Burford

Annual Report 2014

About Burford Capital

Burford Capital is the world's largest provider of investment capital and risk solutions for litigation with the largest and most experienced dedicated team in the industry. Burford is publicly traded on the London Stock Exchange's AIM market under the ticker symbol BUR. Burford provides a broad range of corporate finance and insurance solutions to lawyers and clients engaged in significant litigation and arbitration around the world.

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Full Year 2014 Highlights:

Operating profit up
43% to $60.7m

Income up
35% to $82.0m

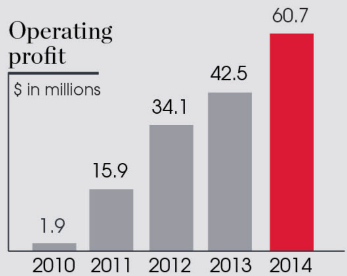
Return on Equity of **17%**

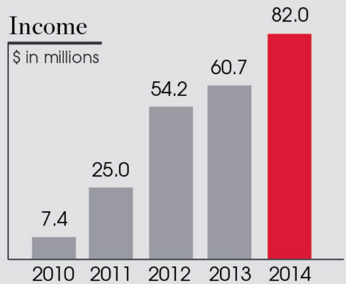
Full year dividend up
34% to 7.0¢

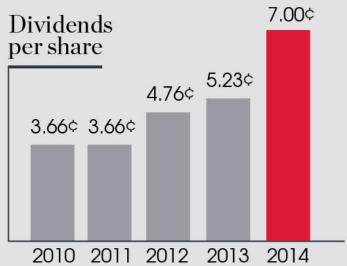
Continued strong investment returns:

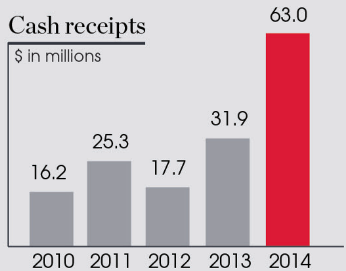
32 investments, generating
$209m in gross investment recoveries and
$78m net of invested capital, producing a
60% net return on invested capital

See definitions and discussion later in this report.









Full audited IFRS consolidated financial statements can be found in the following pages and a summary is set out below. The figures for taxation and profit after tax exclude the impact of the Burford UK acquisition, the 2012 Reorganisation and the one-off 2013 UK Restructuring and are shown to assist in understanding the underlying performance of the Company. All other figures presented are derived directly from the audited consolidated financial statements.

(US$'000)	2014	2013	% change
Litigation investment income	47,847	38,847	23%
Insurance income	24,338	20,910	16%
New initiatives income	222	–	
Other income	9,627	903	
Total income	82,034	60,660	35%
Operating expenses – litigation investment	(10,416)	(9,005)	
Operating expenses – insurance	(5,396)	(6,779)	
Operating expenses – new initiatives	(1,561)	–	
Operating expenses – corporate	(3,950)	(2,362)	
Operating profit	60,711	42,514	43%
Finance costs	(3,652)	–	
Profit before tax and the impacts relating to the Burford UK acquisition, the 2012 Reorganisation and 2013 UK Restructuring costs	57,059	42,514	34%
Taxation*	(2,906)	(2,276)	
Profit after tax**	54,153	40,238	35%

* Taxation does not include deferred taxation credit on amortisation of embedded value intangible asset.

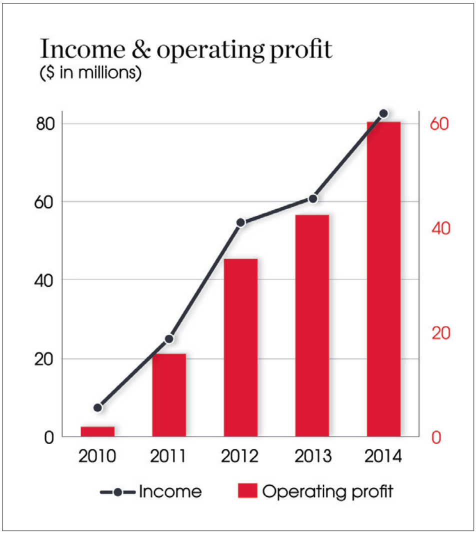
** This is profit after tax excluding the impact of the Burford UK acquisition, the 2012 Reorganisation, and 2013 UK Restructuring, which are included in the Consolidated Statement of Comprehensive Income on page 22.

"Litigation finance is exploding. Litigation funding has rapidly become a normal course, widely considered alternative form of corporate finance for businesses."

We are pleased to report another successful year of significant growth and progress for Burford:

- 43% increase in operating profit
- 56% increase in net investment recoveries[1] – and an increase in the net return on invested capital on those recoveries to 60%
- 98% increase in cash generation from the litigation investment portfolio
- Trebling of capital committed to new investments
- 17% return on equity

Even the insurance business, whose contribution was expected to be in decline by now, posted a 16% increase in income. The entire business is firing on all cylinders.



In recognition of Burford's performance, the Board recommends to shareholders a 34% increase in the dividend, to 7.0 cents (a 1.74 cent interim dividend paid in December 2014 and a 5.26 cent final dividend to be paid in June 2015). Last year, Burford paid a single final dividend in June 2014 of 5.23 cents.

We recently celebrated Burford's fifth anniversary, and just as we are pleased with 2014, we are happy with what has been accomplished over our life to date:

- Profitable since our first year, with operating profit growing each year by at least 25%
- More than a half-billion dollars in investment commitments
- More than $200 million in investment recoveries
- Highly successful UK acquisition
- Declared more than $47 million in dividends

We completed a well-received and oversubscribed retail bond offering in August, raising $150 million in 6.5% eight year bonds listed on the London Stock Exchange. The bond issue transformed our balance sheet and provided a strong foundation from which to accelerate our commitments to new investments. The bond has traded strongly since issue. In addition to the success of the bond issue itself, we were also successful in converting the Sterling capital we raised into US dollars at a favorable exchange rate (averaging 1.6660) before seeing the dollar strengthen as the year progressed – meaning that we secured over $15 million in additional proceeds than if we had issued the same bond recently.

1 See definitions in note 3

When we look at Burford's financial performance, we are seeing the results of decisions generally made several years ago because of the medium duration nature of Burford's business. Thus, our results do not give much insight into what is happening in Burford's business today – and the short answer is that litigation finance is exploding. When Burford was launched in 2009 and began institutionalising the provision of litigation finance, the concept was largely unknown in the legal profession and we spent much of our time educating and developing the market.

Today, the situation is far different.

The Lawyer, a leading legal publication, recently released a special report on litigation funding. The report concluded that litigation finance has moved "from alternative to mainstream", that it continues to gain in popularity, and that the market is diversifying. "Traditional blue chips" along with smaller businesses are reported as now pursuing litigation funding. Lawyers from leading litigation firms all spoke of continuing and growing demand for financing from their clients.

In short, *The Lawyer's* investigation showed that litigation funding has rapidly become a normal course, widely considered alternative form of corporate finance for businesses addressing litigation expense. As reported by a litigator from a leading law firm:

"Traditional blue-chips are increasingly interested in funding as a way to help manage their legal spend. They look at funding to manage the costs of high-value claims that expose the business to substantial legal costs. These are reputationally conscious clients who have previously seen funding as a bit of an unknown, but as the market becomes more established are starting to consider it a realistic proposition."

This sentiment is consistent with our own regular market research, which we have conducted and published for the last several years (the detailed results are available on our web site). In 2014, more than 70% of lawyers and CFOs described litigation finance as a "useful tool", and even more significantly, 40% of CFOs said that litigation finance should be part of the conversation at the start of *every* case. While still modest compared to the size of the overall litigation market, CFOs and general counsel reported usage of litigation finance more than doubling over the prior year.

The volume in our investment pipeline supports this macro view. Burford received more quality investment proposals in 2014 than ever before, and 2015 is continuing that trend: We made more than $150 million of new investment commitments in 2014 – more than three times as much as in 2013. Moreover, we are clearly the recognised market leader. To be sure, there are other players and new entrants, all of which we regard as healthy and positive signs of the growth and maturation of the entire market, but none approach the combination of our scale and experience.

We thus feel very happy about the business. The decisions we made in the past have been successful, and have provided increasing levels of profit and cash flow as those investments mature. At the same time, we are optimistic about the future, and the continuing performance impact of our investment decisions that still await maturity.

We now turn to a detailed discussion of the business – its operating segments, its capital structure, our dividend policy and our financial performance. We thank shareholders for their continued support on this exciting journey of building and institutionalising a new industry.

Return on equity: 17% for 2014

We are pleased to report a 17% return on equity in 2014.

As Burford has evolved, we have moved to a perpetual operating structure with a mix of business types. NAV and IRRs are not the appropriate valuation metrics for this business, as the research analyst community increasingly recognises.

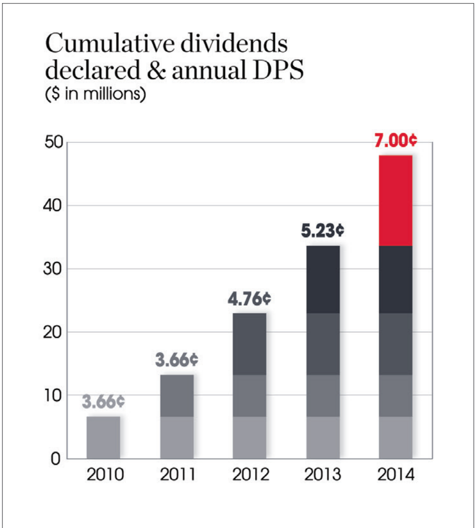
Instead, we look to return on equity as a key metric against which to evaluate our performance and guide our operating decisions. In 2014 our accounts were finally almost free of the various accounting adjustments applied over the previous several years as we transformed our business, with one final non-cash amortisation charge remaining from our UK acquisition in 2012. Thus, for 2014, we compute traditional return on equity using net income without that charge, which produces a 17% return – a number with which we are very happy given our current state of continuing maturity.

