US corporate tax rate substantially (although it may also have the impact of limiting some interest deductibility and certain tax planning opportunities). Thus, we are revising downwards our long-term guidance as to our tax rate and believe we will ultimately land in the low teens, even if it takes some years to arrive there.

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. They are:

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. Sir Peter remains active in a number of other business ventures which are set forth on our web site.

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.

David Lowe OBE
Director

Mr. Lowe was 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

Mr. Parkinson is President of the States of Guernsey Trading Supervisory Board and is President of the Committee for Economic Development. He was 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.

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 corporate and investment advisory services to other Group companies.

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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.

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 such meetings held in 2017. Burford's Chief Executive Officer and Chief Investment Officer participated in the entirety of each board meeting (other than the closed session discussed below), joined as appropriate by other 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 composed entirely of independent Directors, Audit (Parkinson (Chair) and Lowe), Investment (Lowe (Chair) and Parkinson) and Remuneration (Wilson (Chair), Middleton, Lowe and Parkinson), all of which meet throughout the year as required. The Remuneration Committee reviews and approves compensation and LTIP awards for all 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 proportion of US persons that can be directors, thus making it impossible to add executives to the Board without expanding its size considerably, which we consider undesirable for both cost and functional reasons. Sir Peter Middleton also chairs the Board of Burford Capital Holdings (UK) Limited, a significant Burford subsidiary, to ensure non-executive oversight.

Regulation

We are often asked about regulation, or more precisely the potential for expanded regulation of this business in a way that would be harmful to it. We do not see that as a likely prospect in the current environment.

We are of course already regulated in a number of different ways. The SEC regulates our investment management business. The FCA regulates our legacy insurance business. The GFSC regulates our new insurance business. The UKLA reviews our debt prospectuses for our Main Market-traded debt. AIM and our Nominated Adviser regulate our activities as a public company. The SRA regulates Burford Law. And we are of course subject to a myriad of laws and regulations, ranging from the Bribery Act and the FCPA to AML and KYC regulations in many jurisdictions.

Beyond that alphabet soup of regulation, we are subject to an unusual – but very comprehensive – level of regulation because of our activities within the justice system. Courts have inherent power to regulate within the matters before them, and unlike agency-based regulation which is based on rules and spot-checking, litigation comes with 100% regulatory oversight in that every single matter is put before a judge – and judges are not shy to exercise that inherent power when it is warranted. For example, in cases where issues have been raised about the presence of a litigation funder, courts have occasionally ordered in camera review of the funding contract. Typically, courts find funding agreements to be irrelevant to the merits of a case, but in the rare cases where funding agreements are in conflict with state law or ethical rules, courts have voided or reformed the agreements. Thus, there is clear protection for clients when litigation finance providers overreach, but there is also no need for some sort of new agency in that regard given the adequacy of the existing remedies.

This is also a matter that varies by jurisdiction. For example, the United States has a long tradition of not regulating non-bank finance providers who only deal with corporate clients, as Burford does. Most states have quite a clear ceiling above which sophisticated parties like Burford and its corporate clients are free to contract without regulatory oversight; for example, in New York, that point is when our invested capital exceeds $500,000, well below Burford's smallest investment. On the other hand, the UK does engage in some regulation of litigation finance conduct, as expressed in a Code of Conduct promulgated by the Association of Litigation Funders, a self-regulatory body that operates under the auspices of the Ministry of Justice and that Burford helped to found and remains actively involved in.

Some newer entrants to the market, such as Singapore and Hong Kong, have also enacted regulatory regimes largely focused on capital adequacy and constraining abusive behavior.

There is no question that business lobbyists have added litigation finance to the long list of litigation activity to which they are opposed. However, we have not seen any indication that there is any groundswell of support for incremental regulation of this sector. In the US, state and federal legislatures, as well as the federal courts, have declined to impose new regulations on commercial litigation finance. Even if there were support for additional regulation, it is far from clear that such regulation would not in fact create a further barrier to entry and protect Burford's market position.

At the end of the day, regulation is affected by sentiment, and sentiment in the justice system is very much in favor of litigation finance. This has most recently been expressed by Lord Justice Tomlinson, writing for the English Court of Appeal: "Litigation funding is an accepted and judicially sanctioned activity perceived to be in the public interest … and a feature of modern litigation." In the US, a similar view prevails, as most recently expressed by Professor Brian Fitzpatrick of Vanderbilt Law School in a comprehensive examination of the topic: "Many scholars believe that this new financing helps to balance the risk tolerance of plaintiffs and defendants and thereby facilitates the resolution of litigation in a way that more closely tracks the goals of the substantive law."[12]

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

12 Professor Fitzpatrick goes on to attribute the origins of what is today litigation finance to our own Jonathan Molot, Burford's CIO: "In a brilliant article in 2010 entitled Litigation Finance: A Market Solution to a Procedural Problem, Jonathan Molot made a compelling case for third-party financing of lawsuits: in a world where plaintiffs and defendants sometimes have different risk constraints, selling some or all of legal claims and defenses to unconstrained third parties offers us a more promising way to ensure that lawsuits are resolved at the right "price" than procedural reforms to our legal system. Professor Molot's article has been incredibly influential, and has contributed significantly to the tremendous rise over the last few years of a new form of litigation financing in the United States where plaintiffs sell a portion of their claims to third parties in exchange for upfront cash compensation."

As previously announced, Burford made a $150 million commitment to its new $500 million complex strategies investment fund raised in June 2017. The combination of Burford's commitment to the fund and its management oversight result, under the applicable accounting rules, in the consolidation of that fund and some other small funds into Burford's financial statements.

In our view, it is confusing to include the interests of fund investors other than Burford in our discussion of performance, and we have thus generally excluded the non-Burford portion of such funds from our presentation of our financial performance. The table below provides a full reconciliation so that investors are able to relate our performance discussion with our published accounts.

Reconciliation of Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

US$'000	Consolidated IFRS	Elimination of third-party fund interests*	Other adjustments**	Burford
Investment income	$321,102	($2,868)	–	$318,234
Investment management income	$14,458	$1,168	–	$15,626
Insurance income	$7,613	–	–	$7,613
New initiatives income	$2,968	–	–	$2,968
Other income	($2,664)	($535)	–	($3,199)
Third–party share of gains relating to interests in consolidated funds	($863)	$863	–	–
Total income	**$342,614**	**($1,372)**	**–**	**$341,242**
Operating expenses	($53,641)	$1,372	–	($52,269)
Amortisation of intangible asset	($11,703)	–	$11,703	–
Banking and brokerage fees	($3,838)	–	$3,838	–
Operating profit	**$273,432**	**–**	**$15,541**	**$288,973**
Finance costs	($24,251)	–	–	($24,251)
Profit before tax	**$249,181**	**–**	**$15,541**	**$264,722**
Taxation	$123	–	–	$123
Profit after tax	**$249,304**	**–**	**$15,541**	**$264,845**
Other comprehensive income	($28,206)	–	–	($28,206)
Total comprehensive income	**$221,098**	**–**	**$15,541**	**$236,639**

* Elimination of third-party fund interests is the net of the funds and adjustments and eliminations figures shown in Note 21 to the consolidated financial statements.

** Other adjustments are to exclude the impact of the amortisation of intangible asset relating to the acquisition of GKC Holdings, LLC and investment banking and brokerage fees to assist in understanding the underlying performance of the Company.

Reconciliation of Consolidated Statement of Financial Position

As at 31 December 2017

US$'000	Consolidated IFRS	Elimination of third-party fund interests*	Burford
Assets			
Non-current assets			
Investments	$1,075,941	($93,764)	$982,177
Due from settlement of investments	$3,083	–	$3,083
New initiatives investments	$10,189	–	$10,189
Investment income receivable	$4,765	($4,765)	–
Other non-current assets	$181,034	–	$181,034
	$1,275,012	**($98,529)**	**$1,176,483**
Current assets			
Due from settlement of investments	$165	$1,517	$1,682
Receivables and prepayments	$5,474	$1,298	$6,772
Tax receivable	$1,676	–	$1,676
Due from broker	$41,678	($41,678)	–
Cash management investments	$39,933	–	$39,933
Cash and cash equivalents	$135,415	($43,942)	$91,473
	$224,341	**($82,805)**	**$141,536**
Total assets	**$1,499,353**	**($181,334)**	**$1,318,019**
Liabilities			
Current liabilities			
Payables	$23,833	($295)	$23,538
Financial liabilities at fair value through profit and loss	$36,242	($36,242)	–
Due to limited partners	$1,158	($1,158)	–
Loan interest payable	$5,397	–	$5,397
	$66,630	**($37,695)**	**$28,935**
Non-current liabilities			
Other non-current liabilities	$490,520	–	$490,520
Third-party interests in consolidated funds	$143,639	($143,639)	–
	$634,159	**($143,639)**	**$490,520**
Total liabilities	**$700,789**	**($181,334)**	**$519,455**
Total net assets	**$798,564**	**–**	**$798,564**

* Elimination of third-party fund interests is the net of the funds and adjustments and eliminations figures shown in Note 21 to the consolidated financial statements.

Notes 6 and 7 to the consolidated financial statements also provide a reconciliation of the investments and due from settlement of investments balances showing the interests of Burford excluding the third-party interests in consolidated funds.

The Directors present their Annual Report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Business activities

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, investment management, financing and risk solutions with a focus on the legal 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 not required to comply with the Code, it has nevertheless elected to do so.

Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 53.

The Directors propose to pay a final dividend of 7.95¢ (United States cents) per ordinary share in the capital of the Company during 2018. Together with the interim dividend of 3.05¢ paid in November 2017, this makes a total 2017 dividend of 11.00¢. 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 22 May 2018). If approved by shareholders, the record date for this dividend will be 1 June 2018 and payment of this dividend would then occur on 22 June 2018.

