2016

Annual Report

Burford

About Burford Capital

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

This report does not constitute an offer of any Burford fund.

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Full Year 2016 Highlights:

Income up
59% to $163.4m

Profit after tax* up
75% to $115.1m

Return on Equity of **21%**

Full year dividend up
14% to 9.15¢

$2.3 billion invested in and available for legal finance

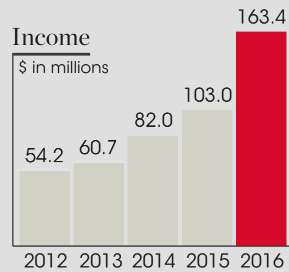
Burford's direct investing^Δ **$1.0bn**

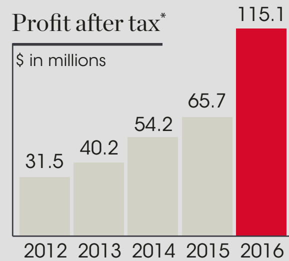
and

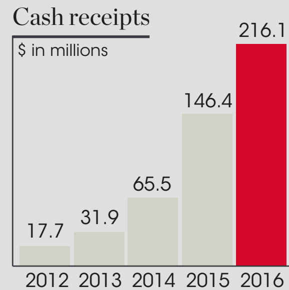
Burford's investment funds **$1.3bn AUM**

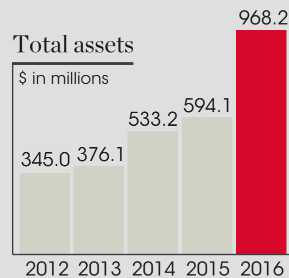
* As adjusted and defined in each annual report.

Δ Includes investments on the balance sheet, undrawn commitments and cash net of acquisition payables.









Full audited IFRS consolidated financial statements can be found in the following pages and a summary is set out below. The current period figures for operating profit, profit before tax and profit after tax exclude the impact of the amortisation of intangible asset and one time, non-recurring transaction costs relating to the acquisition of GKC Holdings, LLC and are shown to assist in understanding the underlying performance of the Company; on a pure IFRS basis, profit after tax increased by 66%.

$'000	**2016**	**2015**	**% change**
Litigation investment income Δ	140,187	87,877	+ 60%
Insurance income	12,923	12,763	+ 1%
New initiatives income Δ	8,849	2,510	+ 253%
Investment management income	647	–	
Other income	797	(143)	
Total income	**163,403**	103,007	**+ 59%**
Operating expenses – litigation investment Δ	(26,017)	(15,654)	
Operating expenses – insurance	(1,696)	(2,577)	
Operating expenses – new initiatives Δ	(4,895)	(2,797)	
Operating expenses – investment management	(443)	–	
Operating expenses – corporate	(5,975)	(4,812)	
Operating profit*	**124,377**	77,167	**+ 61%**
Finance costs	(14,108)	(9,290)	
Profit before tax*	**110,269**	67,877	**+ 62%**
Taxation	4,817	(2,204)	
Profit after tax*	**115,086**	65,673	**+ 75%**

Δ As reported in the 2016 interim report, law firm lending investments are included in the litigation investment segment commencing with the 2016 annual report whereas historically they were included in the new initiatives segment. The 2015 figures have been restated for comparative purposes.

* Operating profit, profit before tax and profit after tax for 2016 do not include the amortisation of intangible asset and one time, non-recurring transaction costs relating to the GKC acquisition.

It has been a momentous year for Burford. Since the beginning of 2016, our share price has more than tripled and we have created well over a billion dollars in shareholder value. We acquired the other leading player in our space and solidified our position as the industry leader in a growing and evolving industry. We successfully floated a second bond issue, raising $144 million of fresh capital, and benefitted to the tune of tens of millions of dollars from the devaluation of Sterling – a benefit that accrues to our shareholders given our US Dollar denominated assets and dividend payments. And the business itself had by far its best year ever, setting records for income and profits, for cash receipts and for new investment commitments.

More than half of our shares are held by shareholders who have been with us since our IPO in 2009, seven years ago. It is a testament to their belief in this business that they have remained shareholders ever since, and we are extraordinarily grateful for their unwavering support as they provided the capital for us not only to build this business but to launch a global industry. We are proud to have rewarded them with 754% in total shareholder return on their initial investment to date, a 34% annualised return. We are similarly pleased that 24 of our management team collectively own Burford shares, totaling 14.4% of shares outstanding, and that with the launch this month of our share-based LTIP, every single Burford employee will have an equity holding in the Company to align further the interests of our team and our shareholders.

Our financial performance – which reflects the outcomes of investment decisions generally made years ago – continues to be robust and to increase alongside our larger investment portfolio. Our income rose 59% to $163.4 million, and our profit after tax (excluding acquisition-related charges) rose 75% to $115.1 million. Our operating expenses declined as a percentage of income, to 23.9% (2015: 25.1%). Our return on equity rose to 21.1%.

Moreover, our cash performance also saw a substantial increase: We generated $216 million in cash from investment returns, up 48% from $146 million last year. We discuss in much greater detail our portfolio performance later in this report. We also discuss later our secondary market activity, including not only our modest 2016 activity towards the development of a secondary market but also a more significant transaction that we closed in December 2016 and March 2017 that has generated $40 million in cash proceeds from the sale of a 10% interest in one of our investments, the Petersen claims. That sale implies a current value for the Petersen claims of approximately 20x Burford's invested cost, while allowing Burford to retain a 90% interest in the ultimate outcome of the claims. The impact of the March 2017 sale will be reported in our interim 2017 results in July.

Once again, our commitments to new investments grew dramatically, positioning the business for the future. We committed $378 million of new capital to litigation finance investments in 2016. That is not only a significant (83%) increase over last year's level of $206 million, but last year's level itself

Unless otherwise specifically indicated, financial and operational data provided throughout this report is as at 31 December 2016 or for the 2016 fiscal year. Share price data is as of 10 March 2017.

represented a step change from prior years. In 2014, we committed $153 million, so we have more than doubled our commitment pace in only two years. Without including our acquisition of Gerchen Keller Capital ("GKC"), legacy Burford commitments to investments since inception now stand appreciably over $1 billion; adding in GKC's commitments to investments propels us past the $2 billion mark. The combined firm ended 2016 with approximately $1.4 billion in current legal finance investments and commitments.

In recognition of a strong year and consistent with our dividend policy, the Board is recommending an increased final dividend of 6.48 cents per share, taking the full year dividend to 9.15 cents per share, marking the sixth consecutive year of an increased dividend. In US Dollar terms, that is a 14.4% increase, but in Sterling terms, the currency in which most of our shareholders receive their dividends, that represents a 38.3% increase over last year at current exchange rates.

Litigation finance

Our core business is specialty finance applied to the legal sector. We consider the asset value of claims, or the risk profile of other legal or regulatory circumstances, and we provide capital or other financial services to corporate clients and law firms based on that assessment. While considered esoteric or novel only a few years ago, specialty finance for law is considerably more established today, yet still in our view at the early adopter stage of its potential growth trajectory.

Along with that greater level of market acceptance and activity has come an ever-increasing range of products and transaction structures to meet client needs – and our clients themselves span the globe. That evolution is very positive for Burford's business as it creates increasing demand for our services across a range of clients and opportunities. Our business now supports a wide spectrum of economic arrangements, ranging from the high risk single matter where we seek significant returns on capital to risk mitigation arrangements where we deploy no capital at all. Indeed, our business has evolved so much that "litigation finance" often seems too narrow a term for what is really "legal finance" or specialty finance for law.

It is indicative of the evolution of the business that 2016 saw us do two of our largest-ever transactions – a $100 million fully deployed portfolio investment across a large pool of cases for a major global law firm, and a $50 million portfolio to be deployed over time for another global law firm. A few years ago it would have been hard to imagine those firms doing these kinds of deals – but today we are part of their financial ecosystem.

We provide an extensive financial review of the business in the pages that follow, but first we start by presenting the business at a macro level, including comments on the market, competition and global growth. We will then turn to specifics about Burford's performance and existing portfolio, and also discuss the emergence of a secondary market and the Petersen claims. While we may refer to our new fund activities in the litigation finance sector during the discussion, all of the quantitative information contained in this section of the annual report pertains solely to Burford's direct, on-balance sheet investing and financing activities, and does not include investments held in the investment funds we now manage. These are discussed later on page 17 of the report.

A growing and evolving global business

We have seen truly dramatic change in our industry in the last several years. In a surprisingly short period of time, client demand for financial solutions related to legal and regulatory risk has increased considerably and has prompted a consequent increase in the amount of capital available to clients (with our own increases in capitalisation being a leading example).

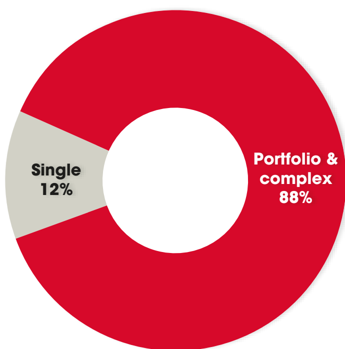
There is still – and will always be – demand for financing the costs of single litigation matters, where clients who are either unwilling or unable to pay legal fees seek a third party capital solution to do so on their behalf. Many such clients are structurally challenged when it comes to meeting legal fees, such as fund managers wanting to bring claims against fraudulent investees or insolvencies that have distributed out their remaining assets to creditors. There are also litigants whose size, liquidity or capital spending priorities lead them to seek external financing for single matters. Moreover, financing a single case is in many instances the entry level product in our business, the prerequisite to establishing a new relationship with a law firm or a corporate counterparty.

However, when a client has a single claim that will turn on a single adjudication and will result in a full loss of our investment were that adjudication to go against the client, the level of both binary and idiosyncratic risk present in such an investment inherently results in a high cost of capital – and

even with robust pricing, delivers returns that can be volatile and unpredictable. As a result, our business has evolved significantly towards multi-claim portfolios and other complex structures that are more capital protective in various ways. It may be possible to make a business like ours work just with single claim financing, but we believe that such a business is inherently limited in both size and profitability. To grow and to produce desirable recurring returns on equity, we favour a business structure that has a widely diversified pool of investments, the majority of which do not hinge on binary case outcomes. We talk more about our portfolio and its diversification below.

As an example of the rate of change in our business as we put this approach into practice, only 12% of our new investment commitments in 2016 were in single litigation case matters. In 2009, that number was 100%. The remainder of our investment commitments are now in what we call either portfolio or complex matters.[2] This has allowed us to decrease our risk and also deploy considerably more capital than would have been possible if we had focused predominantly on single cases – while still producing desirable returns. To be sure, we are not turning our back on single case investing – even at 12%, we are doing more of it in actual dollar terms than many of our competitors. But our business has grown and evolved to be much more than that.

Composition of new commitments made in 2016



The addressable market

We are regularly asked about the size of our potential or addressable market. This is a difficult question to answer at the current early stage of the development of this industry.

The challenge is distilling the global pool of legal fee spending and claim value – which is almost unimaginably enormous – into the portion of that pool that is theoretically addressable by us, and doing so without history to guide us.