We discuss our investment in business expansion later in this report and we reflect that investment in our new initiatives segment. In other industries, that investment might well be capitalised; here, it is expensed as incurred. As we continue to invest in expansion, we are likely to suggest that shareholders look to returns on equity without the impact of the new initiatives segment.

While we are not resting at this level, we are nonetheless pleased to be able to show attractive returns notwithstanding the business still working to achieve full maturity.

Dividends: 34% increase proposed

We are proud of our dividend track record. We have paid a dividend in every year of operation, including our very first year. With the increased dividend we have now recommended, 7.0 cents, a 34% increase over last year, we have almost doubled our payout in just five years. At year-end, our dividend yield was 3.6%, more than three times the AIM 50 average and (for the reference of our US investors) almost double the average dividend yield of the S&P 500. In 2014, we moved to a twice yearly dividend, which we intend to continue. And, because we declare our dividend in US dollars, our UK shareholders have received an extra bonus from the strengthening of the dollar this year.



This has not gone unnoticed. In December, the publication *AIMprospector* commented that there were "only nine AIM companies with both a larger market capitalisation and a higher dividend yield being traded on the market today".

While we have commented before about our evolving approach to dividends, we have not previously republished Burford's dividend policy now that we are a perpetual operating company. We do so below:

Burford's shareholders include institutional and individual shareholders in the United Kingdom, Europe and the United States. Those shareholders have a range of views about the relative attractiveness of dividend income versus the reinvestment of profits and the generation of capital appreciation, especially given their varying tax positions. In an effort to meet the desires of as many shareholders as possible, Burford's dividend policy is as follows:

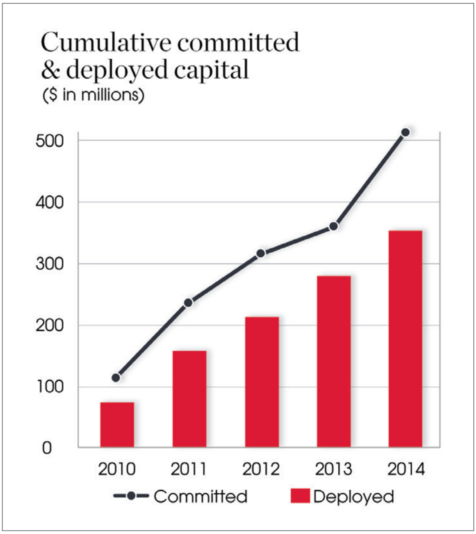
> *Each year, once the prior year's results are known, the Burford board will review the Company's profits, cash generation and cash needs, and will recommend a dividend level to shareholders for consideration at Burford's AGM. It will be Burford's goal to pay a dividend that provides an appealing dividend yield but that also encourages reinvestment in the business to produce capital appreciation. While the dividend is expected to be progressive as the Company grows, it also should not be expected that it will necessarily be raised every year that there is earnings growth. Once a dividend level (expressed in US dollars, the Company's reporting currency) is set, the Board will recommend a reduction in the dividend level in subsequent years only in unusual circumstances, even if a single year's earnings decline due to the inherent volatility of Burford's business. Extraordinary successes may be celebrated through either special dividends or share repurchases, again depending on the Company's other cash needs and potential to invest for further capital appreciation.*

This policy reflects several fundamental views.

First, Burford is an international company. Our shareholder register has always included members from both sides of the Atlantic, and its reach continues to expand. Investors in different countries have different views about desirable and appropriate dividend levels (average FTSE dividend yields are almost double average US dividend yields, for example) and are subject to different approaches to dividend taxation, and we have endeavored to forge a policy that meets the expectations and desires of all of our shareholders.

Second, Burford is today and is likely to continue to be in the future a substantial cash user as we grow our investment portfolio and continue to expand the business. Thus, while we believe in paying and maintaining dividends, we also are conscious of the business' need for capital on an ongoing basis and seek to balance those uses of capital.

Finally, we believe there is benefit in stability and predictability. Many investors have told us that they would prefer a predictable dividend than to have a dividend that fluctuates based on annual performance. Thus, our policy seeks to protect against such fluctuations – which is a change from our prior policy, which directly linked the annual dividend to annual performance and could have resulted in volatility. Therefore, investors should take comfort that it would be unusual[2] for us to reduce the dividend level we have now proposed in later years, but at the same time investors should not necessarily expect increases in the dividend each year.

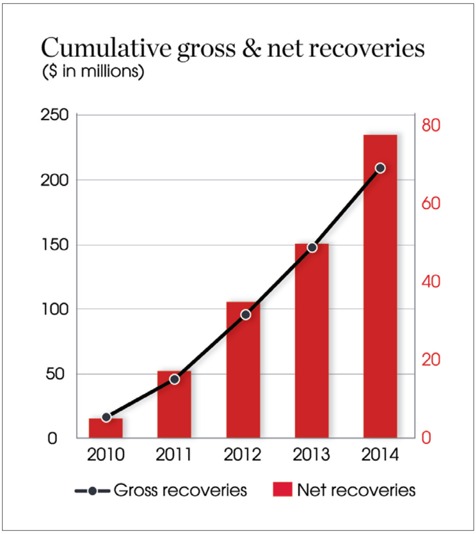


Litigation investment business

Overview: Growing commitments and accelerating returns

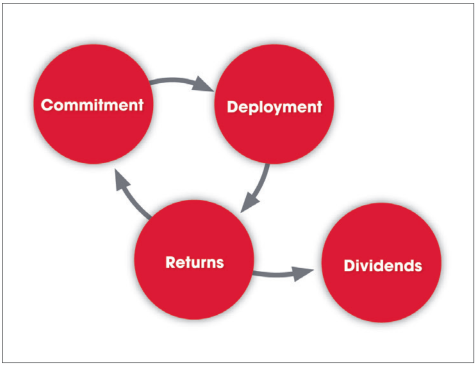
We are committing more capital to litigation investments, with more complex and varied structures, than ever before. Those new commitments position the business for the future, as they will take several years to mature. They also provide continued portfolio diversification, bolstering our bedrock belief that litigation investing should be done through a widely diversified portfolio, constructed and managed by an expert internal team.

At the same time, we are managing existing investments to completion and harvesting returns. The volume of those returns keeps increasing. The goal of our construction and management of a diversified portfolio is to produce desirable risk-adjusted returns.



2 But of course, this is not a commitment

Our model is straightforward. When we commit to an investment, we expect to deploy capital over the next several years to that investment, and ultimately to harvest returns which we pay out as dividends and reinvest in new investments. Each stage of the process takes time – time that is a function of the litigation process – but as more capital is put through the cycle, returns gather momentum. We have seen increased momentum in recent years, and it is only continuing to accelerate.



Portfolio valuations imply future income potential
While complying with IFRS, we continue to take a conservative approach to investment valuation; only 11% of our assets consist of unrealised gain (a percentage which was the same in 2013). This is an important economic point that is often lost in the mists of accounting complexity. One school of thought suggests that litigation investments should be marked up (and thus unrealised income created) as time passes and the investment goes through the litigation process, so that by the end of the investment all of its potential gain will have already been recognised. We do not endorse that approach.

Burford, by contrast, increases (or decreases) investment values only based on objective events in the progress of the litigation, and then only moderately. As a result, when we experience investment successes, we typically have incremental income to book. This conservative approach does not maximise current income, but instead defers income to the future. Thus, if one believes in the quality of our investment portfolio, one would assume that portfolio growth would set the business up for continuing acceleration in income as investments continue to mature.

Litigation investment fundamentals and market growth
In past annual reports we have outlined the basic dynamics of the litigation investment business, described our deal structures, pricing and returns, and explained the accounting treatment to which we are subject. We aren't going to repeat that information here but instead refer readers to last year's annual report, available on our web site. We also won't repeat in any detail our devotion to the construction and management of a large and diversified portfolio of litigation investments, but we believe that is a critical way to go about investing in this asset class, as each investment comes with idiosyncratic risk that can only be properly managed through diversification.

We will emphasise, however, an important concept. A litigation claim is an asset. It sounds slightly strange to say that, as litigation claim does not comport with our traditional concept of assets, but an asset it is nonetheless. Litigation claims can be bought, sold, hypothecated, securitised and otherwise treated like any other intangible asset.

This is a crucial point, as Burford's business is not the funding of legal fees to bring a claim, as though we were a class or group action lawyer operating on a contingent or conditional fee arrangement. Rather, it is the financing of an asset.

Sometimes, that financing takes the form of providing capital in support of the legal fees needed to develop the asset. That's what we now call basic litigation funding. However, even that type of transaction is still asset financing; Burford's capital is provided pursuant to a financing arrangement, often accompanied by a perfected security interest in the litigation claim asset. We are not equity partners with our clients, but much more like mezzanine capital providers. We provide fixed dollar investment arrangements, not open ended commitments.

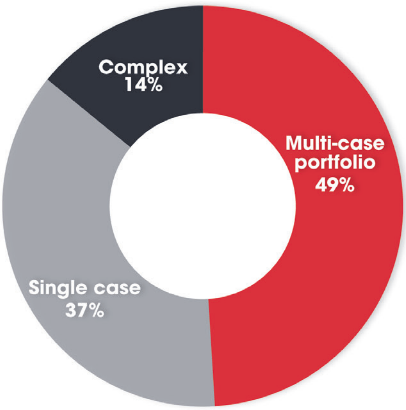
Ever more frequently, however, our capital is being used by clients who recognise the inherent value of their pending litigation claim assets and want to harness that value for other corporate purposes. This is tremendously significant for our business; while the addressable market for basic litigation funding is large, the market for the monetisation of litigation claims is enormous.

Market – and portfolio – evolution towards larger and more complex investments

A significant theme in our investor reporting has been the continuing development and evolution that we have seen in the types and structures of investments we are making. We find a consistent trend in the market's development: clients tend to begin with a fairly straightforward transaction that often involves only a single litigation matter, and then it is not uncommon for them to evolve into more complex transactions.