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 US 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 final 2016 dividend of 6.48¢ per share on 16 June 2017 to shareholders on the register as at close of business on 26 May 2017. This combined with an interim dividend of 2.67¢, paid in October 2016, resulted in a full year 2016 dividend of 9.15¢.

Directors

The Directors of the Company who served during the year and to date are as stated on page 37.

Directors' interests

	Number of Shares	% Holding at 31 December 2017
Sir Peter Middleton	100,000	0.05
Hugh Steven Wilson	200,000	0.10
David Charles Lowe	200,000	0.10

Furthermore, at 31 December 2017, Hugh Steven Wilson holds a $708,000 interest in the consolidated funds and David Charles Lowe holds 300,000 bonds as issued by the Group's subsidiary Burford Capital PLC.

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 IFRS 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 IFRS, 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

13 March 2018

Opinion

We have audited the consolidated financial statements of Burford Capital Limited and its subsidiaries (together the 'Group') for the year ended 31 December 2017 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 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Overview of our audit approach

Key audit matters	■ Incorrect valuation of investments ■ Incorrect goodwill impairment assessment and allocation to cash generating units (CGUs) ■ Incorrect calculation of tax balances ■ Incorrect recognition of investment management income and insurance income All of the above matters are considered to be significant risks. The first and third risks and revenue recognition of insurance income are consistent with the 2016 audit. The above risks associated with goodwill impairment and revenue recognition for the investment management income stream are new in 2017 as a result of the acquisition of GKC Holdings LLC ("GKC"), the parent entity of Gerchen Keller Capital, on 14 December 2016.
Materiality	■ Overall group materiality of US$8.0 million which represents 1% of Total net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation of investments **(US$1,075.9 million, 2016: US$559.7 million)** *Refer to the Accounting policies (pages 64 to 66); and Note 6 of the Consolidated Financial Statements (page 73)* Owing to the illiquid nature of these investments, the assessment of fair valuation is highly subjective and requires a number of significant and complex judgements to be made by management. The exit value will be determined for each investment by the contractual entitlement, the underlying risk profile of the litigation, a trial or an appellate outcome or other case events, any other agreements in respect of settlement discussions or negotiations as well as the credit risk associated with the investment value and any relevant secondary market activity. There is a risk that inaccurate judgements made in the assessment of fair value, in particular in respect of the expected return on the legal judgment and the application of discounts could lead to the incorrect valuation of an investment. This could materially misstate the value of the investments in the Consolidated Statement of Financial Position and relevant fair value gain in the Consolidated Statement of Comprehensive Income. There is also the risk that management may influence the significant judgements and estimations in respect of the valuation of investments.	We obtained an understanding of management's processes and controls for determining the fair value of investments by performing a walkthrough procedure. For all investments where there has been a change in fair value, we tested the assumptions, performed external research on the status of litigation, obtained supporting documentation, considered any relevant secondary market trading and challenged management's judgements. Where there had not been a change to assessed fair value during the year, we tested a sample of investments applying a combination of methods, including obtaining other supporting information as appropriate and reviewing the contract documentation, if acquired in the current period. Additionally we performed external research on the status of litigation. We held discussions with management to determine the qualitative factors and ongoing legal proceedings and whether there have been any changes in the facts and circumstances that suggest that the fair valuation is not appropriate. In all cases above, we considered whether the investments tested were assessed for fair value consistent with the detailed fair value policy guidelines maintained by management.	The valuation of investments is determined to be within an acceptable range of fair values. Appropriate inputs to the valuations were used for investments tested and management judgements and estimates are considered to be reasonable and supported by relevant evidence. The investment valuations calculated by management are consistent with the Burford accounting policy and detailed valuation guidelines and are within an acceptable range. Based on our procedures performed we had no matters to report to management.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	At our request, management engaged an independent counsel to perform an annual review of the fair value of a specific investment selected by us. The review focussed on a legal judgment and subsequent developments arising thereon together with the application of the valuation policy and the associated credit risk in arising at fair value. We reviewed his conclusions, independence and objectivity and discussed with him the approach and judgements considered in reaching his conclusion. We engaged our valuation specialists to review a sample of larger and higher risk investments to: ■ use their relevant industry knowledge and experience to assess and corroborate the valuation metrics; ■ assist us to determine whether the methodologies used and judgements applied to value investments were appropriate and consistent. We performed back-testing procedures on cases concluded in 2017 and, combining this with previous history, continued to challenge the ongoing valuation process and methodology of management which may involve significant judgements given the dependency on inherently unpredictable trial outcomes.	

Continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect goodwill impairment assessment and allocation to the cash generating units (CGUs) **(US$134.0 million, 2016: US$133.9 million)** Determining whether the carrying value of goodwill is recoverable requires management to make significant estimates concerning the estimated future cash flows and associated discount rates, returns and growth rates based on management's view of future business prospects. Allocating the goodwill across the CGUs also requires significant judgements in respect of future returns which once fixed is the basis used for the carrying value. *Refer to the Accounting policies (page 63); and Note 18 of the Consolidated Financial Statements (pages 80 to 81)*	We assessed the reasonableness of cash flow projections and compared key inputs, such as the discount rates, investment returns and growth rates to externally available industry data and the group's own historical data and performance. With the assistance of our own valuation and modelling specialists, we assessed critically the assumptions and methodologies used to forecast value in use for the two CGUs identified by management. We also validated the logical integrity and mathematical accuracy of the model. We reviewed the accounting paper prepared by management which covered the allocation of goodwill to the investment and investment management CGUs based on the expected returns from the synergy of the acquisition of GKC and validated the inputs used to underlying records and agreements.	Based on the procedures performed, we concluded that the overall total valuation of goodwill is appropriately stated and that there was no material goodwill impairment identified in respect of the year.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect calculation of tax balances **(Net deferred tax asset US$10.4 million, 2016: US$9.3 million; Tax receivable US$1.7 million, 2016: US$1.4 million in the consolidated statement of financial position)** **(US$0.1 million, 2016: US$4.8 million in the consolidated statement of comprehensive income)** The Group is exposed to a number of tax regimes across the different tax jurisdictions in which it operates. Income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable items. Management establish provisions where appropriate on the basis of amounts expected to be paid to tax authorities. Deferred tax is recognised on temporary differences arising between the tax bases of investments and their carrying amounts as disclosed in the financial statements. This risk is related to the recoverability of the deferred tax assets recognised. *Refer to the Accounting policies (page 67); and Note 4 of the Consolidated Financial Statements (pages 68 to 69)*	With the involvement of tax specialists in our team: ■ we obtained the deferred tax calculations and assessed the recoverability of the deferred tax assets. We evaluated the evidence supporting the reversal of temporary differences in the future and whether there were sufficient taxable profits available against which the temporary difference can be utilised. ■ we performed a review of the realised and unrealised gains arising on investments to ensure that any tax aspects are appropriately recorded. ■ we reviewed the transfer pricing report and considered the impact on the Group. ■ we have read relevant tax advice received by the Group and considered its application to the Group. We also considered the impact of the US Tax Reform in order to identify any relevant tax consequences. In addition we tested the disclosures in the financial statements and ensured they complied with relevant accounting standards.	Based on the procedures performed, we concluded that the tax balances were not materially misstated and are properly disclosed in the financial statements.

Continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect recognition of investment management income and insurance income **(US$14.5 million and US$7.6 million respectively, 2016: US$0.6 million and US$12.9 million respectively)** Investment management fees are composed of management fees and performance fees. Management fees are calculated as a percentage of the invested or committed capital of the fund (depending on the fund specific terms) managed by the Group while performance fees are earned when relevant contractual realised performance levels on exited investments are exceeded. Insurance income is profit commission and the main risk for this revenue stream relates to the occurrence (premium values in the insurance database not updated on a timely basis) and measurement (premium values not reflective of updated correspondence with solicitors) of revenue. *Refer to the Accounting policies (page 62)*	For investment management income: We recalculated the management fees ensuring they were in line with the relevant limited partnership and operating agreements and validating all external inputs used to source data. We recalculated the performance fees income due and received in accordance with the contractual commitment under the relevant agreements and agreed all inputs used to source data. For insurance income: We performed a walkthrough to understand the revenue process of all streams of insurance income and methods of recognition and ensured that the accounting policy on revenue recognition is in line with relevant accounting standards. For a sample of policies relating to insurance income we tested all components in the Insurance Business Account (IBA) which forms part of this calculation to source data.	Based on the procedures performed, we concluded that the investment management income and the insurance income are not materially misstated.

An overview of the scope of our audit

Tailoring the scope for an integrated audit team

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we performed an audit of the underlying financial information covering all material entities.

All audit work was performed by one integrated audit team with one audit partner across the whole group. The team comprised individuals from Guernsey ("Group audit team") and the United Kingdom ("Funds and Insurance team") and we operated across both jurisdictions. We performed the audit procedures and responded to the risks identified as described above.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$8.0 million (2016: US$5.9 million), which is 1% (2016: 1%) of Total net assets. We believe that Total net assets provides us an appropriate level of basis as the group's objective is to provide attractive levels of dividends and capital growth.