An analogy may assist. Assume that until a few years ago, the only way to buy a tractor was with cash, but that we came along and started to offer financing for tractor purchases, something desired by many farmers worldwide. In the early stages of our business, it would be hard to quantify the addressable market for our financing product. To be sure, we could know how many tractors were sold globally and what they cost, and that would tell us the theoretical total potential market if everyone moved from cash purchasing to financing. However, we would expect that many tractor purchasers would continue to pay cash for their tractors. Thus, as we rolled out our tractor financing program worldwide, we would not know the potential uptake of our product for some time – all we would know is that some number of buyers had switched to financing. After a number of years and broad market penetration so that every tractor purchaser was now making an informed choice between a cash purchase and financing, history could guide us as to the likely market size – some reliably repeatable percentage of tractor purchases that were financed. But one could only reach that point with considerable market maturity; until that point, the market would still be in a growth mode and its potential size would be difficult or impossible to predict other than knowing that the upper limit was total global tractor sales and realistically the addressable market was smaller than that by some unknown amount.

The same holds true in our market. We know that each year (i) vast amounts of money – hundreds of billions of dollars – are spent globally on legal fees and (ii) vast numbers – probably millions – of litigation claims and other matters involving legal or regulatory risk come into being and that hundreds of billions, if not trillions, of dollars change hands in resolving those claims. We know we are the largest player in our space, but are providing only several hundred million dollars of

2 Due to the increasing difficulty of differentiating between "complex" and "portfolio" investments, and our sense that the distinction was not useful to investors, we have amalgamated the two categories into one.

capital each year, and we are involved in at most a few hundred claims. Like the tractor analogy, we are also sure that lots of legal spending and many claims will never involve external capital from a firm like ours. But we have no data to enable us to project what proportion of the total legal pie we and our competitors could occupy in the future – any more than the fledgling tractor financier could predict early on what percentage of tractor buyers would choose financing once it was available. All we can tell you at this point in our evolution is that nothing we see in the market leads us to believe that our miniscule share of total global legal spend is not capable of ongoing expansion. And we are confident that we are very far away from every purchaser of legal services making an informed choice about using external capital; indeed, the more such informed choices are made, the more potential we see for our business, even if the vast majority of those choices continue not to make use of our solutions.

To add a further dimension to this discussion and also for the collateral purpose of illustrating market growth and penetration to our client base, we have commissioned third party research into the industry for several years running (available on our website), and that research confirms our hypothesis that we remain at the early adopter stage of market development.

- The number of US private practice lawyers who said their firms have used litigation finance directly grew four-fold over the last four years, to 28%, but significant upside remains both at firms that have not yet used litigation finance, and (because an innovation by one partner may move slowly to colleagues at the firm) among the many still inexperienced litigators at firms that have.
- Indeed, 75% of US lawyers surveyed believed that litigation finance will grow in the next five years.
- Just 2% of UK in-house lawyers have used litigation assets as collateral for financing; a majority (67%) weren't previously aware that it is possible to do so, but 91% considered it an innovative idea.
- Just 9% of US lawyers said they had experience with portfolio financing, Burford's largest area of activity. This is roughly equivalent to the number who said they had experience with the far better known form of litigation finance, single case financing, in 2013 (7%).

Competition

As litigation finance has grown in prominence and use, other players have emerged, a development we regard as positive and necessary for the market to achieve its full potential. There are today a number of other full-fledged competitors operating in various markets around the world, especially in the US and the UK. There is also persistent interest from prospective entrants in the market, but many would-be entrants are unsuccessful in raising capital as investors tend to be sceptical of small teams of lawyers lacking track records in business or investment management.

We are unable to ascertain accurately how much capital is available in the sector due to the secrecy of market participants, which we consider to be overdone. While there are sound reasons that information about underlying litigation portfolio investments needs to remain confidential, there is no such basis for failing to disclose basic information about a litigation finance investment fund, such as size and performance, and we encourage diligence and vigilance on the part of clients. Nonetheless, we believe that there are some billions of dollars in litigation finance capital available globally.

As a general matter, litigation finance investing tends to occur in pure play specialist firms (like Burford) that do not provide other kinds of corporate financing, which is a partial insulation to widespread competition. Much as we view litigation dispassionately as a financial asset, there is nonetheless emotion associated with litigation, even at a corporate level, and businesses with activities in other parts of the financial services market generally find that the relationship downside of financing corporate litigation is harmful to their other lines of business. Moreover, this is not a business for dabblers; entrants need significant teams of experienced and expensive people and need to be able to make a significant capital commitment to achieve the necessary portfolio diversification.

Nevertheless, investors have a natural concern that competition could lead to price reduction and margin compression and ultimately to lower returns and deteriorating profitability. We believe that is not a near-term threat.

There are a few reasons for our view.

First, pricing of litigation finance is complex and often depends on lawyers' sense of appropriate pricing, and in that regard the pricing associated with contingency fee lawyering often creates a benchmark or expectation entirely divorced from competition. Moreover, setting a price in a litigation finance matter tends to require substantial diligence, including extensive work (often unpaid) from the client's lawyers, and thus the market does not regularly have auction-style competition for investments as neither the litigation finance providers nor the lawyers are generally willing to spend the time necessary to facilitate such a process.

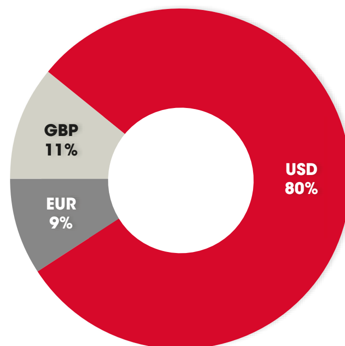
Second, the litigation finance market is still relatively nascent and new entrants need to raise capital to compete. The providers of that capital can see Burford's publicly disclosed returns, and sensibly demand comparable returns from new entrants. Thus, discounting to achieve volume will result in immediate underperformance by the new entrant, which will in turn lead to investor unhappiness and the refusal to advance incremental capital.

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

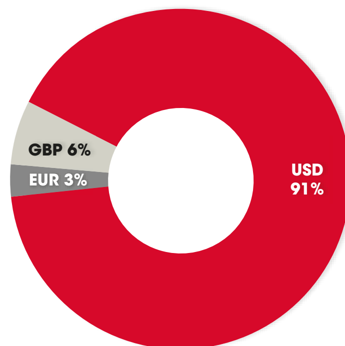
Global expansion

It is difficult to categorise our investments by geography as many of our investments are either transnational or offer multiple paths to a potential resolution, often in different fora. However, although our clients are from all over the world, the business remains heavily US Dollar-weighted between US litigation and transnational matters denominated in US Dollar.[3]

Currency denomination by current commitments



Currency denomination by current investments



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

Notwithstanding our strong US presence as well as our longstanding presence in other markets such as the UK and international arbitration, we continue to see considerable activity in a number of underpenetrated markets and we are responding to the potential for incremental activity in those markets.

Singapore and Hong Kong: Our lobbying efforts for the past several years paid off, with both jurisdictions deciding during the year to liberalise their previously restrictive stance about litigation finance with respect to arbitration and insolvency. While we are both enthusiastic and optimistic about the future in these markets, there remain unanswered questions about the regulatory regime that will be adopted, and whether these jurisdictions can moderate their regulatory approach such that they become attractive markets compared with our other opportunities to deploy capital globally. We view Asia as a long-term play and we are not rushing into these markets and incurring significant costs until the regulatory and demand environment is clear. However, it is difficult to resist the appeal of the markets given the substantial amount of litigation and arbitration that occurs in Asia, and the pent-up demand for financial alternatives to lawyers' hourly billing. For example, the Hong Kong Law Reform Commission issued a lengthy report in October 2016 that called for the expansion of the use of litigation finance in Hong Kong. The Commission noted that 97% of the many submissions it received on the issue – from essentially every kind of stakeholder in the dispute resolution process – were in favour. Stakeholders commented that it is "Pointless to try to hold back the tide" and that "We believe such a positive clarification … may well enhance Hong Kong's status as a premium center for legal and dispute resolution services". Not to be outdone by Hong Kong, in November 2016 the Singapore Parliament introduced legislation (now enacted) that would permit litigation finance in arbitration and laid the groundwork for further expansions.

Australia: The Australian litigation finance market has historically been focused on class actions for certain peculiar structural reasons not necessary to elaborate here. However, we believe that there may well be a distinct – and nascent – Australian market for commercial litigation finance in which we could participate. We tested the market this year by making one commercial portfolio investment which resolved fairly quickly; we earned $1.1 million in profit, a 40% IRR.

Germany: We are active in the German market relating to competition claims and arbitration. Our venture with the Hausfeld law firm has been making steady progress. We are collaborating with Hausfeld on several claim families arising out of either admitted misconduct (e.g., the Volkswagen diesel emission scandal) or European Commission prosecutorial action (e.g., the trucks cartel case). The current activism of the EC has the potential to continue to provide follow-on claims based on the EC's determinations of misconduct.

Spain: We believe we are by far the largest litigation funder in Spain, given our expertise in financing Spanish insolvency proceedings. Spain is a favourable jurisdiction for us; contingency fees are permitted and there is no anxiety about litigation finance. We intend to continue our Spanish activities.

Brazil: Brazil is a classic example of how our business is growing and evolving. Initially, we did one Brazilian insolvency claim, in which we were appointed by the relevant liquidator to provide financing for asset recovery in foreign jurisdictions, just as we do in other countries. The Brazilian market showed promise and we were asked to do a couple more insolvency matters, which we did. With that background and market presence, the opportunities keep expanding, and today we have a portfolio investment with a number of Brazilian matters. We have someone on the ground in Brazil managing the existing investments and are considering a further São Paulo presence and some private capital raising to facilitate our activities there.

Despite significant demand, we are being measured in our approach to new jurisdictions. There is demand for capital all over the world and we are regularly asked to expand our operations in a variety of new markets. However, we can only do so much so quickly, and we believe it is crucial to have a deep understanding of the markets in which we operate and to select those jurisdictions that have the highest potential for us.

Portfolio performance and composition

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

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

We examine each in turn.[4]

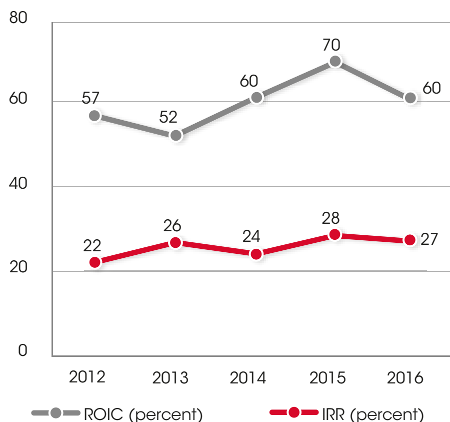
It bears mentioning that this section of our reporting is on an actual returns basis, without reference to IFRS. In other words, this is an independent way of looking at our business; it does not build on our IFRS reporting but stands entirely separate from it.

Performance of concluded investments[5]

Burford has seen strong performance over the past five years. Over the period IRR and ROIC performance has shown quite consistent returns, although to be sure there are and will be period-to-period levels of volatility. For example, if we were publishing this chart today as opposed to at year-end, ROIC would have increased again somewhat.

As litigation finance becomes more prevalent, more opportunities to deploy capital in different ways arise. While there are certainly opportunities that can be expected to produce returns consistent with our historical performance, there are also lower risk opportunities that we largely forego today that provide attractive uncorrelated returns somewhat below our historical performance – in the teens instead of the twenties. Indeed, GKC and its private capital investors are much more prepared than we have been historically to embrace a wider range of potential returns. Given that our marginal cost of capital has now fallen to somewhere in the 5-6% region, we are prepared to be open to a broader range of opportunities given the return on equity enhancement that would occur from building a still larger portfolio even if some of those opportunities come with somewhat lower returns. Litigation finance remains a relationship business, and we believe it is important to serve all the needs of our clients, regardless of their risk/return profile.