The impact of this trend has resulted in Burford's business continuing to migrate away from single case matters, so that today they represent a minority of our business.

Composition of current commitments



This trend has unsurprisingly resulted in an increase in our average investment size as we focus not on the legal fees needed to pursue the case but on the value of the underlying litigation asset. Our average investment is now $8 million (excluding UK matters and new initiatives, which tend to be smaller) – compared to less than $4 million when we started in 2009. Averages aside, we are also seeing more opportunities above $10 million in investment size than we did previously.

We are, however, bucking this trend in one way: we have recently introduced a new product in the UK that is designed expressly for small cases valued below £500,000. This product is managed and underwritten entirely differently from our core business and we operate it through a market partner who has the capability of administering a larger number of smaller claims, but it is an intriguing market opportunity and also one that responds to calls from the UK judiciary for improved access to justice.

Sticking to fundamentals in a growing market

While our litigation finance business grows in scale and complexity each year, with new structures and approaches, its foundation never changes: the treatment of litigation claims as financeable assets, and our ability to assess those claims. While we apply skill and judgement to a sophisticated investment process honed by experience, the basic progress of litigation and its outcomes are well-known:

- Once commenced, litigation claims typically experience some skirmishing and tactical maneuvering as they advance through the adjudicative process, and do not generally resolve before some of that activity has narrowed or crystallised the issues.
- As claims draw nearer to adjudication, more and more of them are concluded through negotiated resolution ("settlement"). Settlement has the benefit of relative speed and certainty, but inevitably requires a discount from the theoretical claim value.
- A relatively small proportion of claims do not settle and proceed instead to adjudication – trial or hearing – and are ultimately decided. Some of those cases lose and recover nothing; others win and recover their full damages claim; and still others end up somewhere in the middle.

While the majority of our capital remains committed to US litigation and arbitration, we also continue to diversify all over the world, including continuing to grow our operations in the UK and also our longstanding presence in complex international arbitration.

Attractive portfolio returns generated from widely varying individual investment returns

Last year, for the first time, we published a table showing our individual investment performance for concluded matters[3]. We are repeating the publication of that table, updated for the year's activities. Perusing that table shows a wide range of individual matter performance, just as we have always predicted – some investments outperform, some disappoint, and others provide middle of the road returns (and as we have said before, while we provide them, we do not regard IRRs as the best window into litigation investing performance). While we provide this detail for investors' information, our focus remains on the aggregate results from our diversified portfolio, which were strong at a net 60% return on invested capital.

3 Investment recoveries is a term we have used consistently 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.

Concluded investment performance

$ in millions	Total investment	Total recovered	Return on invested capital	IRR
Total investment recoveries to date	**130.6**	**208.6**	**60%**	**24%**
Concluded investments made in 2009 • 100% of vintage	7.0	31.7	355%	53%
	2.0	2.0	(1%)	(3%)
	2.5	0.0	(100%)	0%
2009 performance to date	11.5	33.7	193%	35%
Concluded investments made in 2010 • 63% of vintage	2.1	4.5	119%	52%
	1.4	2.5	76%	32%
	6.1	10.5	71%	75%
	4.8	7.8	62%	23%
	2.6	3.5	33%	11%
	9.1	10.2	13%	15590%
	4.5	4.0	(12%)	0%
	3.2	0.2	(95%)	0%
	3.9	0.03	(99%)	0%
	5.6	0.0	(100%)	0%
2010 performance to date	43.3	43.2	0%	(2%)
Concluded investments made in 2011* • 54% of vintage	5.5**	26.1	371%	124%
	7.4	21.3	189%	55%
	3.5	6.7	92%	34%
	4.9	6.5	32%	29%
	10.0	7.5	(25%)	0%
	4.0	0.2	(94%)	0%
	4.4	0.0	(100%)	0%
2011 performance to date	39.7	68.3	72%	27%
Concluded investments made in 2012 • 56% of vintage	1.0	2.4	150%	436%
	4.3	7.8	82%	13%
	2.9	5.2	76%	156%
	15.0	26.3	75%	34%
	3.3	4.4	35%	14%
2012 performance to date	26.5	46.1	74%	30%
Concluded investments made in 2013 • 43% of vintage	0.3**	1.1	276%	2050%
	1.0	2.3	135%	89%
	0.5	1.1	122%	586%
	2.6**	5.5	109%	169%
	1.0	2.0	104%	92%
	0.2	0.0	(100%)	0%
2013 performance to date	5.6	12.0	115%	146%
Concluded investments made in 2014 • 4% of vintage	4.0	5.3	32%	275%
2014 performance to date	4.0	5.3	32%	275%
Total investment recoveries to date	**130.6**	**208.6**	**60%**	**24%**

* Investments with immaterial performance excluded, such as rapidly terminated investment agreements

** Ongoing matters with partial recoveries

Investing in litigation can represent something of a dichotomy. On the one hand, we would like matters to settle so that we can achieve reliable returns in a relatively short period of time. (This settlement dynamic has continued to keep our average duration of concluded matters around two years.) On the other hand, seeing matters through to adjudication can provide much higher returns – but also higher risk.

This dichotomy is illustrated poignantly in our 2010 investment vintage. Looking at the chart on the opposite page, it seems as though the 2010 investment vintage has not performed well. However, the reality is that some significant matters in that vintage have proceeded past settlement into adjudication. As a result, while those matters now present higher risk, they also present the potential of significant – indeed, outsize – returns if they are successful. And while we are constrained from discussing individual investments, we can say that if the remaining investments in the 2010 vintage perform even at a level to provide us with just our preferred returns, the vintage's performance would be very strong.

The bottom line about our core business is that there is a lot going on and every day brings new deal structures, new challenges and new reasons for excitement. We have barely scratched the surface of the possibilities inherent in the business, and every year brings further progress.

Insurance business

Strong performer with more to come

We have now owned our UK insurance business for three years, and the Jackson reforms took effect in April 2013. It's time for a comprehensive update on the business and some discussion about the future. This will be quite a long and often technical discussion, but it is responsive to investor requests for greater detail about this business.

The headline points are:

- Successful acquisition: The 2012 acquisition of this business was a great success, with our purchase price rapidly repaid
- Large back book: Our 2013 management of the business enabled us to build a significant – and much larger than expected – book of business that should generate cash for years to come
- Hidden asset value: In addition to the current income being generated from the existing book, the structure of our arrangements with our insurance capacity provider mean that we are accumulating material cash on its books – cash that does not appear on our balance sheet but that should be ours in due course
- Future prospects: While not operating at anything approaching its former levels at present, there remains demand for this type of risk transfer in the market and we are well placed to meet that demand in complex and high value cases

The starting point in this discussion is the way the business actually works.

In the UK, most litigation operates on a "loser pays" basis, meaning that the losing party in the litigation pays the winning party's legal fees and expenses of litigating. (In the US, by contrast, relatively little litigation operates that way; for the most part, parties bear their own costs in the US system regardless of the outcome.)

The UK approach can expose a plaintiff to significant risk. While fee-shifting may have a place in winnowing out meritless cases, it can also have a chilling effect on meritorious cases, because in litigation, there is no sure thing!

As a result, there is an insurance market that insures only the risk of adverse costs – of the plaintiff having to pay the defendant's costs in the event the case is unsuccessful.

While some providers offer such insurance on a conventional basis – an upfront cash premium paid for a fixed limit of insurance coverage – Burford's traditional solution more closely hews to the nature of the litigation process. Thus, Burford's insurance solution has neither an upfront premium nor a fixed limit of coverage. Instead, the Burford approach pays whatever the defense costs actually are in the event of a loss or collects a premium that is a percentage of whatever those costs were in the event of a win. We have provided more than 20,000 such policies in the last decade.

Until the Jackson reforms became effective in April 2013, the UK government, concerned with access to justice, had sought to ameliorate the chilling effect of the fee-shifting regime by treating the cost of a litigation costs insurance premium as a recoverable disbursement. In other words, if the plaintiff won the case, the cost of the plaintiff's adverse costs insurance would be paid by the defendant, just like any other cost of the litigation such as a stenographer or an expert. That approach made it seem like the insurance was free – win the case and the defendant pays the premium; lose the case and the insurer pays the adverse costs claim and does not collect any premium – and it was widely adopted in the UK.

The Jackson reforms eliminated the recoverability of the insurance premium. While plaintiffs could continue to buy adverse costs insurance, they would need to pay the premium from their own pocket or from their winnings, not surprisingly reducing significantly plaintiffs' willingness to purchase what was fairly expensive insurance coverage. While perhaps sensible to reverse the excesses of old, this governmental policy reversal has impeded access to justice.

Burford understood the negative impact of these regulatory reforms, and acquired this business on very favorable terms in anticipation of the Jackson reforms and with the intention of repurposing the business to provide litigation funding following the expected decline in the insurance business post-Jackson.

Significantly, the Jackson reforms were not retroactive. Thus, cases filed and put on cover through 31 March 2013 will proceed under the pre-Jackson era, even if they take years to conclude. So, we acted to maximise the potential of the business we acquired in 2012 by amassing a substantial book of business before the Jackson reforms became effective. This was a significant undertaking but it paid off: We wrote more than $200 million of potential coverage in the first three months of 2013, which will pay premium income for several years to come.

That brings us, of course, to the question of how much more cash we can expect from the insurance business for the book of pre-Jackson policies. Trying to answer that question requires a granular understanding of how the business operates.

As noted previously, we tend not to collect (or book as income) a premium when we write the insurance. Rather, we wait for the outcome of the matter and the assessment of its costs, and are then paid a percentage of the defendant's actual incurred costs.

This means that the longer a matter runs and the more legal costs a defendant incurs before settling or losing, the higher the premium will be.