During the course of our audit, we reassessed initial materiality and accordingly updated the materiality using yearend figures.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 50%) of our planning materiality, namely US$6.0 million (2016: US$5.9 million). We have increased performance materiality due to the strengthening and increased maturity of relevant controls and processes in the Group.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$0.4 million (2016: US$0.3 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. There was no change in the threshold used from prior year.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 43 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept by the company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Continued

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 42 to 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Ernst & Young LLP
London
13 March 2018

Notes:

1. The maintenance and integrity of Burford Capital Limited web site 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 web site.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

for the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Income			
Investment income	6	321,102	140,187
Investment management income		14,458	647
Insurance income		7,613	12,923
New initiatives income	8	2,968	8,849
Net loss on equity securities	9	(6,953)	–
Cash management income and bank interest	10	2,650	555
Foreign exchange gains		1,639	242
Third-party share of gains relating to interests in consolidated funds		(863)	–
Total income		342,614	163,403
Operating expenses	11	(53,641)	(39,026)
Amortisation of intangible asset	17	(11,703)	(271)
Banking and brokerage fees		(3,838)	–
Operating profit		273,432	124,106
Finance costs	14	(24,251)	(14,108)
Profit before tax and acquisition costs		249,181	109,998
Non-recurring acquisition costs		–	(5,945)
Profit for the year before taxation		249,181	104,053
Taxation	4	123	4,817
Profit for the year after taxation		249,304	108,870
Attributable to contingent preference shares		–	600
Attributable to ordinary shareholders		249,304	108,270
		249,304	108,870
Other comprehensive income			
Exchange differences on translation of foreign operations on consolidation		(28,206)	34,921
Total comprehensive income for the year		221,098	143,791
Attributable to contingent preference shares		–	600
Attributable to ordinary shareholders		221,098	143,191
		Cents	Cents
Basic profit per ordinary share	24	119.72	52.89
Diluted profit per ordinary share	24	119.55	52.89
Basic comprehensive income per ordinary share	24	106.18	69.94
Diluted comprehensive income per ordinary share	24	106.02	69.94

The notes on pages 59 to 91 form an integral part of these consolidated financial statements.

as at 31 December 2017

	Notes	2017 $'000	2016 $'000
Assets			
Non-current assets			
Investments	6	**1,075,941**	559,687
Due from settlement of investments	7	**3,083**	29,814
New initiatives investments	8	**10,189**	2,337
Equity securities	9	**6,058**	–
Investment income receivables	6	**4,765**	–
Deferred tax assets	4	**10,863**	9,498
Goodwill	18	**134,022**	133,932
Intangible asset	17	**27,692**	39,395
Tangible fixed assets		**2,399**	2,156
		1,275,012	776,819
Current assets			
Due from settlement of investments	7	**165**	9,554
Due from settlement of new initiatives investments		**–**	747
Receivables and prepayments	12	**5,474**	10,240
Tax receivable		**1,676**	1,402
Due from broker	21	**41,678**	–
Cash management investments	10	**39,933**	11,098
Cash and cash equivalents		**135,415**	158,371
		224,341	191,412
Total assets		**1,499,353**	968,231
Liabilities			
Current liabilities			
Investments payable		**–**	9,505
Payables	13	**23,833**	17,622
Financial liabilities at fair value through profit and loss	21	**36,242**	–
Due to limited partners		**1,158**	–
Loan interest payable	14,15	**5,397**	4,139
GKC acquisition purchase price payable	13	**–**	57,863
Acquisition costs payable		**–**	5,858
		66,630	94,987
Non-current liabilities			
Deferred tax liability	4	**437**	227
Investment subparticipations		**3,152**	2,865
Third-party interests in consolidated funds	21	**143,639**	–
Loan capital	14	**486,931**	230,243
Loan notes	15	**–**	43,750
		634,159	277,085
Total liabilities		**700,789**	372,072
Total net assets		**798,564**	596,159

as at 31 December 2017 (continued)

	Notes	2017 $'000	2016 $'000
Represented by:			
Ordinary share capital	22	**351,249**	351,249
Contingent share capital – deferred consideration	22	**13,500**	13,500
Other capital reserve		**1,152**	–
Revenue reserve		**423,220**	193,761
Foreign currency translation reserve		**9,581**	37,787
Capital redemption reserve		**(138)**	(138)
Total equity shareholders' funds		**798,564**	596,159

The notes on pages 59 to 91 form an integral part of these consolidated financial statements.

The financial statements on pages 53 to 91 were approved by the Board of Directors on 13 March 2018 and were signed on its behalf by:

Charles Parkinson
Director

13 March 2018

for the year ended 31 December 2017

	2017 $'000	2016 $'000
Cash flows from operating activities		
Profit for the year before tax	249,181	104,053
Adjusted for:		
Realised (gains) on realisation of investments	(122,712)	(47,474)
Realised (gains) on new initiatives investments	–	(7,514)
Realised (gains)/losses on disposal of cash management investments	(70)	1,101
Interest and other income from investment activities	(1,527)	(4,895)
New initiatives income	(1,837)	(2,419)
Fair value change on investments	(191,830)	(87,818)
Fair value change on new initiatives investments	(1,096)	1,110
Fair value change on equity securities	6,953	–
Fair value change on financial liabilities at fair value through profit and loss	(268)	–
Fair value change on cash management investments	(823)	222
Unrealised (gain) on forward foreign currency contract	–	(128)
Finance costs	24,251	14,108
Amortisation of intangible asset	11,703	271
Share-based payments expense	1,152	–
Depreciation of tangible fixed assets	444	307
Effect of exchange rate changes	(186)	(47,421)
	(26,665)	(76,497)
Changes in working capital		
Proceeds from investments	363,889	180,772
Proceeds from decrease in due from settlements of investments	23,109	22,241
Proceeds from new initiatives investments	2,623	13,135
Funding of investments	(569,564)	(275,698)
Funding of new initiatives investments	(6,467)	(4,274)
Net proceeds from (purchases)/disposals of cash management investments	(27,942)	127,785
(Increase) in investment income receivables	(4,765)	–
(Increase) in due from broker	(41,678)	–
Decrease/(increase) in receivables	2,528	(10,636)
Increase in payables	3,524	22,358
Proceeds from financial liabilities at fair value through profit and loss	36,510	–
Taxation paid	(1,064)	(5,854)
Increase in third-party interests in consolidated funds	143,639	–
Net cash (outflow) from operating activities	(102,323)	(6,668)
Cash flows from financing activities		
Issue of loan capital and loan notes	225,803	189,590
Issue expenses – loan capital	(3,170)	(2,042)
Interest paid on loan capital and loan notes	(22,680)	(11,994)
Repayment of loan notes	(43,750)	–
Dividends paid on ordinary shares	(19,845)	(17,059)
Dividends paid on contingent preference shares	–	(600)
Net cash inflow from financing activities	136,358	157,895
Cash flows from investing activities		
Purchases of tangible fixed assets	(650)	(1,570)
Purchase of subsidiary	–	(35,418)
Settlement of outstanding creditor relating to prior year's acquisition of subsidiary	(57,863)	–
Net cash (outflow) from investing activities	(58,513)	(36,988)
Net (decrease)/increase in cash and cash equivalents	(24,478)	114,239

for the year ended 31 December 2017 (continued)

	2017 $'000	2016 $'000
Reconciliation of net cash flow to movements in cash and cash equivalents		
Cash and cash equivalents at beginning of year	**158,371**	45,417
(Decrease)/increase in cash and cash equivalents	**(24,478)**	114,239
Effect of exchange rate changes on cash and cash equivalents	**1,522**	(1,285)
Cash and cash equivalents at end of year	**135,415**	158,371

Supplemental Disclosure	2017 $'000	2016 $'000
Cash received from interest income	**2,986**	6,862
Asset received in kind to settle due from settlement of investments	**13,011**	–

The notes on pages 59 to 91 form an integral part of these consolidated financial statements.

for the year to 31 December 2017

31 December 2017	Share capital $'000	Contingent share capital $'000	Other capital reserve $'000	Revenue reserve $'000	Foreign currency consol-idation reserve $'000	Capital redemp-tion reserve $'000	Total equity share-holders' funds $'000
As at 1 January 2017	351,249	13,500	–	193,761	37,787	(138)	596,159
Profit for the year	–	–	–	249,304	–	–	249,304
Other comprehensive income	–	–	–	–	(28,206)	–	(28,206)
Share-based payments	–	–	1,152	–	–	–	1,152
Dividends paid (Note 25)	–	–	–	(19,845)	–	–	(19,845)
Balance at 31 December 2017	**351,249**	**13,500**	**1,152**	**423,220**	**9,581**	**(138)**	**798,564**

31 December 2016	Share capital $'000	Conti-ngent share capital $'000	Revenue reserve $'000	Foreign currency consol-idation reserve $'000	Capital redem-ption reserve $'000	Equity attribut-able to ordinary share-holders $'000	Conti-ngent Prefe-rence Shares $'000	Total equity share-holders' funds $'000
As at 1 January 2016	328,749	–	102,550	2,866	–	434,165	(138)	434,027
Profit for the year	–	–	108,270	–	–	108,270	600	108,870
Other comprehensive income	–	–	–	34,921	–	34,921	–	34,921
Dividends paid (Note 25)	–	–	(17,059)	–	–	(17,059)	(600)	(17,659)
Issue of share capital (Note 22)	22,500	–	–	–	–	22,500	–	22,500
Issue of contingent share capital – deferred consideration (Note 22)	–	13,500	–	–	–	13,500	–	13,500
Redemption of contingent preference shares	–	–	–	–	(138)	(138)	138	–
Balance at 31 December 2016	351,249	13,500	193,761	37,787	(138)	596,159	–	596,159

The notes on pages 59 to 91 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, investment management, financing and risk solutions with a focus on the legal 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 2017 to 31 December 2017.

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 US Dollars and are rounded to the nearest $'000 unless otherwise indicated.