Concluded investment performance



We have historically published a chart of individual investment returns. However, not only has that chart become too large to publish here but it has also become increasingly difficult for us to fit different types of investments into a consistent reporting format. For example, when we close a multi-case, complex portfolio arrangement, we then embark on a number of years of capital flows that are essentially revolving and include flows originally attributable to one matter in the portfolio potentially moving to other matters, making it very difficult to fit within our historical reporting approach. While we have some question about the utility of that chart in a world where only 12% of our new commitments are in single cases, we are continuing to make the individual line item chart data available in the investor relations section of our website.

4 As noted elsewhere, we have de-emphasised our law firm lending business and moved its legacy business out of the new initiatives segment into the general litigation finance segment for financial reporting purposes. However, given that the law firm lending business is not financially material to Burford (although the business was successful, generating 20% ROICs on lower risk capital), we have not complicated our discussion of our core litigation finance business by including the lending business in our discussion here. At 31 December 2016, the legacy lending business amounts to five ongoing investments totaling approximately $10 million. Thus, there are sometimes small discrepancies between our reporting on litigation finance in this section (which excludes lending) and our IFRS litigation finance numbers (which include lending).

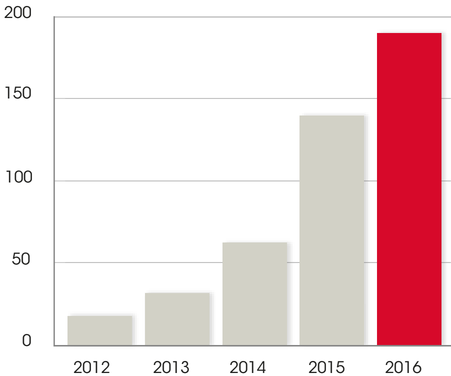
5 We have consistently used concluded investments and investment recoveries as terms to refer to those investments where there is no longer any litigation risk remaining. We use the terms to encompass: (i) entirely concluded investments where Burford has received all proceeds to which it is entitled (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.

Instead, we provide on the adjacent page a summary of the portfolio's performance by vintage, including providing for the first time information about the division between fully and partially concluded matters, with more detail about ongoing matters. We note that the 2010 vintage strengthened during the year; it now stands at a 22% ROIC and the vintage continues not to be fully resolved. We continue to consider the best way to present this evolving business (especially now that we need to present not just investment returns but investment management fees relating to investments).

In 2016 we saw a further acceleration of cash from investment recoveries to record-breaking levels.

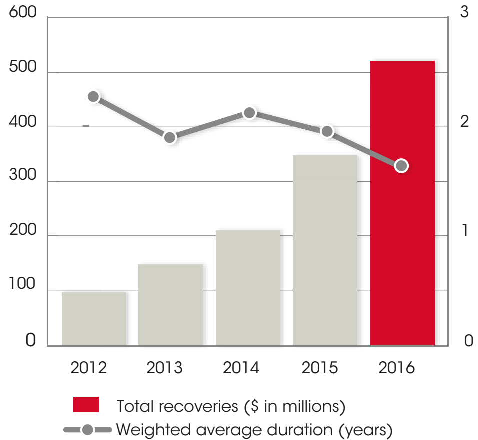
Litigation investment cash receipts by year

($ in millions)



The weighted average duration of the concluded portfolio has continued to hover around two years, a stable feature of the portfolio for some time (our weighted average duration has been between 1.6 and 2.3 years for the last five years, coming in at 1.6 years in 2016, but we don't regard 2016 as necessarily indicating a trend towards shorter aggregate duration).

Litigation investment recoveries & duration of concluded portfolio

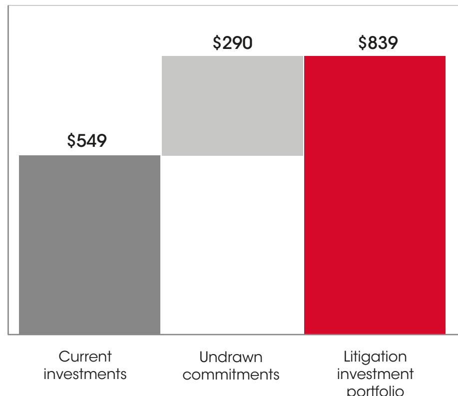


Current investment portfolio

At the end of 2016, Burford had outstanding litigation investments on our balance sheet of $549 million (2015: $320 million). In addition, we have a further $290 million in undrawn commitments made to existing investments. Thus, our portfolio stands at $839 million in investments and commitments, which have been made across 64 different litigation investments. This is a significant expansion of Burford's portfolio in a single year. That translates into an average commitment of $13 million to an investment, although once again there is material deviation from the mean.

Litigation investment portfolio

($ in millions)



Investment performance

$ in millions	# of investments	Total commitment	Total invested	Total recovered	ROIC	IRR
Concluded	3	11.5	11.5	40.1	251%	32%
Partial realisation	–	–	–	–		
Ongoing	–	–	–	–		
2009 VINTAGE TOTAL	**3**	**11.5**	**11.5**	**40.1**	**251%**	**32%**
Concluded	11	66.6	55.0	67.0	22%	9%
Partial realisation	–	–	–	–		
Ongoing	5	46.5	46.5	0.0		
2010 VINTAGE TOTAL	**16**	**113.1**	**101.5**	**67.0**		
Concluded	8	70.5	47.9	84.8	75%	23%
Partial realisation	1	15.6	15.6	1.4		
Ongoing	5	36.5	31.2	0.0		
2011 VINTAGE TOTAL	**14**	**122.6**	**94.7**	**86.2**		
Concluded	8	61.5	56.7	118.7	109%	41%
Partial realisation	–	–	–	–		
Ongoing	1	2.0	0.5	0.0		
2012 VINTAGE TOTAL	**9**	**63.5**	**57.2**	**118.7**		
Concluded	8	20.8	19.7	25.1	31%	24%
Partial realisation	2	3.5	2.7	1.4		
Ongoing	2	13.5	9.9	0.0		
2013 VINTAGE TOTAL	**12**	**37.8**	**32.3**	**26.5**		
Concluded	8	55.1	37.5	47.4	46%	63%
Partial realisation	3	32.8	25.0	16.6		
Ongoing	12	71.9	46.4	0.0		
2014 VINTAGE TOTAL	**23**	**159.8**	**108.9**	**64.0**		
Concluded	4	48.6	41.4	44.9	21%	87%
Partial realisation	3	44.4	19.3	5.7		
Ongoing	10	100.1	34.1	0.0		
2015 VINTAGE TOTAL	**17**	**193.1**	**94.8**	**50.6**		
Concluded	1	5.7	5.7	6.8	42%	61%
Partial realisation	2	112.0	112.0	62.0		
Ongoing	18	250.1	86.2	0.0		
2016 VINTAGE TOTAL	**21**	**367.8**	**203.9**	**68.8**		
Total investment recoveries to date	**51**	**391.7**	**326.8**	**521.9**	**60%**	**27%**
Total ongoing investments	**64**	**677.5**	**378.0**	**0.0**		

Burford counts each of its contractual relationships as an "investment", although many such relationships are composed of multiple underlying litigation matters that are typically cross-collateralised rather than reliant on the performance of a single matter. So, while Burford has 64 ongoing "investments", there are now hundreds of separate claims underlying the investment portfolio (and a single claim may well have multiple paths to a recovery).

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

Burford engages in portfolio construction with an eye to balancing risk and return, managing duration and achieving broad diversification. Burford believes that it has – by a considerable margin – the largest diversified portfolio of litigation investments in the world targeting the kind of returns Burford has historically generated. That scale and level of diversification is only augmented by the addition of GKC.

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

- Our investments relate to litigation matters spread across more than 40 US states and countries, and underway in multiple arbitral institutions
- We are presently working with more than 50 different law firms, and even when we have multiple matters with a single law firm, we often work with multiple partners at such firms
- Our claim types run the gamut of commercial litigation and arbitration; we don't specialise in any one area of law
- Our clients are located in every inhabited continent
- There is no capital risk concentration among defendants/respondents in matters we finance for plaintiffs/claimants – none rises to even 10% of our commitments
- We are involved in every stage of claims, from claims where our financing is obtained at the beginning of the matter to appeals to matters where judgment has already been obtained

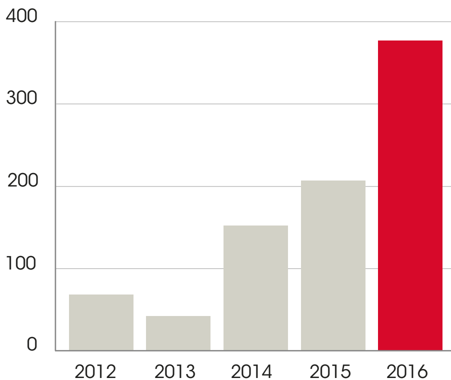
Commitments to new investments

New commitments are a key – albeit imperfect – leading indicator for our business, because they set the business up for future realisations as those commitments turn into (hopefully) profitable investments.

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

In 2016, we made more new litigation finance commitments than we ever have before – more than $378 million across 30 investments, including further commitments to earlier investments, an increase of 83% over 2015, which was itself a 35% increase over 2014. There is no question that our commitment level was buoyed by closing a single $100 million portfolio arrangement with a global law firm and that such deals remain exceptional and thus this commitment level may well not be "run rate" for us. But there is also no question that the market is moving to some larger deals of this ilk on a regular basis, so we do not regard the transaction as a complete outlier. Even ignoring that one investment entirely, our commitment level increased by 35% in a single year.

New litigation investment commitments by year
($ in millions)



Moreover, we continue to be happy with the diversity, the pricing and the quality of the investments we take on. We close only a small minority of the potential investments presented to us.

Looking at the new 2016 investments we closed, the 21 commitments ranged from $2 million to $100 million and continued our diversified approach to investing in this market. (We don't do many small investments, but sometimes doing so is needed for relationship-building or other reasons.) As noted previously, only 12% of the capital we committed in 2016 was to single case investments.

Secondary market activity, fair value and the Petersen investment

We discussed at some length in our 2016 interim report the early stages of the emergence of a secondary market for our investments and our interest in participating in the development of such a market.

Our view remains the same. We see a number of appealing characteristics of a secondary market to assist us in both risk and liquidity management and to increase the efficient utilisation of our capital. A model where we can originate investments using our skill set and then lock in some gain from our origination activities and moderate our risk profile is very appealing, and will also permit us to close larger investments if we are reasonably confident that we can reduce our own risk to a desired level following closing.

The secondary transactions we have done to date will provide some initial colour – but we emphasise that while we intend to devote time and resources to develop the concept, it remains at a very early stage and we do not anticipate significant secondary market deal flow in the near term.

The first transaction we closed, in the first half of 2016, was with respect to a single matter on appeal from a successful trial court judgment. As a result, quite a lot was known about the matter and a prospective buyer could engage in meaningful diligence based on the court record. We had entered into a financing arrangement with our client some time before and we were content with the level of risk we were holding in our portfolio. However, as time passed, the client was interested in obtaining more capital and we did not have the risk tolerance to increase our own position. The client was, however, offering significantly more lucrative terms for the incremental capital. Thus, after some exploration of a possible secondary transaction, we ultimately agreed to increase our capital commitment and take advantage of the increased pricing on offer. We then turned around and sold a piece of the investment to a major investment fund, structured so that we averaged the new and old pricing across the entire capital commitment – thereby increasing significantly the effective pricing on the portion of the investment we retained.