When we wrote the pre-Jackson bulge of business in 2013, our anxiety was that plaintiffs were filing suit just to be on file before the Jackson reforms became effective, and that many of those cases would resolve quickly or otherwise fizzle out, resulting in low premium income. Happily, that has not turned out to be the case. Instead, the 2013 cohort is performing consistently with our historical experience.

As a result, we ended 2014 with slightly more than $200 million in outstanding insurance REME ("realistic estimated maximum exposure", the amount of defense costs we estimate would be incurred if every matter went to trial). It is difficult for us to estimate the conversion of that REME into premium income, as the range of actual defense costs will be wide, but it is certainly reasonable to expect that, over the next few years, this book may represent tens of millions of dollars in additional income.

That is not the end of the story.

Burford is not an insurance company. Instead, we have a complex relationship with MunichRe, which provides the actual insurance capacity to us for this business. Because of the structure of that relationship and our historical expertise in quality underwriting, we retain the vast majority of the net premium income that we collect.

However, once we recognise premium income, we also fund a loss reserve that exists on MunichRe's balance sheet; we do not recognise actual losses on our P&L, but instead pay those losses from that loss reserve. The quality of our underwriting and the performance of our portfolio has resulted in us outperforming that loss rate, meaning that we are creating a growing loss reserve on MunichRe's balance sheet.

The accumulated loss reserve, net of loss claims, is ultimately Burford's, even though it does not appear anywhere on our financial statements. Its net balance at year-end was $11.7 million; we would receive it as cash income if the business were to stop at this point. It is a true hidden asset.

The final question for the insurance business is what its future holds.

Within a cost shifting regime of the sort operated in the UK, there is a perpetual need for plaintiffs to be able to transfer their adverse cost risk. While many plaintiffs may elect to self-insure, others either do not wish to as a matter of risk tolerance or cannot afford to. Moreover, as to the latter group, courts will sometimes require the use of insurance or a bond to secure a potential payment obligation.

Thus, in our view, there will continue to be demand for the kind of protection from adverse costs awards of the sort that Burford can provide, whether through insurance, bonding or indemnity agreements. Indeed, in 2014, we wrote more than $25 million of new REME business – a decline from our pre-Jackson levels (in the three years before 2013, we averaged closer to $90 million annually) and a dramatic decline from 2013's aberrational level, but enough to have some optimism around a continuing line of business here. Also, insolvency litigation received a two year extension from the Jackson reforms, and the UK government recently announced that it would extend the recoverability of insurance premiums in such litigation for still longer. Moreover, there are other players in the market that we believe are writing new coverage at unsustainably low premium levels, and we have elected not to compete with them on price; however, if what we think should be an inevitable price correction does occur, we could see our business volume increase as a result as well. We have right-sized the business to address the decline in volume while still retaining the core expertise to do this business and respond to attractive opportunities.

In sum, we have achieved our goal of securing a major UK presence for both litigation finance and risk transfer through this acquisition, which has been profitable for us. Now, we are in the enviable position of being able to see what the future holds on the insurance front while continuing to grow our UK financing and investment operation.

Judgement enforcement and asset recovery

The working assumption in most litigation is that if the claim is successful, the defendant will comply with its obligations and pay the ensuing judgement or award.

Unfortunately, that is not the case in a wide variety of matters, and lawyers and their clients regularly find themselves in possession of judgements that remain unpaid.

Sometimes, defendants have structured themselves purposely to evade judgement enforcement. More often, they have used complex corporate structures, such as offshore tax schemes, for some other legitimate purpose but find that those structures have the unanticipated benefit of making them difficult to pierce to obtain enforcement of judgements against real assets.

The reason notwithstanding, there is real demand for assistance in this area. The client need is twofold. First, there is a need for specialised resource to discover and enforce against hidden assets. Second, there is often legal fee fatigue, and clients frequently are seeking non-cash pay solutions at this point in the litigation process.

Burford has begun offering an integrated solution to this pernicious problem for lawyers and clients. We acquired a leading judgement enforcement boutique on 1 January 2015 and have assimilated its staff into our UK operation; the acquisition itself was immaterial financially although the business is nicely profitable and ran at a 43% net profit margin in 2014. With that team in place, we now offer a desirable integrated solution to clients. We are prepared to take on their enforcement challenges, and to do so on whatever financial basis they wish – fee-for-service, contingency fee or the sale to Burford of the judgement itself.

Early response to this offering has been encouraging and we expect this new line of business to be independently financially desirable while also cementing Burford's market leadership position. We will include this business in our "new initiatives" segment going forward; see the discussion below.

Business Commentary

Capital structure and cash management

In 2013, we had begun feeling somewhat cash constrained and we did not explore new large investments as aggressively as we would have liked. Part of the challenge for Burford is the unpredictability of the timing of cash receipts, and while we ended 2013 in a strong cash position, that occurred only because of an unanticipated influx of cash in the fourth quarter. We launched the contingent preferred shares in 2013 in response to our need always to ensure adequate liquidity for our investment commitments, but those shares are really an emergency reserve, not something to be used routinely.

Thus, we began exploring a revolving line of credit to finance further expansion. While we had interest from commercial banks in providing such a facility, it also came with relatively high costs and nettlesome conditions and covenants. We were introduced to the London Stock Exchange's retail bond market as an alternative, and proceeded with an issue last summer of an eight year bond at a fixed 6.5% interest rate with few covenants and restrictions. The issue was well received in the market, and we upsized the offering which even at its higher level was oversubscribed, and closed on what ended up being $150 million of capital in August.

Having a more robust balance sheet spurred investment activity, and we closed 2014 having committed three times as much capital to new investments as in 2013, although many of those commitments draw capital over time.

While we ended the year with a substantial amount of cash on our balance sheet (almost $190 million, between bond proceeds and investment recoveries), our level of undrawn commitments also rose sharply, to $136 million, resulting in a net cash position of less than $50 million after allowing for dividends and interest payments. We will continue to manage our cash balances prudently and to run the business conservatively to avoid the risk of being unable to fulfill a commitment, notwithstanding the expense of some "cash drag" to be in that position.

Foreign exchange gains – and corporate excellence

Our income statement contains $8.5 million of foreign exchange gains this year. We'll explain those gains, but before we do, some broader commentary is appropriate.
We believe that Burford has the leading litigation investment team in the business. But that's not all Burford provides. Burford is building a large, perpetual capital business that aims to be the leading player in the law and litigation capital space. Our team is not only composed of great lawyers, but brings world class corporate management experience to the table. We have senior corporate officers, experienced investment bankers and a wide array of financial services experience. We are unique in our industry in this regard.

What that means is that we have considerable expertise – and make real money – in collateral areas. Shareholders have already seen us make returns on un-invested cash well above the level of market returns. In 2014, we managed our foreign exchange exposure strategically through the active management of our currency holdings, which created millions of dollars in gains that we might otherwise not have obtained. As just one example, we were able to take advantage of Sterling volatility in the quarter following our UK retail bond issue to convert millions of pounds of our proceeds from the issue into dollars at the most favourable exchange rate to be seen in weeks. Our scale, experience and expertise provides us with skillsets to be able to manage our non-core activities effectively to the material advantage of our shareholders, and that makes a difference in our total performance.

Now, to accounting.

The bulk of our foreign exchange gains relate to the fact that we issued our bonds in Sterling and we produce our accounts in dollars. As Sterling weakened against the dollar over the last few months of 2014, it became less expensive for us to repay the bond in dollar terms, and in the world of accounting, that created immediate, above-the-line gains even though the bond is not due to be repaid for eight years. The problem with this accounting treatment, of course, is that it has the potential – indeed, the likelihood – to cause our earnings to fluctuate up and down for the next eight years based on interim movements of the currencies even though nothing is actually happening with our cash along the way.

We would prefer to show those foreign exchange movements below net profit, as part of comprehensive income (where our other "paper" foreign exchange gains and losses reside), but the accounting rules do not appear to permit that.

The further issue with this presentation is that it comingles purely theoretical currency movements and the results of actual currency conversions. As we noted earlier, we actually converted the bond proceeds to dollars, and we generated millions of dollars of incremental proceeds by being thoughtful about how we did that. So, while some of the gains are purely "paper" gains, some reflect actual currency transactions.

Share price performance

Burford's share price was essentially flat for 2014, although it has since moved up significantly in 2015 to date. The conventional wisdom is that companies should not discuss their share price in their annual reports, but we eschew that approach. Our share price is important to shareholders, and we believe that shareholders should have our thoughts about it.

While not apparent from the lack of price change, 2014 was an extraordinarily active year for Burford's stock. In 2014, almost 60 million Burford shares traded – a third of our free float. (In comparison, 10 million shares traded in 2012.) We added a significant number of smaller shareholders as well, many of whom became aware of Burford following our successful bond issue in August. This level of liquidity, and the growth and broadening of our shareholder register, is very positive for the business, even if it came at the cost of price appreciation while that rotation occurred. Indeed, RBC Europe's Peter Lenardos wrote recently that Burford trades at "a valuation that is the cheapest of any company in our coverage universe", and AIMprospector wrote in December that Burford is "one of the most remarkable companies on AIM", with performance that puts us "among some of AIM's most highly-regarded companies".

Operating expenses

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

As a result, the operating expenses you see on our accounts are essentially what we are actually spending in cash each year to operate the business. Excluding "new initiatives" (see below), Burford's operating expenses rose 8.9% last year – a year in which income rose by 26% and new commitments trebled. Indeed, our expenses fell as against the prior year as a percentage of both income and operating profit.

This is a transparent and conservative way of proceeding. However, it introduces a timing mismatch between expenses (current) and portfolio income (future). As we grow the portfolio, we take on immediately higher levels of activity around (i) making new commitments and (ii) managing a higher level of portfolio activity. While our model is scalable to some extent, increases in business activity will drive increased current costs – and the profit those costs are working to achieve may only be seen in the future. Thus, given our increased activity levels, we think our cost increases are very moderate, and we will continue our focus on cost management while ensuring that the business is properly resourced to meet its needs.