We have renamed the litigation investments segment to be called investments as we have increasingly moved away from the use of "litigation" as a definer of our business as our investment scope has broadened to encompass many different kinds of legal and regulatory risk.

Significant estimates and judgements

The most significant estimates relate to the valuation of 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, although the existence of secondary market transactions is a valuation input.

Continued

2. Principal accounting policies continued

There is a significant estimate around deferred tax as it is based on the tax expected to be paid in the future and that estimate is based on factors including the structuring of investments for tax efficiency.

Testing goodwill for impairment involves a significant amount of judgement. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. Determining both the expected pre-tax cash flows and the risk-adjusted interest rate appropriate to the CGUs requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which the projections are made and to assumptions regarding long-term sustainable cash flows.

Control of funds and affiliates

In connection with investment funds and other investment-related entities where the Group does not own 100% of the entity in question, the Group makes judgements about whether it is required to consolidate such entities by applying the factors set forth in the relevant accounting standards, including but not limited to the Group's equity and economic ownership interest, the economic structures in use in the entity, the level of control the Group has over the entity through the entity's structure or any relevant contractual agreements, and the rights of other investors.

Non-controlling interests where the Group does not own 100% of a consolidated entity are classified as financial liabilities and recorded as third-party interest in consolidated funds on the consolidated statement of financial position when they contain an obligation to transfer a financial asset to another entity. Accordingly, third-party share of gains or losses relating to interest in consolidated funds is treated as a reduction or increase, respectively, of income on the consolidated statement of comprehensive income.

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.

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

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

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 the classification and measurement rules from an earlier version of IFRS 9 Financial Instruments (2010) with a date of initial application of 1 January 2012. The latest version will not further impact Burford's classification or measurement of financial instruments. 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.

2. Principal accounting policies continued

New accounting pronouncements not yet effective

The following issued standards and interpretations, which are not yet effective, have not been adopted in these financial statements.

		Effective Date
IFRS 9	Financial Instruments	1 Jan 2018
IFRS 15	Revenue from Contracts with Customers	1 Jan 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2	1 Jan 2018
IFRS 16	Leases	1 Jan 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 Jan 2019

The Group intends to adopt the standards, if applicable, when they become effective. The Group anticipates that the adoption of some of these standards and interpretations in the future will not have a material impact on the financial statements of the Company, except for IFRS 9 and IFRS 15 which have been qualitatively explained below.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard by the required effective date.

(a) Classification and measurement

There are no changes in the classification and measurement requirements of IFRS 9.

(b) Impairment

The most significant effect of the adoption of IFRS 9 will be on the assets classified at amortised cost. IFRS 9 requires the Group to record expected credit losses (ECLs) on its debt securities, loans, amounts due from settlement of both investments and new initiatives investments and trade receivables, either on a 12-month or lifetime basis. At 31 December 2017, assets classified at amortised cost totalled $4,748,000. The Group has determined there will be no material impact of ECLs on the financial statements.

(c) Hedge accounting

The Group has not applied hedge accounting.

Continued

2. Principal accounting policies continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS and is effective for annual periods beginning on or after 1 January 2018. The Group has assessed the impact of the new standard and has not identified any material impacts on its reported amounts.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a liability will be recognised to make lease payments and an asset will be recognised to represent the right to use the underlying asset during the lease term. Interest expense on the lease liability and the depreciation expense on the right-of-use asset will be separately recognised.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted. The Group will analyse our leases in order to determine the possible impact on the financial statements.

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 represents commissions receivable which are calculated based on 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.

Investment management income

Investment management income is derived from the governing agreements in place with various investment funds under management. The rate or amount at which fees are charged, the basis on which such fees are calculated, and the timing of payment, vary across investment funds and, as to a particular investment fund, may also vary across investment options available to underlying investors in or members of the investment fund. Management fees are generally based on an agreed percentage of investor fund commitments, amounts committed or deployed depending on the fund agreements. Management fees are recognised in the year in which the services are provided. Performance fees are earned when contractually agreed performance levels are exceeded within specified performance measurement periods. They are generally recognised at the end of these performance periods, when a reliable estimate of the fee can be made and it is almost certain that the fee will be received.

2. Principal accounting policies continued

Segment reporting

Management consider that there are four operating business segments in addition to its corporate functions, being (i) provision of investment capital in connection with the underlying asset value of claims; (ii) investment management activities; (iii) provision of litigation insurance (reflecting UK and Channel Islands litigation insurance activities); and (iv) exploration of new initiatives related to application of capital to the legal sector until such time as those initiatives mature into full fledged independent segments.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred and included in the Consolidated Statement of Comprehensive Income. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are reflected in the Consolidated Statement of Comprehensive Income. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities assumed on the date of the acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible asset

The intangible is recognised at fair value when acquired as part of a business combination. It represents the future cash flows of investment management income recognised in accordance with the Group's policy for the recognition of investment management income. This intangible is amortised to the income statement over the period revenue is expected to be earned.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the income statement.

Continued

2. Principal accounting policies continued

Financial instruments

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

(1) Investments

Investments relate to the provision of investment capital in connection with the underlying asset value of claims. The Group takes investment positions in assets where legal and regulatory risk can affect asset value, either through direct litigation or through other dynamics relating to that risk. Investments comprise primarily of investments held at fair value through profit or loss and some investments held at amortised cost. Investments are initially measured as the sum invested. Attributable due diligence and closing costs are expensed.

Recognition, derecognition and measurement

Purchases and sales of 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. An 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 investments are included within investment income in the Consolidated Statement of Comprehensive Income. Investment income can also consist of interest that is accrued or received on event-driven legal claim investments.

Investments held at amortised cost use the effective interest method, less any impairment, for loan investments in the law firm lending business. Interest income is recognised on an accruals basis and included within investment income in the Consolidated Statement of Comprehensive Income.

(2) New initiatives investments

New initiatives investments are held at fair value and relate to investments in the asset recovery business. Investments are initially measured as the sum invested. Attributable due diligence and closing costs are expensed.

New initiatives income comprises income from professional services and investment income from the asset recovery business. Professional services income is recognised as services are provided.

(3) Financial assets and liabilities at amortised cost

Financial assets and liabilities, including loan capital, loan notes, amounts due from settlement of investments and amounts due from settlement of new initiatives 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) Cash management investments

Investments for the purpose of cash management, acquired to generate returns on cash balances awaiting subsequent investment, and 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.

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.

2. Principal accounting policies continued

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.

(5) Financial liabilities at fair value through profit and loss
Equity positions taken for the purpose of hedging offsetting gains and losses attributable to long equity positions held within investments. Movements in fair value on financial liabilities at fair value through profit and loss and transactions costs incurred are included within investment income in the Consolidated Statement of Comprehensive Income.

(6) Investment subparticipations
Investment subparticipations are classified as financial liabilities and are initially recorded at the fair value of proceeds received. They are subsequently measured at fair value with changes in fair value being recorded in investment income in the Consolidated Statement of Comprehensive Income.

Fair value hierarchy of financial instruments

The financial assets and liabilities 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 methodology for level 1 investments

Level 1 assets and liabilities are comprised of listed instruments including equities, fixed income securities, investment funds, financial liabilities at fair value through profit and loss and loan capital. All level 1 assets and liabilities are valued at the quoted market price as of the reporting date.

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.

Continued

2. Principal accounting policies continued

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; (vii) evaluating financial information provided by the investment counterparties and (viii) entering into a market transaction with an arm's-length party.

The material estimates and assumptions used in the analyses of fair value include the status and risk profile of the risks underlying the investment, the timing and expected amount of cash flows based on the investment structure and agreement, the appropriateness of discount rates used, if any, and in some cases, the timing of, and estimated minimum proceeds from, a favourable 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.

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.

Since April 2016, certain intragroup balances are now considered, in substance, to form part of a net investment in a foreign operation. Gains and losses on such balances are recognised in other comprehensive income, with a gain of $2,325,000 recognised in the current year (2016: loss of $5,507,000).

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

2. Principal accounting policies continued

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 profit 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 Consolidated 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

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 shares are classified as equity in share capital, where shares will be issued and converted to ordinary shares only after the specified terms have been met. Other capital reserve is the obligation for the long term incentive plan issuance of shares to the Group’s employees. 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.

Continued

3. Material agreements

During 2017 and 2016 there were no material agreements in place between Group entities and third parties.

4. Taxation

The Company 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.

	2017 $'000	2016 $'000
Profit on ordinary activities before tax	**249,181**	104,053
Corporation tax at country rates	**(198)**	(5,125)
Factors affecting charge:		
Adjustment in respect of prior year	**25**	(71)
Tax losses not recognised	**521**	361
Costs allowable for tax	**(3,936)**	–
Costs not allowable for tax	**30**	18
Adjustment for US tax rate change	**3,435**	–
Total taxation (credit)	**(123)**	(4,817)

Corporation tax at country rates is influenced by taxable profits and losses arising in jurisdictions at different rates and non taxable gains and losses arising on fair value adjustments.

The taxation charge for the year comprises:

	2017 $'000	2016 $'000
US subsidiaries taxation (credit)/charge	**(227)**	3,590
Irish subsidiaries taxation charge/(credit)	**1,188**	(643)
UK subsidiaries taxation charge	**–**	175
US deferred taxation charge/(credit)	**(1,802)**	(7,939)
Irish deferred taxation charge	**718**	–
Total taxation (credit)	**(123)**	(4,817)

Deferred tax asset	2017 $'000	2016 $'000
Balance at 1 January	**9,498**	1,970
Movement on UK deferred tax – temporary differences	**–**	(174)
Movement on US deferred tax – temporary differences	**5,681**	7,076
Movement on Irish deferred tax – temporary differences	**(644)**	644
Foreign exchange adjustment	**–**	(18)
Adjustment for US tax rate change	**(3,672)**	–
Balance at 31 December	**10,863**	9,498

Included in the deferred tax asset recognised at the balance sheet date are amounts relating to operating losses that the Group believes it will be able to utilise in the future.