With that successful transaction under our belt, we then turned to the Petersen investment.

Before discussing our Petersen secondary market activity, some background on the investment and an update on current developments is appropriate. The Petersen Group consists of two Spanish companies that, in 2012, collectively held just over a 25% interest in YPF, the New York Stock Exchange listed Argentine energy company. When Argentina, some years earlier, privatised YPF and took it public, it made a series of promises to investors around its future conduct, which included obligating itself to make a tender offer to shareholders if it later wanted to re-nationalise YPF. In 2012, Argentina ignored that promise and expropriated a controlling stake in YPF without making the required tender, causing the market value of YPF's shares to fall sharply and Petersen to become insolvent. Argentina was subsequently sued in New York by Repsol, then the majority owner of YPF with an interest slightly over 50%, and Argentina settled that lawsuit for around $5 billion. Petersen, with a holding of around half of Repsol's, has now brought a similar lawsuit, with financing from

Burford. Burford is entitled to somewhat more than half of any recovery in the matter, depending on the ultimate cost of pursuing the matter.

The Petersen claim is being heard in US federal court in New York and during the course of 2016 the court issued an important preliminary decision in Petersen's favour, permitting the case to be heard in the US. That decision is now being appealed by Argentina and YPF. Without turning this discussion into a legal brief, it is important to understand that US law prescribes the circumstances under which its courts are able to involve themselves in disputes against foreign sovereigns, and so the preliminary issues largely concern whether the claim will be heard in the US as opposed to in an international arbitration proceeding and are not merits adjudications. (It is also important to repeat that any individual legal claim is highly risky and difficult to predict, and we strongly discourage speculation as to the result in Petersen as a basis for a view about Burford's overall potential performance. Litigation investing is best done through widely diversified portfolios, not on the basis of single case speculation.)

The Petersen investment is an illustration of a fundamental dynamic in litigation investing. Litigation is an inherently asymmetrical undertaking, which is one of the drivers of the economics of our business generally: the "investment" in a piece of litigation is often just the costs of pursuing the claim, and no rational actor pursues a claim in litigation that does not have a value significantly above those costs. Thus, losing a piece of litigation results only in losing the costs, whereas winning typically results in receiving a multiple of those costs. The Petersen matter exemplifies this principle because our investment thus far is around $18 million and (if the matter does not fail, which is of course always a risk) there is a credible path to a recovery of substantial multiples of that amount. So, faced with a large and potentially valuable (but risky) matter, is it better to hold 100% of the interest and see what happens, or is it more prudent to lock in some gain now and reduce our risk? We decided that prudence should prevail. Given the potential size of the Petersen claims, we spent considerable time exploring what we thought would be the best approach to offering a portion of the claims to potential buyers. Ultimately, we decided that we were willing to sell a minority interest in the investment at a $400 million valuation. We also decided not to be flexible on the price, so that if we were not able to secure a locked-in profit at a valuation of approximately 20x Burford's cost, we would simply not proceed.

In December 2016, we ran what was essentially a competitive process for the role of anchor investor in a larger deal. That process culminated in the two winning buyers (major global investors) closing a small toehold purchase of a 1% interest in Burford's proceeds from the Petersen claim and becoming entitled to certain preferential rights in a larger transaction.

Then, in 2017, we continued our marketing of the proposition, and have just closed a further transaction, selling 10% of the interest for cash proceeds of $40 million to a group of institutional investors (including the $4 million December sale).

Importantly, what Burford has sold here is a purely passive financial participation interest. Burford continues to be the counterparty to Petersen; the secondary buyers gained no rights of involvement in the case nor any ability to interfere with Burford's judgement and the exercise of our discretion, and that is the model we intend to pursue generally.

With the experience we have gained from this process, we intend to continue to explore secondary market transactions when appropriate, although we think the development of a robust market is quite some distance away.

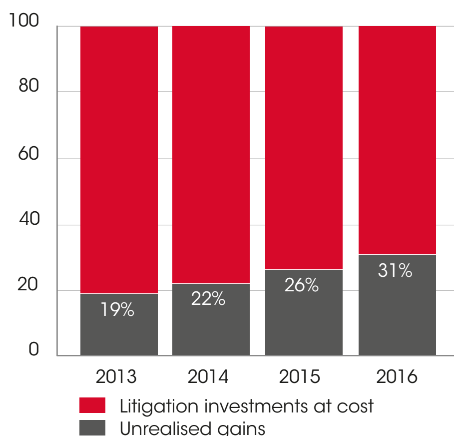
The development of secondary market activity naturally introduces the IFRS treatment of such transactions and their impact on our long-running discussion of fair value. It is inescapable that a significant secondary market transaction is a potentially key input into our determination of the fair value of an investment, and to the extent that there is truly a secondary market with appetite for a significant amount of one of our investments, we are to some extent joining the mainstream of the financial services world where market-based pricing is accepted unquestioningly as the basis for accounting "marks" on assets. We do, however, remain cautious, as we remain entirely aware that a litigation investment is capable of going to zero in one fell swoop, unlike many other categories of assets. Thus, we do not reflexively accept a market price for a portion of one of our investments as being necessarily indicative of the market clearing price for the investment or the appropriate carrying value for Burford's accounts. Instead, we engage in more analysis, including looking at the size of the transaction and the market conditions around the offering, especially given the early days of this secondary market process. As a result, despite concluding a small toehold Petersen sale in December 2016 at what was ostensibly

a $400 million implied valuation for our investment, for the reasons outlined above we did not believe that the sale of a mere 1% of the investment made it appropriate to value the entire investment at that implied value, and we did not do so; we increased the fair value of the Petersen investment to a level substantially less than that implied value in 2016, although it was our largest fair value adjustment. In total, 2016 saw, as usual, a number of fair value adjustments in the portfolio, both positive and negative, and total unrealised gain increased modestly as a percentage of the total portfolio asset value, from 26% in 2015 to 31% in 2016.[6] Finally, we have not reached any conclusion about the impact on the fair value of the Petersen investment in 2017 of the further sale we have just announced and we will not do so until the valuation process leading to the release of our interim accounts in July.

Below, we depict graphically what we have said for some time in words: that as the business continues to mature and demonstrates a track record, we have seen the amount of unrealised gain on our balance sheet caused by fair value adjustments to increase somewhat, consistent with the dictates of IFRS. However, that evolution has been gradual and still to this day represents only a moderate amount of our asset value. Moreover, we think fair value adjustments based on objective factors such as secondary market activity are the most appropriate way to see this evolution occur.

Unrealised gains in litigation investments

(% of litigation investment assets)



An exemplary concluded investment

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

This year, we have a remarkable story that not only illustrates the need for patience and perseverance in litigation but also showcases our ability to integrate our litigation finance and judgment enforcement businesses. We are able to discuss this matter given the public filings in the case and have restricted this discussion to publicly available information.

In 2010, we agreed to finance a piece of litigation pending in Florida arising out of a contractual dispute between ex-partners in an oil trading business, International Oil Trading Company. The plaintiff was a member of the Jordanian royal family and the defendant was a high-profile Florida billionaire; their venture had involved oil activities in Iraq following the US military activity there. The plaintiff's lawyers were Simpson Thacher & Bartlett, a major US law firm, and included the head of the firm's global litigation department.

Unlike many litigation matters, the case did not settle and instead went to trial, and our client won a jury verdict for $28.8 million. The billionaire defendant fought tooth and nail but ultimately the Florida Supreme Court affirmed the verdict, along with a further $10 million or so in interest and costs, with interest continuing to accrue until paid.

However – illustrating the need for our judgment enforcement and asset recovery business – the defendant did not comply with the court order to pay the judgment. Instead, using phalanxes of lawyers and multi-jurisdictional structuring, he did his best to avoid paying while going on openly living in his mansion and flying in his private jet.

The reason defendants engage in this kind of egregious misconduct is because it often works. The justice system is slow and inefficient when dealing with multi-jurisdictional assets and financial activity, and often plaintiffs are forced to the Hobson's choice of spending substantial sums on enforcement activities or giving up. However, we are not so easily intimidated.

Thus, combining the expertise of our litigation finance and judgment enforcement teams, we mounted our own multi-jurisdictional offense,

6 Individual fair value adjustments are, of course, confidential as they represent legal views about the current status of ongoing litigation, which is why we report them only in the aggregate.

painstakingly following the trail of the money and using our strategic and tactical expertise to freeze and seize assets. Our work took us all over the world, from Dubai to Venezuela. We litigated, froze assets or forced intermediate entities into receivership or bankruptcy in England, the Bahamas, Canada, Florida, Texas, Delaware and Cyprus. We had sheriffs raid houses and take depositions. There were James Bond moments as the defendant tried to stay one step ahead by moving assets around the world and as we showed up with court orders against secret safety deposit boxes in high-end London hotels and planes on private airstrips.

Ultimately, the pressure we brought to bear was too much, and the defendant gave in. However, it took several years and around $10 million just in enforcement costs. It is no surprise that many corporate plaintiffs give up much earlier in the process, which is why some of them turn up at our door for the services of our judgment enforcement business, which is generally willing to operate contingently.

Burford more than doubled its money, making a $12.1 million net profit from this matter. But patience, persistence and focus were needed: we spent thousands of hours on this matter. As we have said before, this business is not for dabblers.

Gerchen Keller acquisition and Burford's investment management business

On 14 December 2016, Burford acquired GKC, the largest investment management firm in the litigation finance industry. The combination of the two leading firms was hailed not only as a powerful strategic combination but as a sea change in the industry. *The American Lawyer* led with the news, headlining its coverage "With Burford-Gerchen Deal, Litigation Finances Comes of Age". *The Wall Street Journal*, describing Burford as a "pioneer", commented that "the tie-up marks another step in the maturing of the litigation funding market" which "in less than a decade has become a multi-billion dollar industry". *Commercial Dispute Resolution* reported that the transaction created a "funding powerhouse".

Financially, Burford paid $160 million for GKC in a mixture of cash, shares and loan notes, and added more than that amount to its market capitalisation on the day the transaction was announced. A further $15 million is payable in Burford shares upon the legacy GKC business producing more than $100 million in incremental revenue.

We have made no secret of our interest in expanding our capital base to include private fund capital, both for diversification of capital sources and to add a stream of management and performance fee income to our organic investment income. Had we not acquired GKC, we would have begun raising our own private funds.

However, the opportunity to jump start that process with the acquisition of GKC was irresistible for a number of reasons:

- By combining the complementary operations of the two firms, we expect to capture the benefits of scale. In litigation finance, scale is important for portfolio diversification, market coverage and a deep bench. The scale and resources of the combined firm are expected to provide expanded geographic coverage in the US and globally, resulting in increased capital deployment for both public and private investors.
- Burford expects to benefit from increased revenue diversification through the contribution of recurring private capital manager fees alongside investment income. The addition of GKC's substantial business immediately launched Burford as a significant manager of private capital, with meaningful ongoing management and performance fee revenue, while also allowing Burford to continue to grow its lucrative on-balance sheet investing activity.
- Burford's integrated global platform offering public and private capital solutions will enable further innovation in the fast-evolving industry of finance for law. The ability to access private capital permits Burford to continue to advance and expand its products and solidify its client relationships while also managing balance sheet risk, including offering new financial solutions with varying risk and return profiles such as the monetisation of post-settlement receivables (as GKC does today).
- GKC's high-quality team of experienced litigation finance professionals augments Burford's team, including a number of senior people.
  - Adam Gerchen, GKC's CEO who now serves as Burford's President, is a magna cum laude graduate of Brown University and a graduate of Harvard Law School who worked at Goldman Sachs as an investment banker and Alyeska Investment Group as a portfolio manager in risk arbitrage before co-founding GKC

- Ashley Keller, a GKC Managing Director who holds the same position at Burford, is a magna cum laude graduate of Harvard College with an MBA (high honors) and JD (highest honors) from the University of Chicago who clerked for the US Supreme Court and was a partner at a leading litigation firm, Bartlit Beck, before co-founding GKC
- Travis Lenkner, a GKC Managing Director who holds the same position at Burford, is also a former US Supreme Court clerk; he previously was Senior Counsel at The Boeing Company and a litigator at global law firm Gibson, Dunn & Crutcher, and holds a JD with honors from the University of Kansas School of Law

It is notable that the entire holding of the GKC principals' shares is subject to a three-year lock-up and they have also entered into three-year employment agreements and multi-year non-compete agreements. The principals are heavily incentivised to contribute to Burford's future success given their holding of 5,976,601 Burford shares, including all 2,461,682 contingent shares, if issued.