When we embark on a new line of business (see "new initiatives", below), we also expense the costs associated with doing that as opposed to capitalising them against future expected income. This approach discourages innovation and growth, in our view. If our focus were solely short-term profit maximisation and operating expense minimisation, we would be reluctant to explore new and potentially profitable lines of business. We take a different view. We believe that our continuing growth and the continuing awareness of external capital in the legal sector present many new opportunities, and we intend to explore and pursue some of those opportunities even if the accounting treatment of doing so is undesirable in the short term. We believe that measured exploration of growth has the potential to contribute significantly to Burford's future value.

New initiatives segment

One of the dilemmas when running a business based on unpredictable medium duration assets is how to invest in future growth and opportunity while waiting for investments to mature. No one likes escalating operating costs, but at the same time it would be foolish for Burford to squander its leadership position in the market and not continue to grow, expand and take up new opportunities. Moreover, while there is from time to time potential for non-organic growth, many of the potential opportunities Burford sees can only be pursued through organic growth, requiring spending on people and expenses today in anticipation of a return several years hence.

Thus, we have created a new financial accounting segment, the "new initiatives segment". We have done so to capture and isolate our spending – and our income – on such business expansion initiatives until such time as they reach the size and maturity level to be independent accounting segments. One could think of this as our internal incubator of new ideas and new ventures, and we expect regularly to give new concepts a try. (We may also present our return on equity excluding this segment in the future as we regard it as a capital investment despite the accounting rules.)

We have already discussed our move into the provision of services as well as capital in the judgement enforcement space; that business will be in this segment beginning in 2015.

Another initiative in which we are engaged is the provision of recourse revolving credit lending to law firms that tend to work on contingency or alternative fee arrangements. This business, branded "Burford Lending", finances US law firms' working capital and case expense needs.

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

We are thus pursuing opportunities to deploy capital in this adjacent space, with a small dedicated team, and we are including this business in our new initiatives segment for the moment.

Finally, while our existing operations in the US and the UK are adequate for the moment to serve demand from those markets as well as Europe and the Americas generally, we continue to consider how best to respond to ever-growing demand for litigation finance capital in Asia. We also continue to consider the right balance between portfolio investment income and other forms of income that are less susceptible to binary risk, including fee for service income.

Forecasting the future

It is endemic to public companies today to try to predict the future. The world is full of models, analyst predictions and consensus estimates. As litigation lawyers, we have perhaps a unique view of this state of affairs, because we have often been called in to deal with the legal aftermath of those predictions turning out to be wrong – and that also makes us reluctant to issue predictions about the future as opposed to letting past results inform future sentiment.

But predilections aside, we also know that we can't predict the future outcome of individual litigation matters with any certainty as to timing, result or quantum. We can certainly apply our experience and our disciplined process to construct a diversified portfolio of investments that we expect to outperform a passive litigation investment index, if there were such a thing, and our portfolio has indeed been performing well. That is, however, a different matter than trying to say "well, four investments will mature this quarter, each at $x in return, and thus our income will be $y". We simply can't do that.

Because of that inherent limitation in litigation forecasting, which is well recognised in the various studies and academic literature that have studied complex litigation extensively, we eschew future guidance. We hope that past performance *will* in fact be indicative of future success, but one needs to approach Burford with a longer term view, not a quarterly forecast, as we will inevitably have periods of outperformance and periods of underperformance.

We do not here propose to catalogue all of the risks of the business as though writing a prospectus, but it is worth repeating that the fundamental risk in our business is the risk of loss in the underlying litigation matters. Cases fail for a variety of reasons, some predictable (such as a legal issue known to be in contention where we simply took a different view than the court ultimately did) and some entirely idiosyncratic (such as a witness performing poorly on cross-examination or being doubted by the trier of fact). Unlike many financial investments, the failure of a case can cost us our entire investment, although we work hard to ameliorate poor results and have considerable success in so doing.

Competition also deserves mention, although we see the current state of competition as a significant positive for the business rather than a negative. We are involved in creating a financial services industry in a market that did not really have one before – the law market. A flourishing industry demands multiple credible players. We have seen entry of some such players in each of the US and the UK markets, and we have seen efforts by an existing foreign player to expand into the US and the UK. Many of those efforts are still reasonably nascent but they have increased the total level of awareness of our products and services, and have done so without meaningful price competition to date given that all of the players need to produce robust returns on capital to satisfy their investors.

Corporate governance

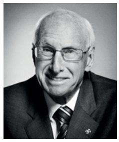
Burford is composed of its publicly traded parent company, Burford Capital Limited, and a number of wholly owned subsidiaries in various jurisdictions through which it conducts its operations and makes its investments. Burford Capital LLC is the principal operating entity in the U.S. and Burford Capital (UK) Limited is the principal operating entity in the U.K. All of the business' employees are employed by one of those two entities, which in turn provide various management services to other entities in the Group. Burford Capital Limited, the public parent, does not have any employees itself.

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

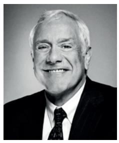
We are sometimes asked about migration to the LSE's Main Market with a premium listing. We have considered this matter carefully and consulted with our advisors about it. While we do not foreclose making such a move in due course, we do not plan to do so in 2015, largely due to the high cash cost of such a move when not accompanied by a substantial equity issuance.

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

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

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

The Board holds an in-person meeting every quarter during which it reviews thoroughly all aspects of the business' strategy and performance; the directors spend at least one evening and one full day together for each meeting, and every director attended all meetings held in 2014, as did senior members of management.

The Board reviews its performance and director compensation annually and regularly discusses succession planning and management oversight. The Board meets in closed session without management present at each of its meetings. The Board also operates through three committees, Audit, Investment and Remuneration, all of which meet throughout the year as required. The Remuneration committee reviews and approves compensation for all senior staff. No members of management sit on the Board; while atypical for a UK business, we believe this structure maximises independent oversight of the business. The board composition is also dictated by the tax-based provisions of Burford's Articles, which limit the number of US persons that can be directors; adding the co-founders to the Board would violate those provisions without other Board changes.

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 new website to review the biographies of all of our team members.

The future

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

Sir Peter Middleton GCB
Chairman

Christopher Bogart
Chief Executive Officer

Jonathan Molot
Chief Investment Officer

March 2015

The Directors present their Annual Report and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

Business activities

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

Corporate governance

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

Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 22.

The Directors propose to pay a final dividend of 5.26¢ (United States cents) per ordinary share in the capital of the Company during 2015. Together with the interim dividend of 1.74¢ paid in December 2014, this makes a total 2014 dividend of 7.0¢. A resolution for the declaration of the final dividend shall be put to the shareholders of the Company at the Company’s forthcoming Annual General Meeting (scheduled for 5 May 2015). If approved by shareholders, the record date for this dividend will be 8 May 2015 and payment of this dividend would then occur on 1 June 2015.

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

The Directors proposed and, following shareholder approval, paid a single final 2013 dividend of 5.23¢ per share on 16 June 2014 to shareholders on the register as at close of business on 23 May 2014.

Directors

The Directors of the Company who served during the year and to date are as stated on page 48.

Directors’ interests

	Number of Shares	% Holding at 31 December 2014
Sir Peter Middleton	100,000	0.05
Hugh Steven Wilson	200,000	0.10
David Charles Lowe	160,000	0.08

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

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

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

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

In preparing the Group financial statements the Directors are required to:

- Select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

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

Disclosure of Information to Auditors

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

Auditors

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

Charles Parkinson
Director and Chairman of the Audit Committee

17 March 2015

To the members of Burford Capital Limited

We have audited the consolidated financial statements of Burford Capital Limited for the year ended 31 December 2014 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 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on pages 19 to 20. The Company's Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error.

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

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of its profit and comprehensive income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP
Guernsey

17 March 2015

Notes:

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

for the year ended 31 December 2014

	Notes	2014 $'000	2013 $'000
Income			
Litigation investment-related income	10	47,847	38,847
Insurance-related income		24,338	20,910
New initiatives income	12	222	–
Cash management income and bank interest	8	1,093	728
Foreign exchange gains		8,534	175
Total income		82,034	60,660
Operating expenses	13	(21,323)	(18,146)
Operating profit		60,711	42,514
Finance costs		(3,652)	–
Profit before tax and the impacts relating to the Burford UK acquisition, the 2012 Reorganisation and UK Restructuring costs		57,059	42,514
Non-cash, non-NAV charge associated with the 2012 Reorganisation	6	–	(26,539)
Reorganisation advisory fees		–	(1,479)
UK Restructuring costs		–	(1,171)
Amortisation of embedded value intangible asset arising on Burford UK acquisition	5	(9,735)	(11,179)
Profit for the year before taxation		47,324	2,146
Taxation	4	(2,906)	(2,276)
Deferred tax credit on amortisation of embedded value intangible asset	4	2,219	2,795
Total taxation		(687)	519
Profit for the year after taxation		46,637	2,665
Attributable to contingent preference shares		1,200	89
Attributable to ordinary shareholders		45,437	2,576
		46,637	2,665
Other comprehensive income			
Exchange differences on translation of foreign operations on consolidation		(15)	212
Total comprehensive income for the year		46,622	2,877
Attributable to contingent preference shares		1,200	89
Attributable to ordinary shareholders		45,422	2,788
		Cents	Cents
Basic and diluted profit per ordinary share	19	22.21	1.26
Basic and diluted comprehensive income per ordinary share	19	22.21	1.36

The notes on pages 26 to 47 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2014

	Notes	2014 $'000	2013 $'000
Assets			
Non-current assets			
Embedded value intangible asset	5	–	9,771
Tangible fixed assets		386	504
Litigation-related investments	10	266,292	214,873
New initiatives	12	539	–
Due from settlement of litigation-related investments	11	56,888	41,430
Deferred tax asset	4	1,822	695
		325,927	267,273
Current assets			
Cash management investments at fair value through profit or loss	8	95,984	26,147
Due from settlement of litigation-related investments	11	6,619	9,469
Receivables and prepayments	14	11,076	15,526
Cash and cash equivalents		93,640	57,667
		207,319	108,809
Total assets		533,246	376,082
Liabilities			
Current liabilities			
Litigation-related investments payable		1,939	15,639
Payables	15	4,974	4,711
Taxation payable		2,378	1,994
Loan capital interest payable		3,352	–
		12,643	22,344
Non-current liabilities			
Deferred tax liability	4	–	2,227
Loan capital	16	138,066	–
Total liabilities		150,709	24,571
Total net assets		382,537	351,511
Represented by:			
Ordinary share capital	17	328,749	328,749
Revenue reserve		53,602	22,422
Other reserves		324	339
Total equity attributable to ordinary shareholders		382,675	351,510
Equity attributable to contingent preference shares	18	(138)	1
Total equity shareholders' funds		382,537	351,511

The notes on pages 26 to 47 form an integral part of these consolidated financial statements.