4. Taxation continued

Deferred tax liability	2017 $'000	2016 $'000
Balance at 1 January	227	1,098
Movement on US deferred tax – temporary differences	443	(863)
Foreign exchange adjustment	4	(8)
Adjustment for US tax rate change	(237)	–
Balance at 31 December	437	227

	2017 $'000	2016 $'000
Net deferred tax asset	10,426	9,271

Analysis of net deferred tax asset by type

	2017 $'000	2016 $'000
Staff compensation and benefits	3,618	3,462
GKC acquisition costs	690	1,188
Investment fair value adjustments	1,584	4,200
Capital allowances	(209)	(223)
Net operating loss carry forward	4,743	644
	10,426	9,271

5. Segmental information

Management consider that there are four operating business segments in addition to its corporate functions, being (i) provision of investment capital in connection with the underlying asset value of claims, (ii) investment management activities, (iii) provision of litigation insurance (reflecting UK and Channel Islands litigation insurance activities), and (iv) exploration of new initiatives related to application of capital to the legal sector until such time as those initiatives mature into full fledged independent segments.

Continued

5. Segmental information continued

Segment revenue and results

31 December 2017	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Income	313,286	14,458	7,613	2,968	4,289	342,614
Operating expenses	(34,912)	(7,159)	(2,001)	(2,271)	(7,298)	(53,641)
Amortisation of intangible asset arising on acquisition	–	–	–	–	(11,703)	(11,703)
Investment banking and brokerage fees	–	–	–	–	(3,838)	(3,838)
Finance costs	–	–	–	–	(24,251)	(24,251)
Profit/(loss) for the year before taxation	278,374	7,299	5,612	697	(42,801)	249,181
Taxation	2,412	(3,008)	(662)	(235)	1,616	123
Other comprehensive income	–	–	–	–	(28,206)	(28,206)
Total comprehensive income	280,786	4,291	4,950	462	(69,391)	221,098

31 December 2016	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Income	140,187	647	12,923	8,849	797	163,403
Operating expenses	(26,017)	(443)	(1,696)	(4,895)	(5,975)	(39,026)
Amortisation of intangible asset arising on acquisition	–	–	–	–	(271)	(271)
Finance costs	–	–	–	–	(14,108)	(14,108)
Non-recurring acquisition costs	–	–	–	–	(5,945)	(5,945)
Profit/(loss) for the year before taxation	114,170	204	11,227	3,954	(25,502)	104,053
Taxation	4,718	(82)	(1,608)	(818)	2,607	4,817
Other comprehensive income	–	–	–	–	34,921	34,921
Total comprehensive income	118,888	122	9,619	3,136	12,026	143,791

5. Segmental information continued

Segment assets

31 December 2017	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Non-current assets						
Investments	1,075,941	–	–	–	–	1,075,941
Due from settlement of investments	3,083	–	–	–	–	3,083
New initiatives investments	–	–	–	10,189	–	10,189
Equity securities	6,058	–	–	–	–	6,058
Investment income receivables	4,765	–	–	–	–	4,765
Deferred tax asset	10,138	–	–	–	725	10,863
Goodwill	–	–	–	–	134,022	134,022
Intangible asset	–	–	–	–	27,692	27,692
Tangible fixed assets	1,654	320	425	–	–	2,399
	1,101,639	320	425	10,189	162,439	1,275,012
Current assets						
Due from settlement of investments	165	–	–	–	–	165
Receivables and prepayments	995	2,845	832	771	31	5,474
Tax receivable	1,541	–	135	–	–	1,676
Due from broker	41,678	–	–	–	–	41,678
Cash management investments	–	–	–	–	39,933	39,933
Cash and cash equivalents	61,598	236	10,017	13,627	49,937	135,415
	105,977	3,081	10,984	14,398	89,901	224,341
Total assets	1,207,616	3,401	11,409	24,587	252,340	1,499,353
Current liabilities						
Payables	20,647	30	1,865	866	425	23,833
Financial liabilities at fair value through profit and loss	36,242	–	–	–	–	36,242
Due to limited partner	1,158	–	–	–	–	1,158
Loan interest payable	–	–	–	–	5,397	5,397
	58,047	30	1,865	866	5,822	66,630
Non-current liabilities						
Deferred tax liability	361	–	41	–	35	437
Investment subparticipation	3,152	–	–	–	–	3,152
Third-party interest in consolidated funds	143,639	–	–	–	–	143,639
Loan capital	–	–	–	–	486,931	486,931
	147,152	–	41	–	486,966	634,159
Total liabilities	205,199	30	1,906	866	492,788	700,789
Total net assets	1,002,417	3,371	9,503	23,721	(240,448)	798,564

Continued

5. Segmental information continued

31 December 2016	Investments $'000	Investment management $'000	Litigation insurance $'000	New initiatives $'000	Other corporate activity $'000	Total $'000
Non-current assets						
Investments	559,687	–	–	–	–	559,687
New initiatives investments	–	–	–	2,337	–	2,337
Due from settlement of investments	29,814	–	–	–	–	29,814
Deferred tax asset	8,310	–	–	–	1,188	9,498
Goodwill	–	–	–	–	133,932	133,932
Intangible asset	–	–	–	–	39,395	39,395
Tangible fixed assets	1,389	402	365	–	–	2,156
	599,200	402	365	2,337	174,515	776,819
Current assets						
Due from settlement of investments	9,554	–	–	–	–	9,554
Due from settlement of new initiatives investments	–	–	–	747	–	747
Receivables and prepayments	854	1,279	7,165	718	224	10,240
Tax receivable	1,279	–	123	–	–	1,402
Cash management investments	–	–	–	–	11,098	11,098
Cash and cash equivalents	48,097	235	6,375	2,384	101,280	158,371
	59,784	1,514	13,663	3,849	112,602	191,412
Total assets	658,984	1,916	14,028	6,186	287,117	968,231
Current liabilities						
Investments payable	9,505	–	–	–	–	9,505
Payables	14,330	488	990	1,439	375	17,622
Loan interest payable	–	–	–	–	4,139	4,139
GKC acquisition purchase price payable	–	–	–	–	57,863	57,863
Acquisition costs payable	–	–	–	–	5,858	5,858
	23,835	488	990	1,439	68,235	94,987
Non-current liabilities						
Deferred tax liability	189	–	38	–	–	227
Investment subparticipation	2,865	–	–	–	–	2,865
Loan capital	–	–	–	–	230,243	230,243
Loan notes	–	–	–	–	43,750	43,750
	3,054	–	38	–	273,993	277,085
Total liabilities	26,889	488	1,028	1,439	342,228	372,072
Total net assets	632,095	1,428	13,000	4,747	(55,111)	596,159

6. Investments

Investments are comprised of some assets at fair value and some assets at amortised cost. As at 31 December 2017, investments at fair value is $1,074,441,000 (2016: $549,173,000) and investments at amortised cost is $1,500,000 (2016: $10,514,000), totaling $1,075,941,000 (2016: $559,687,000) as shown on the Consolidated Statement of Financial Position.

	2017 $'000	2016 $'000
As at 1 January	**559,687**	334,212
Additions	**560,346**	271,627
Realisations	**(362,890)**	(177,624)
Net realised gain for year	**122,712**	47,474
Fair value movement (net of transfers to realisations)	**191,830**	87,818
Net gain on investments at amortised cost	**528**	1,747
Foreign exchange loss gains/(losses)	**3,728**	(5,567)
As at 31 December	**1,075,941**	559,687

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

	2017 $'000	2016 $'000
Net realised gains on investments (above)	**122,712**	47,474
Fair value movement on investments (above)	**191,830**	87,818
Net gain on investments at amortised cost (above)	**528**	1,747
Interest and other income*	**5,764**	3,148
Fair value movement on financial liabilities at fair value through profit and loss	**268**	–
Total investment income	**321,102**	140,187

* Interest and other income includes $999,000 (2016: $3,148,000) of income received as part of due from settlement of investments and $4,765,000 (2016: $nil) of investment income receivables.

Further detail and commentary on realised gains on investments and unrealised gains on investments is included in the Report to Shareholders on pages 22 to 23.

The following table reflects the line-by-line impact of eliminating the funds' investments from the investments balance reported in the Consolidated Statement of Financial Position to arrive at Burford's investments at 31 December 2017.

	Consolidated total $'000	Elimination of third-party fund interests $'000	Burford $'000
At 1 January 2017	559,687	–	559,687
Additions	560,346	(145,429)	414,917
Realisations	(362,890)	49,398	(313,492)
Net realised gain for the year	122,712	12,959	135,671
Fair value movement (net of transfers to realisations)	191,830	(10,608)	181,222
Net gain on investments at amortised cost	528	–	528
Foreign exchange gains	3,728	(84)	3,644
As at 31 December 2017	1,075,941	(93,764)	982,177

Continued

7. Due from settlement of investments

Amounts due from settlement of investments relate to the recovery of 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.

	2017 $'000	2016 $'000
As at 1 January	39,368	61,609
Transfer of realisations from investments (Note 6)	362,890	177,624
Interest and other income (Note 6)	999	3,148
Proceeds received	(387,010)	(203,011)
Assets received in kind (Note 9)	(13,011)	–
Foreign exchange gains/(losses)	12	(2)
As at 31 December	3,248	39,368
Split:		
Non-current assets	3,083	29,814
Current assets	165	9,554
Total due from settlement of investments	3,248	39,368

The following table reflects the line-by-line impact of eliminating the funds' investment receivables from the due from settlement of investments balance reported in the Consolidated Statement of Financial Position to arrive at Burford's investment receivables at 31 December 2017.