In the discussion that follows, we provide considerable information about GKC and its business, supplementing the information provided in our 14 December 2016 RNS announcing the acquisition. However, given how close that was to the end of the year, Burford absorbed only two or so weeks of GKC's 2016 operations into these accounts and the business was not financially material to Burford in 2016.

Integration

We are pleased with the first few months of the combined business' operation. While Burford and GKC were the two industry leaders, we are collectively fewer than a hundred people, and thus we did not face the kind of complex integration associated with larger corporate transactions. Moreover, the two firms had broadly similar approaches to investment diligence and management and generally used the same systems and databases.

Thus, we have been operating an integrated investment process since the beginning of 2017, and as of 1 February 2017 we have been investing jointly pursuant to the allocation policy announced at the time of the transaction, which provides that the first $15 million of an investment commitment to any new pre-settlement investment will be allocated on a 50/50 basis between Burford's on-balance sheet capital and GKC's Partners III fund, with Burford's balance sheet taking any commitment in excess of $15 million. Post-settlement investments will be allocated entirely to the GKC post-settlement fund given that Burford does not today engage in such investments. Similarly, new investments that Burford has historically pursued but GKC has not, such as judgment enforcement matters, will be allocated entirely to Burford's balance sheet. We believe that this kind of clear and formulaic approach to investment allocation positions the business to maintain an ongoing balance between on-balance sheet investing financed through the reinvestment of capital from successful investments as well as external capital as needed, such as Burford's use of retail bonds, alongside a continuing family of private capital vehicles raised from institutional investors, many of whom would not be in a position to buy shares in Burford as part of their investment mandate. This dual approach will widen significantly Burford's access to capital and permit Burford to engage in a range of investment strategies.

The funds

We now manage four closed end investment funds with total investor commitments of $1.1 billion at 31 December 2016, and we are in the process of raising a fifth fund at present. We earn management and performance fees from the closed end funds; we provide more details of those fees in our discussions of the individual funds below. GKC has also historically raised individual capital vehicles for specific opportunities or strategies, in some cases to take excess capacity in an investment that is beyond the investment tolerance of a fund and in other cases to pursue an opportunity in the legal space that sits outside the funds' investment scope. GKC has raised a number of such vehicles to date, four of which are presently outstanding. We expect to raise additional such vehicles during 2017. Our compensation from these individual vehicles varies widely based on the strategy involved.

Consistent with its status as a registered investment adviser with the US Securities and Exchange Commission ("SEC"), Burford reports publicly on its investment management business on the basis of regulatory assets under management ("AUM"). For the benefit of non-US investors, the SEC's definition of AUM may well differ from that used by European investment managers. AUM as we report it means principally the fair value of the capital invested in funds and individual capital vehicles plus the capital that

we are entitled to call from investors in those funds and vehicles pursuant to the terms of their capital commitments to those funds and vehicles. At 31 December 2016, our AUM was $1.3 billion. Our AUM will fluctuate as we raise new funds and other investment vehicles, and as existing funds and vehicles mature and no longer represent sources of callable capital in the future; there is no direct translation from AUM to investment management income.

One common feature across the current funds is the use of a so-called "European" structure for the payment of performance fees, in that the investment manager is not paid any performance fees until fund investors have had their entire capital investment repaid, as opposed to performance fees being paid on profitable resolutions as they occur. The impact of this structure is to delay the receipt of performance fees somewhat, and thus while many fund investments have already successfully and profitably concluded, leading to a steadily growing expectation of performance fees, none of those performance fees have yet been paid, meaning that Burford will receive all of those performance fees, even those relating to investments that concluded prior to the acquisition. Burford intends to report on its investment management business as a separate accounting segment. Management fee income will be reported as income as earned; management fees are generally paid quarterly. Because of the funds' European performance fee structure, performance fees will only be reported as income once crystallised; performance fees are not accrued.

GKC has historically been significantly US-focused as to both its investors and its investments. This raises an important point about the level of disclosure that can be provided about its investment funds. The US investment management industry is highly competitive and a considerable amount of information about investment funds is considered proprietary and confidential, including investors' identities and precise fund terms. It is customary for publicly listed investment managers, including industry giants like Blackstone and Carlyle, to disclose only general information about fund structures and terms. While listed European fund managers tend to provide more specifics about fund economics, given that the market for our funds is predominantly the US, we would do ourselves a competitive disservice were we to provide disclosure beyond US market practice.

We conduct the sponsorship and management of our funds through limited partnerships. Each investment fund that is a limited partnership has a general partner that is responsible for the management and operation of the fund's affairs and makes all policy and investment decisions relating to the conduct of the investment fund's business. In its capacity as investment advisor, the manager has discretionary investment authority over all investment funds and the LPs do not have any consent rights over the decision making process. Each investment fund engages an investment adviser. Burford Capital Investment Management LLC serves as the investment adviser for our funds and is registered under the Investment Advisers Act of 1940, as amended.

The Partners funds

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

There is presently more than $400 million committed to pre-settlement investments through the Partners funds and individual capital vehicles. Returns to date from pre-settlement investing activity through 31 December 2016 have been a 52% return on invested capital with an average duration of 1.0 year, producing an IRR of 55%. Based on its own experience, Burford would expect returns on invested capital to increase over time but for duration to lengthen and, therefore, for IRRs to decrease.

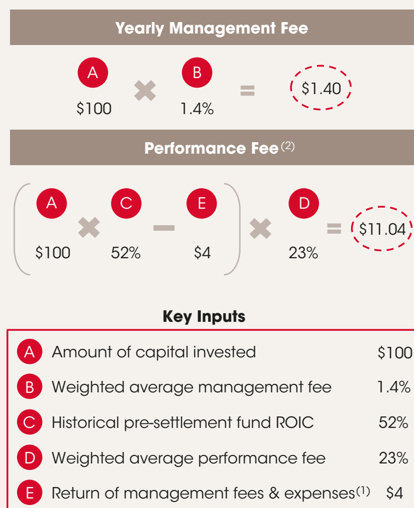
When considering the economic potential of the Partners funds, it is important to look at management and performance fees holistically, rather than attempting to separate those two income streams. Unlike some asset classes, properly underwritten portfolios of litigation finance investments should reasonably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

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

This theoretical example is just that: the actual funds have a wide variety of economic terms and structures as discussed in more detail below, and indeed the ability to re-deploy capital during a fund's investment period if an investment resolves successfully, adding more complexity to the example above. But the fundamental point remains: the fund structures and terms are desirable and crafted for (and work well in) the litigation finance market, and we expect their addition to Burford's business to be lucrative, but they will frustrate the kind of granular analysis and predictability that may be more available in other asset classes, especially as to the timing and quantum of the receipt of performance fees. Nonetheless, we expect to generate at least $21 million in management fees from the Partners funds in the 2017-2019 period unless paid realisations occur more rapidly than we expect. The weighted average management fee across all three Partners funds and associated individual capital vehicles is presently 1.4% annually. We are also entitled to a weighted average performance fee of 23% on net returns from the three funds and associated vehicles. Partners III includes a fixed level of management fees regardless of capital deployments whereas the management fees in Partners I and II tend to vary by deployment or commitment levels.

The relative significance of performance and management fees to Burford is further illustrated by this graphical example:

Burford's economics of a hypothetical $100 investment in a pre-settlement fund



Key Inputs

A	Amount of capital invested	$100
B	Weighted average management fee	1.4%
C	Historical pre-settlement fund ROIC	52%
D	Weighted average performance fee	23%
E	Return of management fees & expenses[1]	$4

Key Assumptions

- ~2 year investment period after which investments underlying $100 capital all conclude
- "European" fund structure means that investors are entitled to their $100 back before Burford earns a performance fee
- Management fees and expenses returned before performance fees calculated (assumed $4 over ~2 years)

[1] For illustrative purposes; based on lifetime of investment

[2] Predicting performance fee income is an uncertain exercise which requires assumptions around capital deployment levels and portfolio returns, and different assumptions will yield widely different results

GKC raised two funds in 2013, Partners I in March 2013 and Partners II in December 2013. Together, the funds have $305 million in investor commitments. The funds' investment periods (the period during

which the funds are permitted to make new investments) ended in 2015 and thus the funds are now in the phase of awaiting the resolution of their remaining investments. To be clear, the investment period of the Partners funds represents the period during which a particular fund is able to enter into new investment contracts. Given the duration of litigation matters, it is entirely possible that an investment will draw down capital for years after the conclusion of the investment period, and thus these funds have lengthy tails despite the end of the investment period and are years away from final resolution.

As discussed earlier, we do not receive performance fees from the Partners funds until investors' capital has been entirely returned – but we do not need to wait until the end of the fund's life, either. In Partners I, there have now been sufficient investment resolutions that it is likely that we will see some performance fee income in 2017 or 2018, depending on the pace of future resolutions.

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

We also have approximately $70 million of capital committed from investors to individual capital vehicles in the pre-settlement space.

Post-settlement investing

GKC is a leader in the business of monetising post-settlement receivables – a sort of law-focused factoring. There are frequently significant delays between the point at which parties to a litigation matter agree a settlement and the finalisation of and payment under the settlement. Often, those delays are due to the operation of the judicial process, which often requires notice periods and fairness hearings before approval of settlements. In the interim period, both law firms awaiting payment of their fees and clients eager for cash flow may well find it attractive to secure financing against those expected receipts. GKC offers such financing in complex litigation in the US.

With proper diligence, the risk of ultimate non-payment of a negotiated settlement is traditionally quite low, and both the risk level and returns available in this line of business are somewhat lower than in pre-settlement litigation finance. As a result, Burford has historically elected not to pursue this line of business on its own balance sheet. However, the structural characteristics of the business can be attractive to private institutional investors seeking shorter duration and lower risk than in pre-settlement litigation finance, and GKC has already seen more than $400 million of post-settlement investments resolve, with an IRR of 12.6% and an average duration of 0.6 years. The post-settlement portfolio revolves regularly, with more than $120 million outstanding at year-end and with significant available capital to continue its investment activity.

We have one core post-settlement fund, which commenced in September 2014. At 31 December 2016, the fund had $416 million of investor commitments and an investment period (including the ability to recycle capital) extending until 30 September 2019. In addition to the core fund, GKC has also made active use of sidecars in the post-settlement space, investing several hundred million dollars provided by investors since April 2014 with widely varying structures and economics.