The financial statements on pages 22 to 47 were approved by the Board of Directors on 17 March 2015 and were signed on its behalf by:

Charles Parkinson
Director

17 March 2015

for the year ended 31 December 2014

	2014 $'000	2013* $'000
Cash flows from operating activities		
Profit for the year before tax	47,324	2,146
Adjusted for:		
Fair value change on cash management investments at fair value through profit or loss	2,186	2,634
Fair value change on litigation-related investments	(18,400)	(23,583)
Realised gains on disposal of cash management investments at fair value through profit or loss	(2,700)	(2,880)
Realised gains on realisation of litigation-related investments	(11,964)	(8,011)
Interest and other income from litigation-related activities	(16,396)	(7,253)
New initiatives income	(222)	–
Non-cash, non-NAV charge associated with the 2012 Reorganisation	–	26,539
Amortisation of embedded value intangible asset	9,735	11,179
Depreciation of tangible fixed assets	211	260
Bond issue costs incurred as finance costs	116	–
Effect of exchange rate changes	(5,447)	82
	4,443	1,113
Changes in working capital		
Decrease in receivables	516	157
Increase/(decrease) in payables	3,582	(268)
Taxation paid	(3,308)	(2,480)
Net proceeds from (purchase)/disposal of cash management investments at fair value through profit or loss	(69,224)	24,889
Funding of litigation-related investments	(91,022)	(46,781)
Investment in new initiatives	(2,821)	–
Proceeds from litigation-related investments	63,010	31,889
Proceeds from new initiatives	2,504	–
Litigation portfolio financing asset received	–	33,405
Net cash (outflow)/ inflow from operating activities	(92,320)	41,924
Cash flows from financing activities		
Issuance of contingent preference shares	–	1,200
Issue expenses – contingent preference shares	(50)	(1,288)
Issue of loan capital	148,194	–
Issue expenses – loan capital	(2,522)	–
Dividends paid on ordinary shares	(14,257)	(9,925)
Dividends paid on contingent preference shares	(1,289)	–
Net cash inflow/ (outflow) from financing activities	130,076	(10,013)
Cash flows from investing activities		
Purchases of tangible fixed assets	(100)	(236)
Net cash outflow from investing activities	(100)	(236)
Net increase in cash and cash equivalents	37,656	31,675
Reconciliation of net cash flow to movements in cash and cash equivalents		
Cash and cash equivalents at beginning of year	57,667	25,559
Increase in cash and cash equivalents	37,656	31,675
Effect of exchange rate changes on cash and cash equivalents	(1,683)	433
Cash and cash equivalents at end of year	93,640	57,667

Supplemental Disclosure	2014 $'000	2013 $'000
Cash received from interest income	6,214	3,901

The notes on pages 26 to 47 form an integral part of these consolidated financial statements.

* Reclassifications to comparative information have been made in accordance with IAS 1 paragraph 38, in order to provide more relevant information.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

31 December 2014	Share capital $'000	Revenue reserve $'000	Foreign currency consolidation reserve $'000	Equity attributable to ordinary shareholders $'000	Contingent Preference Shares $'000	Total $'000
At 1 January 2014	328,749	22,422	339	351,510	1	351,511
Profit for the year	–	45,437	–	45,437	1,200	46,637
Other comprehensive income	–	–	(15)	(15)	–	(15)
Dividends paid (Note 20)	–	(14,257)	–	(14,257)	(1,289)	(15,546)
Contingent preference shares (Note 18)	–	–	–	–	(50)	(50)
Balance at 31 December 2014	**328,749**	**53,602**	**324**	**382,675**	**(138)**	**382,537**

31 December 2013	Share capital $'000	Revenue reserve $'000	Foreign currency consolidation reserve $'000	Equity attributable to ordinary shareholders $'000	Contingent Preference Shares $'000	Total $'000
At 1 January 2013	328,749	29,771	127	332,108	–	332,108
Profit for the year	–	2,576	–	2,576	89	2,665
Other comprehensive income	–	–	212	212	–	212
Dividends paid (Note 20)	–	(9,925)	–	(9,925)	–	(9,925)
Issue of share capital (Note 6)		–	–	26,539	–	26,539
Contingent preference shares (Note 18)	328,749	–	–	–	(88)	(88)
Balance at 31 December 2013	328,749	22,422	339	351,510	1	351,511

The notes on pages 26 to 47 form an integral part of these consolidated financial statements.

1. Legal form and principal activity

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

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

These financial statements cover the year from 1 January 2014 to 31 December 2014.

2. Principal accounting policies

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

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

Significant estimates and judgements
The most significant estimates relate to the valuation of litigation-related 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 judgement 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 judgement 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.

2. Principal accounting policies continued

Basis of preparation

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

Several new standards and amendments applied for the first time in 2014, including:

	Effective date
IAS 32: Financial instruments presentation: Offsetting financial assets and financial liabilities	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities	1 January 2014

No material change resulted from the implementation of the above standards.

Early adoption of IFRS 9: Financial Instruments

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

Basis of consolidation

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

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

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

Insurance-related income

Insurance-related 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-related income is calculated as the premium earned, net of reinsurance and Insurance Premium Tax, less an allowance for claims, sales commissions, fees and the other direct insurance related costs such as Financial Services Compensation Scheme Levy. The payment of premiums is often contingent on a case being won or settled and the Group recognises the associated income only at this point, whilst a deduction is made for claims estimated to be paid on all policies in force.

Segment reporting

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

Business combinations, goodwill and negative goodwill

Business combinations are accounted for using the acquisition method. The 2012 Reorganisation, which is discussed further at Note 6, is not considered to represent a business combination. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. A non-controlling interest is measured at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

2. Principal accounting policies continued

Identifiable intangible assets meeting the criteria for identification under IFRS 3 are recognised separately from goodwill.

If the aggregate of the consideration transferred and non-controlling interest is lower than the fair value of the identifiable net assets of the acquiree, the difference is recognised in profit and loss as negative goodwill (bargain purchase gain).

Embedded value intangible asset

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

Investment sub-participation

Investment sub-participations are classified as financial liabilities and are initially recorded at the fair value of proceeds received or expected to be received. They are subsequently measured at fair value with changes in fair value being recorded in litigation investment-related income in the Consolidated Statement of Comprehensive Income.

Financial instruments

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

1) Cash management investments at fair value through profit or loss

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

Recognition, derecognition and measurement

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

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

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

2) Litigation-related investments at fair value through profit or loss

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

Recognition, derecognition and measurement

Purchases and sales of litigation-related 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

2. Principal accounting policies continued

the sum invested. A litigation-related 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 are included within litigation investment-related income in the Consolidated Statement of Comprehensive Income.

3) Financial assets and liabilities at amortised cost
Financial assets and liabilities, including loan capital, litigation portfolio financings and amounts due from settlement of litigation-related 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.

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

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

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

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

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

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

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

2. Principal accounting policies continued

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.

Bank interest income

Bank interest income is recognised on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis.

Finance costs

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

Cash and cash equivalents

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

Taxation

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

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

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

2. Principal accounting policies continued

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

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

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

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.

New initiatives
New initiatives assets are held at amortised cost.

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

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

3. Material agreements

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

4. Taxation

The Company is exempt from tax 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. Burford UK and certain of its subsidiaries are subject to UK taxation based on profits and income for the year as determined in accordance with relevant tax legislation. Certain Burford US Subsidiaries are subject to US taxation for the year as determined in accordance with relevant tax legislation.

4. Taxation continued

The taxation charge for the year ended 31 December 2014 of $2,906,000 (2013: $2,276,000) includes Burford UK's current taxation of $3,872,000 (2013: $2,851,000), US Subsidiaries' current taxation of $39,000 (2013: $120,000) and non-resident tax on Guernsey cash management investments of $122,000 (2013: $Nil), which is partially offset by a deferred taxation credit of $1,127,000 (2013: $695,000) (see below for deferred taxation movements).

Deferred tax asset	2014 $'000	2013 $'000
At 1 January	695	–
Movement on UK deferred tax – temporary differences	8	12
Unused tax losses in US	1,119	683
At 31 December	1,822	695

During the year ending 31 December 2014, the Group also has a deferred taxation credit of $2,219,000 (2013: $2,795,000) relating to the amortisation of the embedded value intangible asset.

Deferred tax liability	2014 $'000	2013 $'000
At 1 January	2,227	5,087
Tax released on amortisation of embedded value intangible asset	(2,219)	(2,795)
Movement on UK deferred tax – temporary differences	–	(23)
Foreign exchange adjustment	(8)	(42)
At 31 December	–	2,227

5. Embedded value intangible asset

	2014 $'000	2013 $'000
At 1 January	9,771	21,196
Amortisation	(9,735)	(11,179)
Exchange difference on re-translation	(36)	(246)
At 31 December	–	9,771

Burford UK was acquired on 29 February 2012. The intangible asset represents the value of Burford UK's book of business at the date of acquisition, and has been amortised in accordance with the expected maturity of the business.