	Consolidated total $'000	Elimination of third-party fund interests $'000	Burford $'000
At 1 January 2017	39,368	–	39,368
Transfer of realisations from investments	362,890	(49,398)	313,492
Interest and other income	999	(186)	813
Proceeds received	(387,010)	51,101	(335,909)
Assets received in kind	(13,011)	–	(13,011)
Foreign exchange gains	12	–	12
As at 31 December 2017	3,248	1,517	4,765

8. New initiatives investments

New initiatives investments represent capital deployed in the exploration of new initiatives related to the legal sector until such time as those initiatives mature into full-fledged independent segments.

	2017 $'000	2016 $'000
As at 1 January	**2,337**	3,509
Additions	**6,467**	4,274
Realisations	**–**	(11,590)
Net realised gains for the year	**–**	7,514
Fair value movement (net of transfers to realisations)	**1,096**	(1,110)
Foreign exchange gains/(losses)	**289**	(260)
As at 31 December	**10,189**	2,337

New initiatives income on the face of the Consolidated Statement of Comprehensive Income is $2,968,000 (including income of $1,837,000 from fees for asset recovery services and other income of $35,000) for the year ended 31 December 2017 (2016: new initiatives income was $8,849,000, including income of $2,419,000 from fees for asset recovery services and other income of $26,000).

9. Equity securities

Equity securities represent listed stock shares received to settle due from settlement of investments of $13,011,000. As at 31 December 2017, equity securities are held at fair value of $6,058,000 and there is a fair value loss of $6,953,000 in net loss on equity securities on the face of the Consolidated Statement of Comprehensive Income.

10. Cash management investments

As at 31 December 2017, cash management investments of $39,933,000 (2016: $11,098,000) were invested primarily in a listed investment fund and fixed income securities.

Reconciliation of movements	2017 $'000	2016 $'000
Balance at 1 January	**11,098**	140,206
Purchases	**32,948**	145,502
Proceeds on disposal	**(4,975)**	(273,425)
Net realised gains/(losses) on disposal	**70**	(1,101)
Fair value change in year	**823**	(222)
Change in accrued interest	**(31)**	138
Balance at 31 December	**39,933**	11,098

Continued

10. Cash management investments continued

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

	2017 $'000	2016 $'000
Realised gains/(losses) (see above)	**70**	(1,101)
Fair value movement (see above)	**823**	(222)
Interest and dividend income	**1,006**	1,839
Bank interest income	**751**	39
Total cash management income and bank interest	**2,650**	555

11. Total operating expenses

	2017 $'000	2016 $'000
Staff costs	**40,991**	29,333
Pension costs	**817**	566
Non-executive directors' remuneration	**348**	315
Non-staff operating expenses	**7,182**	6,782
Investment related costs	**2,931**	2,030
Expenses incurred by consolidated funds*	**1,372**	–
	53,641	39,026

* Expenses incurred by consolidated funds are shown net of adjustments and eliminations as shown in Note 21.

Directors' remuneration* comprise:	2017 $'000	2016 $'000
Sir Peter Middleton	**114**	103
Hugh Steven Wilson	**108**	96
David Charles Lowe	**63**	58
Charles Nigel Kennedy Parkinson	**63**	58
	348	315

* Directors' remuneration is Sterling denominated.

Fees paid and payable to Ernst & Young LLP comprise:	2017 $'000	2016 $'000
Audit fees	**743**	681
Interim review fees	**45**	32
Tax compliance fees	**206**	253
Tax advisory fees	**253**	253
Other advisory fees	**51**	87
	1,298	1,306

In 2017, the Group incurred investment banking and brokerage fees of $3,838,000 (2016: $nil) related to the sale of an investment in the secondary market.

12. Receivables and prepayments

	2017 $'000	2016 $'000
Trade receivable – insurance segment	**722**	7,062
Trade receivable – new initiatives segment	**746**	718
Investment management receivables	**2,698**	1,133
Prepayments	**348**	166
Other debtors	**960**	1,161
	5,474	10,240

13. Payables

	2017 $'000	2016 $'000
Audit fee payable	**505**	448
Claim costs payable	**–**	69
General expenses payable	**23,328**	17,105
	23,833	17,622

In December 2016, the Group acquired GKC Holdings, LLC ("GKC") for total consideration of $173,500,000, of which $57,863,000 in cash consideration for the purchase price was payable at 31 December 2016 and settled on 4 January 2017.

14. 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 $149,938,000 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 equivalent of the loan capital at 31 December 2017, based upon the market value of the bonds, is $135,056,000 (2016: $120,028,000).

On 19 April 2016, Burford Capital PLC issued a second set of retail bonds to the value of $144,020,000 (£100,000,000). The bond proceeds were received on 26 April 2016 and converted to US Dollars in the weeks following the offering, producing $144,000,000 of proceeds. The bonds are listed on the London Stock Exchange's Order Book for Retail Bonds. The bonds will mature on 26 October 2024, and pay a fixed rate of interest of 6.125% per annum. The fair value equivalent of the loan capital at 31 December 2017, based upon the market value of the bonds, is $151,042,000 (2016: $130,399,000).

Continued

14. Loan capital continued

On 1 June 2017, Burford Capital PLC issued a third set of retail bonds to the value of $225,803,000 (£175,000,000). The bond proceeds were received on 1 June 2017 and converted to US Dollars in the weeks following the offering, producing $227,011,000 of proceeds. The bonds are listed on the London Stock Exchange's Order Book for Retail Bonds. The bonds will mature on 1 December 2026, and pay a fixed rate of interest of 5.0% per annum. The fair value equivalent of the loan capital at 31 December 2017, based upon the market value of the bonds, is $250,079,000.

Retail bonds	2017 $'000	2016 $'000
As at 1 January	234,258	134,454
Retail bonds issued	225,803	145,840
Bond issue costs	(3,170)	(2,042)
Finance costs	22,976	13,984
Interest paid	(21,281)	(11,994)
Foreign exchange losses/(gains)	33,742	(45,984)
As at 31 December	492,328	234,258
Split:		
Loan capital	486,931	230,243
Loan interest payable	5,397	4,015
Total loan capital	492,328	234,258

	2017 $'000	2016 $'000
Loan capital interest expense	22,233	13,504
Bond issue costs incurred as finance costs	743	480
Loan notes interest expense (Note 15)	1,275	124
Total finance costs	24,251	14,108

15. Loan notes

On 30 June 2017, the $43,750,000 of loan notes that were issued on 14 December 2016 as part of the acquisition of GKC Holdings, LLC were redeemed in full and there is no balance outstanding. The notes paid a rate per annum equal to LIBOR plus 5.00% (semi-annual interest payment), but the interest rate was not to exceed 6.00% per annum.

	2017 $'000	2016 $'000
As at 1 January	43,874	–
Loan notes issued	–	43,750
Finance costs	1,275	124
Interest paid	(1,399)	–
Loan notes redeemed	(43,750)	–
As at 31 December	–	43,874
Split:		
Loan notes	–	43,750
Loan interest payable	–	124
Total loan notes	–	43,874

16. Changes in liabilities arising from financing activities

Liabilities arising from financing activities include loan capital and loan notes. A summary of the changes arising from cash flows and non-cash changes is shown below.

	Loan capital $'000	Loan notes $'000	Total $'000
At 1 January 2017	**234,258**	**43,874**	**278,132**
Cash flows:			
Principal – issuance/(repayments)	**222,633**	**(43,750)**	**178,883**
Interest paid	**(21,281)**	**(1,399)**	**(22,680)**
Non-cash charges:			
Interest expense	**22,233**	**1,275**	**23,508**
Amortisation of bond issue costs	**743**	**–**	**743**
Foreign exchange losses	**33,742**	**–**	**33,742**
As at 31 December 2017	**492,328**	**–**	**492,328**

	Loan capital $'000	Loan notes $'000	Total $'000
At 1 January 2016	134,454	–	134,454
Cash flows:			
Principal – issuance	143,798	–	143,798
Interest paid	(11,994)	–	(11,994)
Non-cash charges:			
Issuance for acquisition of subsidiary	–	43,750	43,750
Interest expense	13,504	124	13,628
Amortisation of bond issue costs	480	–	480
Foreign exchange (gains)	(45,984)	–	(45,984)
As at 31 December 2016	234,258	43,874	278,132

17. Intangible asset

	2017 $'000	2016 $'000
At 1 January	**39,395**	–
Additions	**–**	39,666
Amortisation	**(11,703)**	(271)
At 31 December	**27,692**	39,395

	2017 $'000	2016 $'000
Acquisition of subsidiary	**39,666**	39,666
Accumulated amortisation	**(11,974)**	(271)
Net book value at 31 December	**27,692**	39,395

GKC was acquired on 14 December 2016. The intangible asset represents an assessment, for accounting purposes, of the value of GKC's future investment management income at the date of acquisition. The intangible asset has an estimated useful life extending to 2020 and is being amortised over this period on a systematic basis as the Group realises the benefit from this asset.

Continued

18. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities assumed on the date of the acquisition. The goodwill allocated to each of the Group's cash generating units (CGUs) is set out in the table below.