Management fees in the post-settlement fund are an average of 1.6% on drawn capital, with performance fees of generally 20% after investors receive a 5% preferred return. Again, predicting management and performance fee income is an uncertain exercise, and the nature of the post-settlement business with unpredictable but shorter durations and gaps between the redeployment of capital makes predictions more challenging. Unlike the pre-settlement business, performance fees are less likely to drive the income potential of the post-settlement business.

Complex strategies

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

As we noted in the acquisition RNS announcement, this is an evolving area and we continue to consider the best approaches to maximising its potential. We are now in the market raising a new fund to pursue some specific proprietary strategies and

expect a first close of that fund within the first half of 2017. We have decided to make that fund more focused on a specific single strategy and thus have reduced its potential remit in light of other investors seeking separate exposure to other strategies, which we intend to address through either other funds or single vehicles. We continue to target a fund of approximately $300 million notwithstanding the narrowing of its focus, and we believe we are likely to raise additional capital during 2017 for other dedicated strategies. It is premature to comment on the economics of these vehicles, but these strategies generally have the potential to deliver high returns and are structured with a bias towards performance fees.

The acquisition of GKC has not only vaulted Burford into clear industry leadership but also made us a significant recurring user of private capital, thus broadening our investment and profit potential. We look forward to seeing what can be achieved together in 2017.

Insurance

Our insurance business is now in run-off but it had a terrific year. Last year, we commented on a quiet 2015 and said that we thought there was more profit to come, and that is what we saw in 2016. In Sterling terms, the currency in which this business operates, our operating profit rose by 25%. Given that we report in US Dollars, the depreciation of Sterling muted this achievement, but it is nonetheless noteworthy – and the insurance business still delivered another $9.6 million in after-tax profits in 2016.

We stopped writing new business and terminated our arrangement with MunichRe as of 31 December 2016, although there remains a multi-year tail from the existing book that we will continue to manage and which we expect to continue to produce income for years to come. For example, we still have 41 cases in the £250,000+ REME category. We have also managed costs assiduously so that the business remains profitable as it downscales. Buying this business may turn out to be among the most profitable things we have done, although it will now be in perpetual decline.

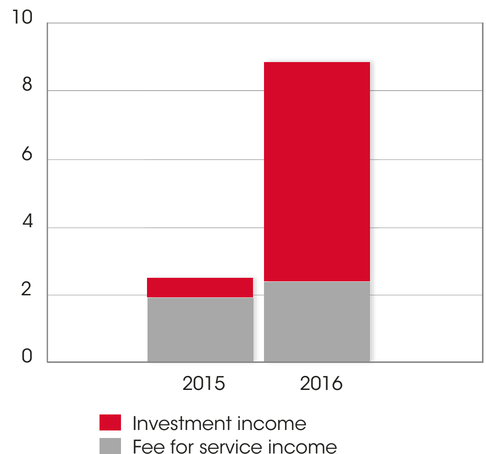
The dilemma that now exists in the market for adverse costs insurance is that the government reforms that sounded the death knell for this business had some unintended consequences, in that there is now insufficient insurance capacity in the market on any economic basis to take large and complex litigation matters forward. This is problematic for both Burford and the litigation market generally. The issue is not with the kind of claims in the single-digit millions that the MunichRe/Burford product addressed, but rather the larger claims that are our particular focus as a litigation finance provider. Today, it is difficult for us to find a path forward to serve clients with English litigation claims when their adverse cost exposure exceeds £10-20 million as there is no capacity in the insurance market for such claims – and while those numbers seem large, as one example for context, Herbert Smith Freehills has now exceeded £100 million in costs defending RBS from actions relating to its financial crisis conduct. We are working to find solutions to this problem which threatens to complicate some amount of large dollar UK litigation finance activity, possibly including creating a Burford captive with reinsurance coverage.

New initiatives

After de-emphasising law firm lending and absorbing that business into our general litigation finance business, our new initiatives segment has just one business at present – our judgment enforcement business, soon to be re-branded "asset recovery" to more properly reflect the broad range of its services and activities.

The judgment enforcement business had a terrific year, showing significant growth in income and profitability.

Judgment enforcement income
($ in millions)



Once a matter has been litigated through to a final judgment and all appeals have been exhausted, that judgment is enforceable globally as a debt obligation of the judgment debtor.

While many tenacious litigants do pay their judgments when they ultimately lose a matter, some do not, and further effort is needed to collect the judgment debt – as we described earlier in the oil trading matter.

Our judgment enforcement business provides expert assistance to lawyers and clients around global asset location and enforcement. We provide our services on a fee-for-service basis or in a variety of contingent ways that permit fee-weary judgment creditors to continue to enforce their rights without incurring a continuing cash drain to do so. Both sides of the business did well in 2016: fee-for-service income was $2.4 million (2015: $2.0 million), and contingent income was $6.4 million (2015: $0.6 million) resulting in an operating profit of $4.0 million for 2016. Indeed, given that our fee-for-service business is largely denominated in Sterling, it did even better comparatively in Sterling terms than is suggested here.

As one might expect given Burford's background and orientation, we approach this business as lawyers, not as on-the-ground private investigators. It is run by an English barrister and an English solicitor, and tends to be heavily research-intensive. With the results of our research, we then use global legal tactics and strategies to obtain yet more information and ultimately to seize (typically financial) assets to satisfy judgments. The growth in the business has led to its continuing expansion; we now have 15 asset recovery professionals working in London. We believe this business has potential for future growth and that is a nice adjunct to Burford's core business.

As we have discussed previously, we obtained a license from the Solicitors Regulation Authority to own and operate an Alternative Business Structure – in short, a law firm with external ownership. Through this vehicle, Burford can both operate its own law firm and take equity interests in other law firms. In 2016, we took our first step forward as a law firm in connection with the judgment enforcement business by hiring an experienced solicitor with experience in international dispute matters who offers specialised legal services directly to clients. While not financially material, this has been successful in its initial incarnation, and perhaps even more significantly, our progress has received a striking amount of attention from law firms and the legal media, showing the potential for future activity in this area including, as mentioned previously, the ability to take equity interests in law firms.

Forecasting and guidance

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

This experience leaves us sceptical about predictions and deeply reluctant to try to make them, particularly in the kind of business we have. Our view is that it is our function as corporate managers to be excellent stewards for shareholders' capital and to provide investors with data and with commentary on the past, and that it is for investors to form their own individual views about what the future holds. We are writing this homily because as we have grown in size and prominence, we have attracted an increasing audience that takes the view that we should give "guidance" on not only what is going to happen in the future but when it is going to happen. With respect, we decline to do so.

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

What we can say is that we assemble our large and diversified portfolio with great care, and more than seven years in this business and more than $500 million in investment proceeds has shown that we have a level of competence at doing so. We also manage our costs aggressively. We are invested personally in Burford and are highly

exposed to its success – collectively, the management team owns more than $250 million of shares. We believe that our portfolio will generate a desirable level of profits as it matures, and we believe that the GKC funds will generate appealing performance fee income from their own litigation resolutions. But we are not going to try to predict precisely when or how much income we will generate, despite mounting pressure to conform and pretend we can.

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

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

Burford values transparency in its presentation of financial results and wants to be clear with investors about its approach to those results.

Most of Burford's income comes from its litigation finance business. Within that business, there are two principal sources of income for accounting purposes, realised gains on investments and unrealised gains on investments. (Realised and unrealised losses will naturally negatively affect income and the principles we set forth here apply equally to losses.)

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

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

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

Burford is pleased to be followed by a number of research analysts and we are grateful for their efforts to understand and explain our business. They perform a valuable role in assessing our operating performance, the evolution of the litigation finance market and interpreting other relevant industry developments. However, prospective investors and other market participants must appreciate that, due to the confidential, potentially privileged, long-term and uncertain nature of each investment asset, it is very difficult for research analysts to project accurately the likely investment income of the business. Any projections produced by research analysts are not produced on behalf of Burford and Burford takes no responsibility for such projections. As a result, prospective investors and other market participants should not treat, and Burford does not intend to treat, the financial projections produced by research analysts as indicative of the market's expectations of Burford's future financial performance. We specifically eschew any obligation to correct estimates made

by financial analysts or to inform the market should we come to believe that our actual performance will diverge from those estimates. This is, of course, different to the approach taken by most operating companies, in respect of which research analysts can produce relatively reliable estimates and the relevant company will advise the market if it expects to see performance materially different from the consensus of analyst forecasts. It is important that investors understand that Burford takes a different approach as a result of the different nature of its business.

Corporate and financial matters

Risk management

Burford has historically managed risk in a number of ways.

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

Burford also regularly considers business and systemic risk in its business units and overall. (We refer investors to the risk factors enumerated in our 2016 Bond Prospectus for a more extensive discussion.)

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

We are, however, continuing to expand our risk management bench. In addition to naming Ross Clark last year as Burford's Chief Risk Officer, we are actively recruiting for a dedicated, full-time Chief Compliance Officer.

Capital structure and cash management

Burford successfully launched its second bond offering in 2016, an oversubscribed offering that provided £100 million in incremental capital. Shortly thereafter, we converted the entire offering into US Dollars, for proceeds of $144 million. We also redeemed our contingent preference shares at essentially no cost. Thus, Burford's capital structure is straightforward – a single class of equity and two essentially identical tranches of public debt, along with the loan notes from the GKC acquisition that are prepayable without notice or penalty at our option.

Burford today is operating with about 0.3x leverage, a remarkably low level of leverage for a specialty finance firm. That is possible because we re-invest many of our capital receipts and manage our expenses closely. We do not favour a highly leveraged platform, but there is clearly room for us to absorb some additional leverage should market conditions and our financing needs suggest that we tap either the private or public debt markets again.

Burford closed 2016 with around $110 million of cash net of the acquisition purchase price. That cash position will be immediately augmented by the cash receipts from the Petersen secondary sale.

Foreign exchange and Brexit

Burford is a US Dollar reporting business reflecting the majority of its operations occurring in Dollar-denominated activities. We also pay our dividends in US Dollars. However, we have Sterling denominated debt. As a result, Burford was a significant beneficiary of the devaluation of Sterling that followed the Brexit vote.

With a decline in Sterling from 1.50 to its current level of approximately 1.25 against the US Dollar:

- Burford's assets increased in value in Sterling terms by £5.7 million
- The repayment cost of our debt has decreased by $47.5 million
- Our annual bond interest costs have decreased by $3 million

Operating expenses

Burford expenses its operating costs as they are incurred. We don't capitalise them as part of our investment portfolio. Moreover, we perform virtually all of our investment activities internally, with our own staff, as opposed to outsourcing diligence or legal work 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.

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.

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

Our operating expenses (principally staff costs) rose in 2016, but consumed a lower percentage of income than previously (2016: 23.9%; 2015: 25.1%). That is consistent with our comments in the 2015 annual report, in which we noted that we believed we had underinvested in 2015 and thus 2015's operating expenses were artificially low for the scale of the business.

Of course, the addition of the investment management business will also affect our cost position, in that we will now be adding the net operating costs associated with running that business, which in 2016 amounted to around $6.6 million. Those net costs are, of course, more than offset by the funds' management fees, which were $14.5 million in 2016.

We continue to wrestle with the right balance between spending to grow the business aggressively and holding operating expenses at their current relative levels. We have shown significant cost discipline historically; our operating expenses have never exceeded 30% of income in the four years we have been a unitary operating business, which has allowed us to post consistently high operating margins – 76% in 2016. We are culturally focused on a disciplined approach to costs. However, it is also possible that to harness the range of opportunities we see, it is necessary to continue to invest in people and systems at a modestly higher rate than in the past.