6. Non-cash, non-NAV charge associated with the 2012 Reorganisation

On 21 November 2012, the Company entered into a reorganisation transaction (the "2012 Reorganisation") the ultimate effect of which was to internalise the management of the Company and acquire the Investment Adviser. The consideration for the acquisition was 24,545,454 shares of the Company's stock. The Reorganisation was completed on 12 December 2012, and the Company issued the aforementioned shares on that date to the Investment Adviser's principals, Christopher Bogart and Jonathan Molot. As a result of the Reorganisation, the Group has, inter alia, become the owner of Burford Capital LLC, the US operating entity that employs what are now the Group's US employees and which has built a substantial market leading position in the litigation finance market, and the Company is also no longer obliged to make payments of management and performance fees to the Investment Adviser.

The legal form of the Reorganisation transaction was a reverse triangular merger pursuant to section 351 of the US Internal Revenue Code whereby the Company created a subsidiary that merged with and into the Investment Adviser in a reverse subsidiary merger, and all of the equity interests in the surviving entity (Burford Capital LLC) were issued to the Company, which in turn issued the aforementioned shares which were then transferred to Messrs. Bogart and Molot. As a result and as disclosed in the Company's November 2012 RNS announcement, Messrs. Bogart and Molot became owners of those shares immediately and unconditionally, although the shares were subject to a two year lock-up period.

From a corporate law and corporate structure perspective, the Reorganisation was a sale of a business for stock and did not contain any employment component (in that Messrs. Bogart and Molot were employees of Burford Capital LLC both before and after the Reorganisation), and the transaction was entirely concluded within 2012. However, because Messrs. Bogart & Molot are continuing as employees of Burford Capital LLC, IFRS treats the Reorganisation as falling under both IFRS 2 and IFRS 3, notwithstanding the potential for inconsistency between the actual legal form of the transaction and the accounting treatment. This accounting position was solidified in January 2013 (with retroactive effect) following release of general guidance by the IFRS Interpretations Committee.

Thus, for accounting purposes only, the Company determined a fair value for the Reorganisation transaction by using the implied market value of the shares issued based on their bid price converted to US dollars and without considering their illiquidity or certain contractual restrictions on their transfer, yielding total consideration of $38,373,111. Of that amount, $518,534 relating to tangible assets acquired and a non-cash charge computed pursuant to IFRS 3 of $11,315,080 reflecting the internalisation referred to above were recognised in the Group's 2012 Annual Report.

In February 2013, the accounting review of the application of IFRS 2 (as influenced by the IFRS Interpretations Committee's January 2013 action) reached the conclusion that the remaining $26,539,497 in deemed value would be appropriately recognised as a non-cash charge to income (with a corresponding increase in equity thus having no NAV impact) over a three year period in light of certain pre-existing provisions in the principals' employment arrangements for liquidated damages in the event of employment termination. The Company took the view that sustained recognition of non-cash charges of this sort was not advisable and thus, with the consent of the principals, eliminated those provisions nunc pro tunc, following which the appropriate IFRS 2 treatment was determined to be the full recognition of the remaining deemed value in 2013.

7. Segmental information

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

Segment revenue and results

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

31 December 2013	Litigation Investment $'000	Litigation Insurance $'000	Other corporate activity $'000	Total $'000
Income	38,847	20,910	903	60,660
Operating expenses	(9,005)	(6,779)	(2,362)	(18,146)
Non-cash, non-NAV charge associated with the 2012 Reorganisation	–	–	(26,539)	(26,539)
Reorganisation advisory fees	–	–	(1,479)	(1,479)
UK Restructuring costs	–	(1,171)	–	(1,171)
Amortisation of embedded value intangible asset	–	–	(11,179)	(11,179)
Profit/(loss) for the year before taxation	29,842	12,960	(40,656)	2,146
Current taxation	563	(2,839)	–	(2,276)
Deferred tax credit	–	–	2,795	2,795
Other comprehensive income	–	–	212	212
Total comprehensive income	30,405	10,121	(37,649)	2,877

7. Segmental information continued

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

7. Segmental information continued

31 December 2013	Litigation Investment $'000	Litigation Insurance $'000	Other corporate activity $'000	Total $'000
Non-current assets				
Embedded value intangible asset	–	–	9,771	9,771
Tangible fixed assets	–	132	372	504
Litigation-related investments	214,873	–	–	214,873
Due from settlement of litigation-related investments	41,430	–	–	41,430
Deferred tax asset	683	12	–	695
	256,986	144	10,143	267,273
Current assets				
Cash management investments at fair value through profit or loss	–	–	26,147	26,147
Due from settlement of litigation-related investments	9,469	–	–	9,469
Receivables and prepayments	3,370	11,955	201	15,526
Cash and cash equivalents	28,957	16,931	11,779	57,667
	41,796	28,886	38,127	108,809
Total assets	298,782	29,030	48,270	376,082
Current liabilities				
Litigation-related investments payable	15,639	–	–	15,639
Payables	1,979	1,044	1,688	4,711
Taxation payable	40	1,954	–	1,994
	17,658	2,998	1,688	22,344
Non-current liabilities				
Deferred tax liability	–	–	2,227	2,227
	–	–	2,227	2,227
Total liabilities	17,658	2,998	3,915	24,571
Total net assets	281,124	26,032	44,355	351,511

8. Cash management investments at fair value through profit or loss

	2014 $'000	2013 $'000
Listed corporate bond fund	–	2,169
Listed fixed income and investment funds, including mutual funds	95,984	–
Unlisted fixed income and investment funds, including mutual funds	–	23,978
Total cash management investments at fair value through profit or loss	95,984	26,147

Reconciliation of movements	2014 $'000	2013 $'000
Balance at 1 January	26,147	50,790
Purchases	152,494	46,315
Proceeds on disposal	(83,171)	(71,204)
Realised gains on disposal	2,700	2,880
Fair value change in year	(2,186)	(2,634)
Balance at 31 December	95,984	26,147

As at 31 December 2014, cash management investments at fair value through profit or loss were invested primarily in mutual funds.

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

	2014 $'000	2013 $'000
Realised gains on cash management investments	2,700	2,880
Fair value movement on cash management investments	(2,186)	(2,634)
Interest income from cash management investments	508	399
Bank interest income	71	83
Total cash management income and bank interest	1,093	728

9. Litigation portfolio financing

	2014 $'000	2013 $'000
Total litigation portfolio financing at year end	–	–
Interest and other income from litigation portfolio financing	–	3,405

The litigation portfolio financing balance was measured at amortised cost and attracted interest at 13.5% per annum, payable monthly. The asset had a maturity date of 31 July 2016, with repayments due to commence on 31 January 2014, but was repaid early in full on 3 October 2013. An early repayment fee of $300,000 was also received in addition to monthly interest payments up to the date of repayment. The interest income from litigation financing assets is included in litigation investment-related income in the Consolidated Statement of Comprehensive Income.

10. Litigation-related investments at fair value through profit or loss

	2014 $'000	2013 $'000
Balance at fair value as at 1 January	**214,873**	159,749
Additions	**77,378**	62,420
Realisations	**(55,925)**	(37,472)
Net realised gain for year	**11,964**	6,482
Fair value movement (net of transfers to realisations)	**18,400**	23,583
Foreign exchange gain/(loss)	**(398)**	111
Balance at fair value as at 31 December	**266,292**	214,873

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

	2014 $'000	2013 $'000
Net realised gains on litigation-related investments (above)	**11,964**	6,482
Fair value movement on litigation-related investments (above)	**18,400**	23,583
Net decrease in liabilities for investment sub-participations	**1,087**	1,529
Interest and other income on litigation portfolio financing (Note 9)	**–**	3,405
Interest and other income on due from settlement of litigation-related investments (Note 11)	**13,318**	1,239
Interest and other income from continuing litigation-related investments	**3,078**	2,609
Total litigation investment-related income	**47,847**	38,847

11. Due from settlement of litigation-related investments

Amounts due from settlement of litigation-related investments relate to the recovery of litigation-related 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.

Due from settlement of litigation-related investments	2014 $'000	2013 $'000
Balance at 1 January	**50,899**	43,840
Transfer of realisations from litigation-related investments (Note 10)	**55,925**	37,472
Interest and other income on due from settlement of litigation-related investments	**13,318**	1,239
Additions to due from settlement of litigation-related investments	**205**	–
Proceeds from settled litigation-related investments	**(56,378)**	(31,338)
Proceeds from interest income on due from settlement of litigation-related investments	**(462)**	(314)
Balance at 31 December	**63,507**	50,899
Split:		
Non-current assets	**56,888**	41,430
Current assets	**6,619**	9,469
Total due from settlement of litigation-related investments	**63,507**	50,899

12. New initiatives

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

	2014 $'000
At 1 January	–
Additions	2,821
Realisations	(2,504)
New initiatives income	222
At 31 December	539

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

	2014 $'000
Interest and other income	222
Total new initiatives income	222

13. Total operating expenses

	2014 $'000	2013 $'000
Staff costs	13,155	10,181
Pension costs	419	317
Non-executive directors' remuneration	381	359
Non-staff operating expenses	5,967	5,205
Litigation investment related costs	1,401	1,486
Investment advisory fee	–	598
	21,323	18,146

Directors' remuneration* comprise:

	2014 $'000	2013 $'000
Sir Peter Middleton	125	117
Hugh Steven Wilson	116	110
Charles Nigel Kennedy Parkinson	70	66
David Charles Lowe	70	66
	381	359

* Directors' remuneration is Sterling denominated

Fees paid and payable to Ernst & Young LLP comprise:

	2014 $'000	2013 $'000
Audit and interim review fees	580	462
Reorganisation advisory fees	–	895
Tax compliance fees	399	162
Tax advisory fees	150	–
Other advisory fees	44	13
	1,173	1,532

14. Receivables and prepayments

	2014 $'000	2013 $'000
Trade receivable – insurance segment	10,678	11,880
Interest receivable from continuing litigation-related investments	–	3,297
Prepayments	210	161
Other debtors	188	188
	11,076	15,526

15. Payables

	2014 $'000	2013 $'000
Audit fee payable	406	319
Reorganisation advisory fees payable	–	422
General expenses payable	4,568	1,976
UK Restructuring	–	242
Claim costs payable	–	643
Investment sub-participations	–	1,109
	4,974	4,711

16. Loan capital

On 19 August 2014 the Group, through a 100% owned subsidiary, Burford Capital PLC, issued retail bonds to the value of $149,562,000 (£90,000,000). The bond proceeds were converted to US Dollars in the weeks following the offering, producing $149,937,975 of proceeds. The bonds are listed on the London Stock Exchange's Order Book for Retail Bonds. The bonds will mature on 19 August 2022, and pay a fixed rate of interest of 6.5% per annum. The fair value of the loan capital at year end, based upon market value of the bonds at that time, was $143,176,000.