Carrying value of goodwill

	Investments $'000	Investment management $'000	New initiatives $'000	Total $'000
At 1 January 2017	**107,991**	**25,020**	**921**	**133,932**
Foreign exchange gains	**–**	**–**	**90**	**90**
At 31 December 2017	**107,991**	**25,020**	**1,011**	**134,022**

	Investments $'000	Investment management $'000	New initiatives $'000	Total $'000
At 1 January 2016	–	–	1,109	1,109
Additions	107,991	25,020	–	133,011
Foreign exchange (losses)	–	–	(188)	(188)
At 31 December 2016	107,991	25,020	921	133,932

As goodwill does not generate cash flows independently of other assets or groups of assets the recoverable amount, being the value in use, is determined at a CGU level. The Group's CGU's are consistent with the operating business segments in Note 5.

Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU.

The future cash flows are discounted using a pre-tax discount rate that reflects the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset.

The Group is required to test goodwill acquired in a business combination annually for impairment. This was carried out for the period ended 31 December 2017.

Key assumptions and sensitivities

The value in use of each CGU is determined using cash flow projections over a five year period, based on past experience of business performance.

Discount rate

The discount rates applied to the cash flow projections are a pre-tax discount rate derived from the Group's weighted average cost of capital. The discount rates used in performing the value in use calculation in 2017 were 9.7% except for investment management where we have used 8.6% reflecting the lower risk and volatility of income in this CGU.

Growth

The perpetuity growth rates are determined based on the forecast market growth rates of the economies in which the CGU operates, and they reflect an assessment of the long-term growth prospects of that market. For all CGUs this rate is 2%.

18. Goodwill continued

Return on investments
The rates of return are determined based on historical experience. The rates used in performing the value in use calculation in 2017 were 22.5% per annum except for investment management where we have used rates of between 6.5% and 22.5% reflecting the differing rates of return expected on the different funds.

Sensitivities
There is significant headroom in all the CGUs. No reasonably possible changes in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

19. Fair value of assets and liabilities

Valuation methodology

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

Fair value hierarchy

31 December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investments*	–	–	1,009,988	1,009,988
Investments – equity securities	64,453	–	–	64,453
New initiatives investments	–	–	10,189	10,189
Equity securities	6,058	–	–	6,058
Cash management investments:				
Listed fixed income securities and investment funds	39,933	–	–	39,933
Financial liabilities at fair value through profit or loss	(36,242)	–	–	(36,242)
Loan capital, at fair value**	(536,177)	–	–	(536,177)
Investment sub-participation	–	–	(3,152)	(3,152)
Total	**(461,975)**	**–**	**1,017,025**	**555,050**

31 December 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investments*	–	–	549,173	549,173
New initiatives investments	–	–	2,337	2,337
Cash management investments:				
Listed fixed income securities and investment funds	11,098	–	–	11,098
Loan capital, at fair value**	(250,427)	–	–	(250,427)
Investment sub-participation	–	–	(2,865)	(2,865)
Total	(239,329)	–	548,645	309,316

* The carrying value of other investments held at amortised cost of $1,500,000 (2016: $10,514,000) approximate fair value and have not been included in the above tables.

** Loan capital is held at amortised cost in the consolidated financial statements and the figures disclosed in the above tables represent the fair value equivalent amounts.

Continued

19. Fair value of assets and liabilities continued

All transfers into level 3 are recognised as if they have taken place at the beginning of each reporting period. Transfers into level 3 during the year of $261,487,000 (2016: $nil) relate to investments where the underlying asset no longer has a quoted price and becomes subject to the Group's valuation methodology for level 3 financial instruments as set out in Note 2.

Movements in Level 3 fair value assets and liabilities

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

	Investments $'000	New initiatives investments $'000	Total Level 3 assets $'000	Level 3 liabilities: Investment subparticipations $'000	Net Level 3 assets $'000
As at 1 January 2017	**549,173**	**2,337**	**551,510**	**(2,865)**	**548,645**
Additions	**234,303**	**6,467**	**240,770**	**(433)**	**240,337**
Transfers into level 3	**261,487**	**–**	**261,487**	**–**	**261,487**
Realisations	**(364,681)**	**–**	**(364,681)**	**146**	**(364,535)**
Net realised gain	**134,045**	**–**	**134,045**	**–**	**134,035**
Fair value movement	**191,933**	**1,096**	**193,029**	**–**	**193,029**
Foreign exchange gains	**3,728**	**289**	**4,017**	**–**	**4,017**
As at 31 December 2017	**1,009,988**	**10,189**	**1,020,177**	**(3,152)**	**1,017,025**

	Investments $'000	New initiatives investments $'000	Total Level 3 assets $'000	Level 3 liabilities: Investment subparticipations $'000	Net Level 3 assets $'000
As at 1 January 2016	319,615	3,509	323,124	–	323,124
Additions	264,742	4,274	269,016	(2,865)	266,151
Realisations	(164,909)	(11,590)	(176,499)	–	(176,499)
Net realised gain	47,474	7,514	54,988	–	54,988
Fair value movement	87,818	(1,110)	86,708	–	86,708
Foreign exchange (losses)	(5,567)	(260)	(5,827)	–	(5,827)
As at 31 December 2016	549,173	2,337	551,510	(2,865)	548,645

There were no gains or losses recognised in other comprehensive income with respect to these assets.

Sensitivity of Level 3 valuations

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2017, 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 $101,703,000 (2016: $54,865,000).

Reasonably possible alternative assumptions

The determination of fair value for investments 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.

20. Risk management

Market and investment risk

The Group is exposed to market and investment risk with respect to its cash management investments, its investments and its new initiative investments. The maximum risk equals the fair value of all such financial instruments.

With respect to the Group's cash management investments, consisting of 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 2017, should the prices of the investments in 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 $3,993,000 (2016: $1,110,000).

With respect to the Group's investments and 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.

With respect to the Group's financial liabilities at fair value through profit and loss the market risk is negligible as the positions are held exclusively as economic hedges against gains and losses arising on offsetting long positions included in the Group's investments. The fair value of the Group's offsetting long positions is approximately $36,162,500 at 31 December 2017.

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 investments or similar investments comprise a portfolio of investments thereby mitigating the impact of the outcome of any single investment.

Liquidity risk

The Group is exposed to liquidity risk. The Group's investment in investments and new initiatives investments require funds to meet investment commitments (see Note 26) and for ongoing settlement of operating liabilities. 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, 2016, and 2017, the total issues of $519 million retail bonds raised sufficient extra capital to help mitigate liquidity risk. Interest payments on the bonds will total approximately $204 million over the remaining five-year, seven-year and nine-year periods until maturity in August 2022, October 2024 and December 2026, respectively, at which point the principal amounts shall be repaid.

Continued

20. Risk management continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

31 December 2017	Current liabilities $'000	Loan capital interest $'000	Loan capital $'000	Deferred tax liability $'000	Investment sub-participations $'000	Third-party interests in consolidated funds $'000	Total $'000
Less than 3 months	61,233	3,951	–	–	–	–	65,184
3 to 6 months	–	10,048	–	–	–	–	10,048
6 to 12 months	–	14,000	–	–	–	–	14,000
1 to 5 years	–	111,998	121,590	–	–	–	233,588
Greater than 5 years	–	63,835	371,525	–	–	–	435,360
No contractual maturity date	–	–	–	437	3,152	143,639	147,228
Total undiscounted cash outflows	61,233	203,832	493,115	437	3,152	143,639	905,408

31 December 2016	Current liabilities $'000	Loan capital and notes interest $'000	Loan capital and loan notes $'000	Deferred tax liability $'000	Investment subparticipations $'000	Total $'000
Less than 3 months	90,848	3,598	–	–	–	94,446
3 to 6 months	–	4,862	–	–	–	4,862
6 to 12 months	–	8,460	–	–	–	8,460
1 to 5 years	–	63,306	43,750	–	–	107,056
Greater than 5 years	–	29,804	233,757	–	–	263,561
No contractual maturity date	–	–	–	227	2,865	3,092
Total undiscounted cash outflows	90,848	110,030	277,507	227	2,865	481,477

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 direct or indirect 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. The Group's credit risk is uncertain given that its entitlement pursuant to its investments is generally not established until a successful resolution of claims and the Group's potential credit risk is mitigated by the diversity of its counterparties and indirect creditors.

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-2). Cash management investments are held in a listed fund investing in senior short duration floating rate corporate debt and investment grade corporate bonds. At the year end the bulk of cash management investments are held in a listed investment fund.

20. Risk management continued

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, 2016, and 2017. 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.

At 31 December 2017, the Group's net exposure to currency risk can be analysed as follows:

	Investments $'000	**Other net assets/ (liabilities) $'000**
US dollar	**1,053,663**	**164,524**
Sterling	**27,705**	**(465,206)**
Euro	**17,759**	**119**
	1,099,127	**(300,563)**

At 31 December 2016, the Group's net exposure to currency risk could be analysed as follows:

	Investments $'000	Other net assets/ (liabilities) $'000
US dollar	576,383	199,873
Sterling	24,478	(216,960)
Euro	12,376	9
	613,237	(17,078)

At 31 December 2017 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 $43,750,000 (2016: $19,248,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

At 31 December 2017 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 $1,788,000 (2016: $1,239,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

Continued

20. Risk management continued

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, certain cash management investments, loan notes outstanding and certain investments. All cash bears interest at floating rates. Loan notes also bear interest at floating rates; however, there is a cap on the maximum interest rate charged so exposure is limited. There are certain investments, due from settlement of 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.

	2017 $'000	2016 $'000
Non-interest bearing	**787,882**	541,638
Interest bearing – floating rate	**370,790**	114,621
Interest bearing – fixed rate	**(360,108)**	(60,100)
Total net assets	**798,564**	596,159

The interest bearing floating rate assets and liabilities 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 $927,000 (2016: $287,000). 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 notes as disclosed in Note 14 and Note 15, respectively.