Tax

Burford's gradual progression from a tax-free fund prior to 2012 to a multinational taxpayer with an effective global tax rate in the teens has been altered by the GKC acquisition. Under US tax law, given that GKC had very few tangible assets, the bulk of the acquisition consists of goodwill and other intangible assets for US tax purposes, and those assets are amortised, significantly reducing future US taxable income. Thus, Burford's tax expense will reflect this new dynamic given the deferred tax impact of various acquisition-related matters. This is to some extent an accounting gymnastic – it is not as though the tax agencies are paying us money as the P&L suggests – but we expect to reduce the tax burden of some amount of future US income from taxation because of this amortisation.

Corporate governance

Burford is composed of its publicly traded parent company, Burford Capital Limited, and a number of wholly owned subsidiaries in various jurisdictions through which it conducts its operations and makes its investments. Burford Capital LLC is the principal operating entity in the US and Burford Capital (UK) Limited is the principal operating entity in the UK. Those two entities provide various corporate and investment advisory services to other Group companies. 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.

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

They are:

Sir Peter Middleton GCB
CHAIRMAN

Sir Peter Middleton was until 2013 UK Chairman of Marsh & McLennan Companies and Chairman of Mercer Ltd. He was previously Permanent Secretary at HM Treasury and Group Chairman and Chief Executive of Barclays Bank PLC. Recently, he was appointed Chairman of The Resort Group PLC.

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

Mr. Parkinson is President of the States of Guernsey Trading Supervisory Board and 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

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

The Board holds an in-person meeting every quarter during which it reviews thoroughly all aspects of the business' strategy and performance; the Directors spend at least one evening and one full day together for each meeting, and every Director attended all such meetings held in 2016, 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 (Parkinson (Chair) and Lowe), Investment (Lowe (Chair) and Parkinson) and Remuneration (Wilson (Chair), Middleton, Lowe and Parkinson), all of which meet throughout the year as required. The Remuneration Committee reviews and approves compensation and LTIP awards for all staff. No members of management sit on the Board; while atypical for a UK business, we believe this structure maximises independent oversight of the business. The Board composition is also dictated by the provisions of Burford's Articles, which limit the number of US persons that can be Directors, thus making it impossible to add executives to the Board without expanding its size considerably. Sir Peter Middleton also chairs the Board of Burford Capital Holdings (UK) Limited, a significant Burford subsidiary, to ensure non-executive oversight.

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 web site to review the biographies of all of our team members.

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

Sir Peter Middleton GCB
Chairman

Christopher Bogart
Chief Executive Officer

Jonathan Molot
Chief Investment Officer

March 2017

The Directors present their Annual Report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Business activities

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

Corporate governance

The Directors recognise the high standards of corporate governance demanded of listed companies. The Company has adopted and complied with the Guernsey Code of Corporate Governance (the "Code"). The Code includes a number of the principles contained in the UK Corporate Governance Code. While the Company is not required to comply with the Code, it has nevertheless elected to do so.

Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 31.

The Directors propose to pay a final dividend of 6.48¢ (US cents) per ordinary share in the capital of the Company during 2017. Together with the interim dividend of 2.67¢ paid in October 2016, this makes a total 2016 dividend of 9.15¢. 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 16 May 2017). If approved by shareholders, the record date for this dividend will be 26 May 2017 and payment of this dividend would then occur on 16 June 2017.

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

The Directors proposed and, following shareholder approval, paid a final 2015 dividend of 5.67¢ per share on 17 June 2016 to shareholders on the register as at close of business on 27 May 2016. This, combined with an interim dividend of 2.33¢, paid in October 2015, resulted in a full year 2015 dividend of 8.0¢.

Directors

The Directors of the Company who served during the year and to date are as stated on page 63.

Directors' interests

	Number of Shares	% Holding at 31 December 2016
Sir Peter Middleton	100,000	0.05
Hugh Steven Wilson	200,000	0.10
David Charles Lowe	200,000	0.10

Further, David Charles Lowe holds 300,000 bonds as issued by the Group's subsidiary Burford Capital PLC.

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

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

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

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

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

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

Disclosure of information to Auditors

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

Auditors

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

Charles Parkinson
Director

13 March 2017

To the members of Burford Capital Limited

We have audited the consolidated financial statements of Burford Capital Limited for the year ended 31 December 2016 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 26. 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 28 to 29 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 2016 and of its profit and comprehensive income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP
London

13 March 2017

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 2016

	Notes	2016 $'000	2015* $'000
Income			
Litigation investment income	7	**140,187**	87,877
Insurance income		**12,923**	12,763
New initiatives income	9	**8,849**	2,510
Investment management income		**647**	–
Cash management income and bank interest	6	**555**	671
Foreign exchange gains/(losses)		**242**	(814)
Total income		**163,403**	103,007
Operating expenses	10	**(39,026)**	(25,840)
Amortisation of intangible asset arising on acquisition	16	**(271)**	–
Operating profit		**124,106**	77,167
Finance costs	13	**(14,108)**	(9,290)
Profit before tax and acquisition costs		**109,998**	67,877
Non-recurring acquisition costs	15	**(5,945)**	–
Profit for the year before taxation		**104,053**	67,877
Taxation	4	**4,817**	(2,204)
Profit for the year after taxation		**108,870**	65,673
Attributable to contingent preference shares		**600**	1,200
Attributable to ordinary shareholders		**108,270**	64,473
		108,870	65,673
Other comprehensive income			
Exchange differences on translation of foreign operations on consolidation		**34,921**	2,542
Total comprehensive income for the year		**143,791**	68,215
Attributable to contingent preference shares		**600**	1,200
Attributable to ordinary shareholders		**143,191**	67,015
		Cents	Cents
Basic and diluted profit per ordinary share	22	**52.89**	31.52
Basic and diluted comprehensive income per ordinary share	22	**69.94**	32.76

* As reported in the 2016 interim report, law firm lending investments are included in the litigation investment segment commencing with the 2016 annual report whereas historically they were included in the new initiatives segment. Reclassification of the 2015 balances for comparative purposes have been made in accordance with IAS 1 paragraph 41, in order to provide more relevant information. The amount of the income reclassification is $974,000.

The notes on pages 37 to 62 form an integral part of these consolidated financial statements.

as at 31 December 2016

	Notes	2016 $'000	2015* $'000
Assets			
Non-current assets			
Litigation investments	7	**559,687**	334,212
New initiatives investments	9	**2,337**	3,509
Due from settlement of litigation investments	8	**29,814**	30,421
Deferred tax asset	4	**9,498**	1,970
Goodwill	17	**133,932**	1,109
Intangible asset	16	**39,395**	–
Tangible fixed assets		**2,156**	563
		776,819	371,784
Current assets			
Due from settlement of litigation investments	8	**9,554**	31,188
Due from settlement of new initiatives investments		**747**	–
Receivables and prepayments	11	**10,240**	5,510
Tax receivable		**1,402**	–
Cash and cash equivalents		**158,371**	45,417
Cash management investments	6	**11,098**	140,206
		191,412	222,321
Total assets		**968,231**	594,105
Liabilities			
Current liabilities			
Litigation investments payable		**9,505**	16,441
Payables	12	**17,622**	7,015
Taxation payable		**–**	942
Loan interest payable	13,14	**4,139**	3,174
GKC acquisition purchase price payable	15	**57,863**	–
Acquisition costs payable	15	**5,858**	–
Unrealised loss on forward foreign currency contract		**–**	128
		94,987	27,700
Non-current liabilities			
Investment subparticipations		**2,865**	–
Deferred tax liability	4	**227**	1,098
Loan capital	13	**230,243**	131,280
Loan notes	14	**43,750**	–
		277,085	132,378
Total liabilities		**372,072**	160,078
Total net assets		**596,159**	434,027

* As reported in the 2016 interim report, law firm lending investments are included in the litigation investment segment commencing with the 2016 annual report whereas historically they were included in the new initiatives segment. Reclassification of the 2015 balances for comparative purposes have been made in accordance with IAS 1 paragraph 41, in order to provide more relevant information. The amount of the balance sheet reclassification is $14,597,000.

as at 31 December 2016 (continued)

	Notes	2016 $'000	2015 $'000
Represented by:			
Ordinary share capital	20	**351,249**	328,749
Contingent share capital – deferred consideration	15	**13,500**	–
Revenue reserve		**193,761**	102,550
Other reserves		**37,787**	2,866
Capital redemption reserve		**(138)**	–
Total equity attributable to ordinary shareholders		**596,159**	434,165
Equity attributable to contingent preference shares	21	**–**	(138)
Total equity shareholders' funds		**596,159**	434,027

The notes on pages 37 to 62 form an integral part of these consolidated financial statements.

The financial statements on pages 31 to 62 were approved by the Board of Directors on 13 March 2017 and were signed on its behalf by:

Charles Parkinson
Director

13 March 2017

for the year ended 31 December 2016

	2016 $'000	2015* $'000
Cash flows from operating activities		
Profit for the year before tax	104,053	67,877
Adjusted for:		
Realised (gains) on realisation of litigation investments	(47,474)	(60,351)
Realised (gains)/losses on new initiatives investments	(7,514)	263
Interest and other income from litigation activities	(4,895)	(5,520)
New initiatives income	(2,419)	(1,951)
Fair value change on litigation investments	(87,818)	(22,006)
Fair value change on new initiatives investments	1,110	(822)
Realised losses on disposal of cash management investments	1,101	824
Fair value change on cash management investments	222	2,177
Finance costs	14,108	8,917
Unrealised (gain)/loss on forward foreign currency contract	(128)	128
Amortisation of intangible asset	271	–
Depreciation of tangible fixed assets	307	241
Effect of exchange rate changes	(47,421)	(3,261)
	(76,497)	(13,484)
Changes in working capital		
Proceeds from litigation investments	203,013	145,138
Proceeds from new initiatives investments	13,135	1,257
Funding of litigation investments	(275,698)	(109,650)
Funding of new initiatives investments	(4,274)	(3,006)
Net proceeds from (purchases)/disposals of cash management investments	127,785	(47,223)
(Increase)/decrease in receivables	(10,636)	7,385
Decrease in payables	22,358	2,064
Taxation paid	(5,854)	(2,620)
Net cash (outflow) from operating activities	(6,668)	(20,139)
Cash flows from financing activities		
Issue of loan capital and loan notes	189,590	–
Issue expenses – loan capital	(2,042)	–
Interest paid on loan capital	(11,994)	(8,926)
Dividends paid on ordinary shares	(17,059)	(15,525)
Dividends paid on contingent preference shares	(600)	(1,200)
Net cash inflow/(outflow) from financing activities	157,895	(25,651)
Cash flows from investing activities		
Purchases of tangible fixed assets	(1,570)	(421)
Purchase of subsidiary	(35,418)	(1,489)
Net cash (outflow) from investing activities	(36,988)	(1,910)
Net increase/(decrease) in cash and cash equivalents	114,239	(47,700)

* As reported in the 2016 interim report, law firm lending investments are included in the litigation investment segment commencing with the 2016 annual report whereas historically they were included in the new initiatives segment. Reclassification of the 2015 balances for comparative purposes have been made in accordance with IAS 1 paragraph 41, in order to provide more relevant information.

for the year ended 31 December 2016 (continued)

	2016 $'000	2015 $'000
Reconciliation of net cash flow to movements in cash and cash equivalents		
Cash and cash equivalents at beginning of year	45,417	93,640
Increase/(decrease) in cash and cash equivalents	114,239	(47,700)
Effect of exchange rate changes on cash and cash equivalents	(1,285)	(523)
Cash and cash equivalents at end of year	158,371	45,417