Retail bonds	2014 $'000
At 1 January	–
Retail bonds issued	149,562
Bond issue costs	(2,522)
Finance costs	3,652
Exchange movements	(9,274)
At 31 December	141,418
Split:	
Loan capital	138,066
Loan capital interest payable	3,352
	141,418
Loan capital interest expense	3,536
Bond issue costs incurred as finance costs	116
Total finance costs	3,652

17. Share capital

Authorised share capital	2014 $'000	2013 $'000
Unlimited Ordinary Shares of no par value	–	–

Issued share capital	2014 Number	2013 Number
Ordinary Shares of no par value	204,545,455	204,545,455

80,000,001 Ordinary Shares were issued at 100p each on 21 October 2009. A further 100,000,000 Ordinary Shares were issued at 110p each on 9 December 2010. As detailed in Note 6, a further 24,545,454 shares were issued on 12 December 2012.

	2014 $'000	2013 $'000
At 1 January	328,749	302,210
Shares issued in 2012 Reorganisation (Note 6)	–	26,539
At 31 December	328,749	328,749

18. Contingent preference shares

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

Issued contingent preference shares	2014 $'000	2013 $'000
400 Contingent preference share units at $100,000 nominal value per unit	40,000	40,000

Contingent preference shares	2014 $'000	2013 $'000
At 1 January	1	–
Attributable profit for the period	1,200	89
Dividends paid	(1,289)	–
Contingent preference shares issued	–	1,200
Share issue costs	(50)	(1,288)
At 31 December	(138)	1

19. 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 $45,437,000 (2013: $2,576,000) and the weighted average number of ordinary shares in issue for the year of 204,545,455 (2013: 204,545,455). Comprehensive Income per ordinary share is calculated based on comprehensive income attributable to ordinary shareholders for the year of $45,422,000 (2013: $2,788,000), and the weighted average number of ordinary shares in issue for the year of 204,545,455 (2013: 204,545,455).

20. Dividends

The Directors propose to pay a final dividend of 5.26¢ (United States cents) per ordinary share in the capital of the Company during 2015. Together with the interim dividend of 1.74¢ paid in December 2014, this makes a total 2014 dividend of 7.00¢. 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 5 May 2015). If approved by shareholders, the record date for this dividend will be 8 May 2015 and payment of this dividend would then occur on 1 June 2015. The proposed dividend is being proposed, and will be paid, in US Dollars, and will be converted to and paid in Sterling for UK shareholders not electing to receive it in US Dollars.

The Directors proposed and paid a 2013 dividend of 5.23¢ per share on 16 June 2014 to shareholders on the register as at close of business on 23 May 2014.

21. Financial risk management

Market and investment risk

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

With respect to the Group's cash management investments, including interest bearing securities, corporate bonds and investment funds, market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as interest rates, credit risk, security and bond prices and foreign exchange rates. Investments in cash management investments are made in line with pre-agreed parameters and subject to Board oversight. At 31 December 2014, should the prices of the investments in interest bearing securities, corporate bonds and investment funds have been 10% higher or lower while all other variables remained constant, the Group's income and net assets would have increased and decreased respectively by $9,598,000 (2013: $2,615,000).

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

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

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2014, 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 $26,629,000 (2013: $21,487,000).

21. Financial risk management continued

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

Liquidity risk

The Group is exposed to liquidity risk. The Group's investment in litigation-related investments requires funds for ongoing settlement of operating liabilities and to meet investment commitments (see Note 22). 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 fixed income instruments, investment funds and individual liquid securities that can be redeemed on short notice or can be sold on an active trading market, as well as investments that provide monthly liquidity.

During 2014 the issue of $150 million retail bonds raised sufficient extra capital to help mitigate liquidity risk. Interest payments on the bonds will total $73 million over the eight year period until maturity in August 2022, at which point the principal amounts shall be repaid. The $40 million contingent preference shares issued in 2013 further mitigate liquidity risk.

Credit risk

The Group is exposed to credit risk in various investment structures (see Note 2), most of which involve investing sums recoverable only out of successful investments with a concomitant risk of loss of investment cost. On becoming contractually entitled to proceeds, depending on the structure of the particular investment, the Group could be a creditor of, and subject to credit risk from, a claimant, a defendant, both or other parties. Moreover, the Group may be indirectly subject to credit risk to the extent a defendant does not pay a claimant immediately notwithstanding successful adjudication of a claim in the claimant's favour. There is a level of concentration risk present, however this is mitigated by the fact that no more than 9.1% of total net asset value is invested in any single litigation-related investment.

The Group is also exposed to credit risk in respect of the cash management investments at fair value through profit or loss and cash and cash equivalents. The credit risk of the cash and cash equivalents is mitigated as all cash is placed with reputable banks with a sound credit rating (A-1+). The credit risk of the cash management investments at fair value through profit or loss is mitigated by investment restrictions as regards security type, geographical origin and acceptable counterparties; those investments are entirely or largely made in investment securities of investment grade quality, such as commercial paper with an A-1 or P-1 rating or corporate bonds with a rating of A or better. There are no significant concentrations of credit risk. At the year end the Group is invested in eleven (2013: nine) securities with the bulk of its cash management investments held in managed funds.

The Group was 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.

21. Financial risk management continued

Currency risk

The Group holds assets denominated in currencies other than US Dollars, the functional currency of the Company, including Sterling, the functional currency of Burford UK. Further, the Group issued Sterling loan capital during 2014. It is therefore exposed to currency risk, as values of the assets denominated in other currencies will fluctuate due to changes in exchange rates. The Group may use forward exchange contracts from time to time to mitigate currency risk.

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

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

At 31 December 2013, the Group's net exposure to currency risk could be analysed as follows:

	Investments $'000	Other net assets/ liabilities $'000
US Dollar	288,785	25,758
Sterling	3,134	33,443
Euro	–	391
	291,919	59,592

At 31 December 2014 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 $11,204,000 (2013: increased and decreased by $360,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in floating interest rates relates primarily to the Group's cash and certain due from settlement of litigation-related investments. All cash bears interest at floating rates. There are also certain litigation-related investments and due from settlement of litigation-related investments that earn interest based on fixed rates; however those assets do not have interest rate risk as they are not exposed to changes in market interest rates. The Group's loan capital incurs interest at a fixed rate and so is not exposed to changes in market interest rates. The following table sets out the Group's exposure to interest rate risk at 31 December 2014:

	2014 $'000	2013 $'000
Non-interest bearing	**363,160**	244,785
Interest bearing – floating rate	**95,039**	59,792
Interest bearing – fixed rate	**(75,662)**	46,934
Total Net Assets	**382,537**	351,511

21. Financial risk management continued

The interest bearing floating rate assets are denominated in both US Dollars and Sterling. If interest rates increased/decreased by 25 basis points while all other variables remained constant, the profit for the year and net assets would increase/decrease by $238,000 (2013: $149,000). For fixed rate assets and liabilities, it is estimated that there would be no profit or net assets impact. Fixed rate assets and liabilities include loan capital and loan capital interest payable as disclosed in note 16.

The maturity profile of interest bearing assets and liabilities is:

Maturity period at 31 December 2014	Floating $'000	Fixed $'000	Total $'000
Less than 3 months	94,414	(3,352)	91,062
3 to 6 months	375	920	1,295
6 to 12 months	250	–	250
Greater than 12 months	–	(73,230)	(73,230)
	95,039	(75,662)	19,377

Maturity period at 31 December 2013	Floating $'000	Fixed $'000	Total $'000
Less than 3 months	57,667	–	57,667
3 to 6 months	750	15,450	16,200
6 to 12 months	750	–	750
Greater than 12 months	625	31,484	32,109
	59,792	46,934	106,726

Management of capital

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

22. 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 2014, the Group had outstanding commitments for $137 million (31 December 2013: $63 million). Of the $137 million in commitments, the Group expects less than 50% to be sought from it during the next 12 months.

23. Fair value of assets and liabilities

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

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

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

Fair Value Hierarchy

31 December 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Litigation-related Investments	–	–	266,292	266,292
Cash Management Investments at fair value through profit or loss:				
Listed fixed income and investment funds	95,984	–	–	95,984
Loan capital	(143,176)		–	(143,176)
Total	(47,192)	–	266,292	219,100

31 December 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Litigation-related Investments	–	–	214,873	214,873
Cash Management Investments at fair value through profit or loss:				
Unlisted fixed income and investment funds	–	23,978	–	23,978
Listed corporate bond funds	2,169	–	–	2,169
Total	2,169	23,978	214,873	241,020

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

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

23. Fair value of assets and liabilities continued

Sensitivity of Level 3 valuations
Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2014, 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 $26,629,000.

Reasonably possible alternative assumptions
The determination of fair value of litigation-related investments involves 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.

24. Related party transactions

Directors' fees paid in the year amounted to $381,000 (2013: $359,000). There were no Directors' fees outstanding at 31 December 2014 or 31 December 2013.

There is no controlling party.

25. Subsequent events

There have been no significant subsequent events.

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David Charles Lowe

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