The maturity profile of interest bearing assets and liabilities is:

Maturity period at 31 December 2017	**Floating $'000**	**Fixed $'000**	**Total $'000**
Assets			
Less than 3 months	**208,384**	**3,078**	**211,462**
3 to 6 months	**–**	**551**	**551**
6 to 12 months	**–**	**1,515**	**1,515**
1 to 2 years	**–**	**3,291**	**3,291**
Greater than 2 years	**162,406**	**124,572**	**286,978**
Liabilities			
Greater than 2 years	**–**	**(493,115)**	**(493,115)**
Net assets/(liabilities)	**370,790**	**(360,108)**	**10,682**

Maturity period at 31 December 2016	Floating $'000	Fixed $'000	Total $'000
Assets			
Less than 3 months	158,371	26,978	185,349
3 to 6 months	–	1,024	1,024
6 to 12 months	–	2,005	2,005
1 to 2 years	–	9,113	9,113
Greater than 2 years	–	134,537	134,537
Liabilities			
Greater than 2 years	(43,750)	(233,757)	(277,507)
Net assets/(liabilities)	114,621	(60,100)	54,521

20. Risk management continued

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 Company issued loan capital in the form of retail bonds in 2014, 2016, and 2017, which addressed this potential risk by raising significant amounts of capital.

21. Investments in consolidated funds

Burford may invest in funds that it manages and may be deemed to control such funds, which results in their consolidation on a line-by-line basis as detailed below.

Investments in funds are not actively traded and the valuation at fund level cannot be determined by reference to other available prices. The fair value of the investments in the fund is determined in line with the accounting policy of the assets held in the fund. The fair value hierarchy of financial assets is disclosed in Note 19.

Line-by-line consolidation

The following tables reflect the line-by-line impact of consolidating the results of the funds with the stand alone results for Burford (i.e., if Burford only accounted for its investment in the funds) to arrive at the totals reported in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position (2016: nil).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017	Burford $'000	Funds $'000	Adjustments and eliminations* $'000	Consolidated total $'000
Investment income	318,234	6,673	(3,805)	321,102
Investment management income	15,626	–	(1,168)	14,458
Insurance income	7,613	–	–	7,613
New initiatives income	2,968	–	–	2,968
Other income	(3,199)	535	–	(2,664)
Third-party share of gains relating to interests in consolidated funds	–	–	(863)	(863)
Total income	341,242	7,208	(5,836)	342,614
Operating expenses	(52,269)	(2,278)	906	(53,641)
Amortisation of intangible asset	(11,703)	–	–	(11,703)
Banking and brokerage fees	(3,838)	–	–	(3,838)
Operating profit	273,432	4,930	(4,930)	273,432
Finance costs	(24,251)	–	–	(24,251)
Profit before tax	249,181	4,930	(4,930)	249,181
Taxation	123	–	–	123
Profit after tax	249,304	4,930	(4,930)	249,304
Other comprehensive income	(28,206)	–	–	(28,206)
Total comprehensive income	221,098	4,930	(4,930)	221,098

* The adjustments and eliminations are required due to the services provided by the Group to the consolidated funds as investment manager and the Group's investment as a limited partner in the funds. Accordingly, these adjustments and eliminations do not have an effect on the net income or total net assets of Burford.

Continued

21. Investments in consolidated funds continued

Consolidated Statement of Financial Position

As at 31 December 2017	Burford $'000	Funds $'000	Adjustments and eliminations* $'000	Consolidated total $'000
Investments	982,177	249,644	(155,880)	1,075,941
Due from settlement of investments – total	4,765	–	(1,517)	3,248
Investment income receivable	–	4,765	–	4,765
Receivables and prepayments	6,772	282	(1,580)	5,474
Due from broker	–	41,678	–	41,678
Cash management investments	39,933	–	–	39,933
Cash and cash equivalents	91,473	43,942	–	135,415
Other assets	192,899	–	–	192,899
Total assets	**1,318,019**	**340,311**	**(158,977)**	**1,499,353**
Payables	23,538	1,614	(1,319)	23,833
Financial liabilities at fair value through profit and loss	–	36,242	–	36,242
Due to limited partners	–	2,675	(1,517)	1,158
Loan interest payable	5,397	–	–	5,397
Other liabilities	490,520	–	–	490,520
Third-party interests in consolidated funds	–	–	143,639	143,639
Total liabilities	**519,455**	**40,531**	**140,803**	**700,789**
Total net assets	**798,564**	**299,780**	**(299,780)**	**798,564**

* The adjustments and eliminations are required due to the services provided by the Group to the consolidated funds as investment manager and the Group's investment as a limited partner in the funds. Accordingly, these adjustments and eliminations do not have an effect on the net income or total net assets of Burford.

Due from broker includes restricted cash and margin balances held by the broker in relation to the financial liabilities at fair value through profit and loss.

22. Share capital

Authorised share capital	2017 $'000	2016 $'000
Unlimited Ordinary Shares of no par value	–	–

Issued share capital	Number	Number
Ordinary Shares of no par value	208,237,979	208,237,979

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. A further 3,692,524 shares were issued on 14 December 2016 as part of the GKC acquisition as noted in the 2016 Annual Report.

22. Share capital continued

	2017 $'000	2016 $'000
At 1 January	**351,249**	328,749
Share capital issued	**–**	22,500
At 31 December	**351,249**	351,249

Also, the GKC acquisition included $15,000,000 of contingent equity consideration. In calculating the fair value of the contingent consideration a discount of 10% was applied for non-performance risk, hence the contingent equity consideration is valued at $13,500,000 at acquisition. Shares of 2,461,682 will be issued only after GKC's investment funds contribute more than $100 million in performance fee income (and, in certain instances, fee income from new funds or other investment income) to Burford within the prescribed timeframe. If the $100 million income target is not achieved no contingent consideration is payable.

23. Long Term Incentive Plan

In 2017 the Group introduced a long term incentive plan ("LTIP"). Participants will only be entitled to these shares at end of a three-year period if the Group has met the relevant pre-determined corporate performance measures over the three-year performance period and they are still employed by the Group. The 2017 award is equally weighted between the Group's total shareholder return as compared to a group of comparable public companies; earnings per share growth adjusted to remove amortisation and other non-cash items; and growth in aggregate asset value defined as gross investment assets plus gross cash receipts from investments. Expense arising from equity-settled share-based payment transactions amounted to $1,652,000, of which $1,152,000 is recognised in other capital reserve.

Movements during the year

The following table summarises the fair values and key assumptions used for valuing grants made under the LTIP in 2017:

	2017
Dividend yield (%)	**2.8%**
Expected volatility (%)	**25.8%**
Risk-free interest rate (%)	**0.15%**
Expected life of share awards (years)	**3.0**
Weighted average fair value ($)	**7.26**
Weighted average share price ($)	**10.27**
Model used	**Monte Carlo**

The expected life of the share awards is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the awards is indicative of future trends, which may not necessarily be the actual outcome.

Continued

24. 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 $249,304,000 (2016: $108,270,000) and the weighted average number of ordinary shares in issue for the year of 208,237,979 (2016: 204,727,055). Comprehensive income per ordinary share is calculated based on comprehensive income attributable to ordinary shareholders for the year of $221,098,000 (2016: $143,191,000), and the weighted average number of ordinary shares in issue for the year of 208,237,979 (2016: 204,727,055). The effect of dilution is attributable to the addition of 298,575 shares related to the LTIP (2016: nil).

25. Dividends

The Directors propose to pay a final dividend of 7.95¢ (United States cents) per ordinary share in the capital of the Company during 2018. Together with the interim dividend of 3.05¢ paid in November 2017, this makes a total 2017 dividend of 11.00¢. 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 22 May 2018). If approved by shareholders, the record date for this dividend will be 1 June 2018 and payment of this dividend would then occur on 22 June 2018. The proposed dividend 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 2016 interim dividend of 2.67¢ in October 2016 and a final dividend of 6.48¢ per share on 17 June 2017 to shareholders on the register as at close of business on 27 May 2017.

26. 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 2017, the Group had outstanding commitments for $504 million, of which $503 million are for investments and $1 million are for other commitments (2016: $297 million outstanding commitments, of which $290 million are for investments and $7 million are for other commitments). Of the $504 million in commitments, the Group expects less than 50% to be sought from it during the next 12 months. In addition, at 31 December 2017 at current exchange rates, the Group had $61 million of exposure to investments where the Group is providing some form of legal risk arrangement pursuant to which the Group does not generally expect to deploy capital unless there is a failure of the claim, such as providing an indemnity for adverse costs.

27. Related party transactions

Directors' fees paid in the year amounted to $348,000 (2016: $315,000) and one director holds an interest of $708,000 in the consolidated funds at 31 December 2017 (2016: $nil) on which no management or performance fees were charged. There were no Directors' fees outstanding at 31 December 2017 or 31 December 2016.

There is no controlling party.

28. Subsequent events

On 12 February 2018, Burford Capital Finance LLC issued the first ever US-dollar-denominated bond offering on the London Stock Exchange's Order Book for Retail Bonds to the value of $180,000,000. The bonds will mature on 12 August 2025, and pay a fixed rate of interest of 6.125% per annum.

On 13 March 2018, the Company announced the sale of its Teinver investment for $107 million in a transaction scheduled to close by 22 March 2018. The Teinver award is the subject of ongoing annulment proceedings (a limited form of appeal). Were the award to be annulled, the sale transaction could be rescinded at the option of the buyers; in that event Burford would retain a $7 million fee and would also have its original entitlement back and be free to pursue the claim again.

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Charles Nigel Kennedy Parkinson

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