Supplemental disclosure	2016 $'000	2015 $'000
Cash received from interest income	6,862	4,439

The notes on pages 37 to 62 form an integral part of these consolidated financial statements.

for the year ended 31 December 2016

31 December 2016	Share capital $'000	Contingent share capital $'000	Revenue reserve $'000	Foreign currency con-solidation reserve $'000	Capital re-demption reserve $'000	Equity attributable to ordinary share-holders $'000	Contingent Preference Shares $'000	Total $'000
As at 1 January 2016	328,749	–	102,550	2,866	–	434,165	(138)	434,027
Profit for the year	–	–	108,270	–	–	108,270	600	108,870
Other comprehensive income	–	–	–	34,921	–	34,921	–	34,921
Dividends paid (Notes 21 & 23)	–	–	(17,059)	–	–	(17,059)	(600)	(17,659)
Issue of share capital (Note 20)	22,500	–	–	–	–	22,500	–	22,500
Issue of contingent share capital – deferred consideration (Note 15)	–	13,500	–	–	–	13,500	–	13,500
Redemption of contingent preference shares (Note 21)	–	–	–	–	(138)	(138)	138	–
Balance at 31 December 2016	**351,249**	**13,500**	**193,761**	**37,787**	**(138)**	**596,159**	**–**	**596,159**

31 December 2015	Share capital $'000	Revenue reserve $'000	Foreign currency consolidation reserve $'000	Equity attributable to ordinary shareholders $'000	Contingent Preference Shares $'000	Total $'000
As at 1 January 2015	328,749	53,602	324	382,675	(138)	382,537
Profit for the year	–	64,473	–	64,473	1,200	65,673
Other comprehensive income	–	–	2,542	2,542	–	2,542
Dividends paid (Notes 21 & 23)	–	(15,525)	–	(15,525)	(1,200)	(16,725)
Balance at 31 December 2015	328,749	102,550	2,866	434,165	(138)	434,027

The notes on pages 37 to 62 form an integral part of these consolidated financial statements.

1. Legal form and principal activity

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, investment management, financing and risk solutions with a focus on the 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 2016 to 31 December 2016.

2. Principal accounting policies

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

Basis of accounting

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

Significant estimates and judgements

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

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

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

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

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

Continued

2. Principal accounting policies continued

In addition, there are significant estimates and judgements involved in assessing the value of the intangible asset arising on acquisition of GKC Holdings, LLC and the useful economic life thereof. The assumptions on which the estimates are based include the fee arrangements, sizes of the funds and number thereof, total commitments and performance up to the date of acquisition.

The classification of the contingent consideration as consideration rather than remuneration takes into account the terms within the purchase agreement.

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.

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

Early adoption of IFRS 9: Financial Instruments

The Group adopted IFRS 9 Financial Instruments (2010) 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.

New accounting pronouncements not yet effective

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

		Effective Date
IAS 7	Disclosure Initiative – Amendments to IAS 7	1 Jan 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	1 Jan 2017
IFRS 9	Financial Instruments (2014)	1 Jan 2018
IFRS 15	Revenue from Contracts with Customers	1 Jan 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2	1 Jan 2018
IFRS 16	Leases	1 Jan 2019

The Group intends to adopt the standards, if applicable, when they become effective. The Group anticipates that the adoption of some of these standards and interpretations in the future will not have a material impact on the financial statements of the Company, except for IFRS 9 (2014) and IFRS 15 which have been qualitatively explained below.

IFRS 9 Financial Instruments (2014)

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

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

2. Principal accounting policies continued

(a) Classification and measurement
There are no changes in the classification and measurement requirements of IFRS 9 (2014).

(b) Impairment
The most significant effect of the adoption of IFRS 9 (2014) will be on the assets classified at amortised cost. IFRS 9 (2014) requires the Group to record expected credit losses ("ECLs") on its debt securities, loans, amounts due from settlement of both litigation investments and new initiatives investments and trade receivables, either on a 12-month or lifetime basis. The Group will analyse these assets in order to estimate appropriate ECLs and determine the possible impact on the financial statements.

(c) Hedge accounting
The Group has not applied hedge accounting.

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS and is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will perform an analysis of the impact on insurance income, new initiatives income and investment management income arising on the adoption of this standard.

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

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

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

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

Continued

2. Principal accounting policies continued

Segment reporting

Management consider that there are four operating business segments in addition to its corporate functions, being (i) provision of 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); (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; and (iv) investment management activities.

Business combinations and goodwill

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

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

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

As the acquisition of GKC Holdings, LLC occurred on 14 December 2016, the allocation of goodwill to the Group's cash-generating units is pending analysis.

Intangible asset

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

Financial instruments

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

1) Cash management investments through profit or loss

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

Recognition, derecognition and measurement

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

2. Principal accounting policies continued

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

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

2) Litigation investments
Litigation investments are comprised primarily of investments held at fair value through profit or loss and some investments held at amortised cost. Investments are initially measured as the sum invested. Attributable due diligence and closing costs are expensed.

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

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

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

3) New initiatives investments
New initiatives investments are held at fair value for investments in the judgment enforcement business. Investments are initially measured as the sum invested. Attributable due diligence and closing costs are expensed.

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

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

Continued

2. Principal accounting policies continued

Fair value hierarchy of financial instruments

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

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

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

The material estimates and assumptions used in the analyses of fair value include the status and risk profile of the 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, if any, 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.

Investment subparticipations

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

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.

Since April 2016, certain intragroup balances are now considered, in substance, to form part of a net investment in a foreign operation. Gains and losses on such balances are recognised in other comprehensive income, with a loss of $5,507,000 recognised in the current 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 and loan notes interest and issue expenses which are recognised in the Consolidated Statement of Comprehensive Income in line with the effective interest rate method.

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.

Continued

2. Principal accounting policies continued

Taxation

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

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

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

Dividends

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

Tangible fixed assets

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

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

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

Receivables and prepayments

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

Payables

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

Capital and reserves

Ordinary shares are classified as equity in share capital. Contingent 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 2016 there were no material agreements in place between Group entities and third parties.

4. Taxation

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

	2016 $'000	2015 $'000
Profit on ordinary activities before tax	104,053	67,877
Corporation tax at country rates	(5,125)	2,485
Factors affecting charge:		
Adjustment in respect of prior year	(71)	(307)
Tax losses not recognised	361	–
Costs not allowable for tax	18	26
Total taxation charge/(credit)	(4,817)	2,204

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

The taxation charge for the year ended 31 December 2016 comprises:

	2016 $'000	2015 $'000
US Subsidiaries	3,590	659
Irish Subsidiaries charge/(credit)	(643)	490
UK Subsidiaries	175	23
Non-resident taxation	–	83
US deferred taxation charge/(credit)	(7,939)	1,076
UK deferred taxation (credit)	–	(127)
Total taxation charge/(credit)	(4,817)	2,204

Deferred tax asset	2016 $'000	2015 $'000
Balance at 1 January	1,970	1,822
Movement on UK deferred tax – temporary differences	(174)	172
Movement on US deferred tax – temporary differences	7,076	(23)
Movement on Irish deferred tax – temporary differences	644	–
Foreign exchange adjustment	(18)	(1)
Balance at 31 December	9,498	1,970

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

Deferred tax liability	2016 $'000	2015 $'000
Balance at 1 January	1,098	–
Movement on UK deferred tax – temporary differences	–	45
Movement on US deferred tax – temporary differences	(863)	1,053
Foreign exchange adjustment	(8)	–
Balance at 31 December	227	1,098

	2016 $'000	2015 $'000
Net deferred tax	9,271	872

Continued

4. Taxation continued

Analysis of deferred tax by type

	2016 $'000	2015 $'000
Staff compensation and benefits	**3,462**	1,732
GKC acquisition costs	**1,188**	–
Investment fair value adjustments	**4,200**	(1,053)
Capital allowances	**(223)**	2
Net operating loss carry forward	**644**	191
	9,271	872

5. Segmental information

Management consider that there are four 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), (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, and (iv) investment management activities.

Segment revenue and results

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

31 December 2015	Litigation Investment $'000	Litigation Insurance $'000	New Initiatives $'000	Other corporate activity $'000	Total $'000
Income	87,877	12,763	2,510	(143)	103,007
Operating expenses	(15,654)	(2,577)	(2,797)	(4,812)	(25,840)
Finance costs	–	–	–	(9,290)	(9,290)
Profit/(loss) for the year before taxation	72,223	10,186	(287)	(14,245)	67,877
Taxation	(2,225)	(1,186)	–	1,207	(2,204)
Other comprehensive income	–	–	–	2,542	2,542
Total comprehensive income	69,998	9,000	(287)	(10,496)	68,215

5. Segmental information continued

Segment assets

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

Continued

5. Segmental information continued

31 December 2015	Litigation Investment $'000	Litigation Insurance $'000	New Initiatives $'000	Other corporate activity $'000	Total $'000
Non-current assets					
Litigation investments	334,212	–	–	–	334,212
New initiative investments	–	–	3,509	–	3,509
Due from settlement of litigation investments	30,421	–	–	–	30,421
Deferred tax asset	1,779	–	–	191	1,970
Goodwill	–	–	–	1,109	1,109
Tangible fixed assets	148	415	–	–	563
	366,560	415	3,509	1,300	371,784
Current assets					
Cash management investments	–	–	–	140,206	140,206
Due from settlement of litigation investments	31,188	–	–	–	31,188
Receivables and prepayments	500	4,322	688	–	5,510
Cash and cash equivalents	39,203	3,470	378	2,366	45,417
	70,891	7,792	1,066	142,572	222,321
Total assets	437,451	8,207	4,575	143,872	594,105
Current liabilities					
Litigation investments payable	16,441	–	–	–	16,441
Payables	4,981	1,040	647	347	7,015
Taxation payable	942	–	–	–	942
Loan interest payable	–	–	–	3,174	3,174
Unrealised loss on forward foreign currency contract	–	–	–	128	128
	22,364	1,040	647	3,649	27,700
Non-current liabilities					
Deferred tax payable	1,053	45	–	–	1,098
Loan capital	–	–	–	131,280	131,280
	1,053	45	–	131,280	132,378
Total liabilities	23,417	1,085	647	134,929	160,078
Total net assets	414,034	7,122	3,928	8,943	434,027

6. Cash management investments

	2016 $'000	2015 $'000
Money market funds	–	9,008
Listed fixed income securities and investment funds, including mutual funds	**11,098**	131,198
Total cash management investments	**11,098**	140,206

Reconciliation of movements	2016 $'000	2015 $'000
Balance at 1 January	**140,206**	95,984
Purchases	**145,502**	223,728
Proceeds on disposal	**(273,425)**	(176,365)
Realised losses on disposal	**(1,101)**	(824)
Fair value change in year	**(222)**	(2,177)
Change in accrued interest	**138**	(140)
Balance at 31 December	**11,098**	140,206

As at 31 December 2016, cash management investments were invested primarily in fixed income securities and listed investment funds.

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

	2016 $'000	2015 $'000
Realised losses on cash management investments	**(1,101)**	(824)
Fair value movement on cash management investments	**(222)**	(2,177)
Interest and dividend income from cash management investments	**1,839**	3,658
Bank interest income	**39**	14
Total cash management income and bank interest	**555**	671

7. Litigation investments

Litigation investments are comprised of some assets at fair value and some assets at amortised cost. As reported in the 2016 interim report, law firm lending investments are included in the litigation investment segment commencing with the 2016 annual report whereas historically they were included in the new initiatives segment. As at 31 December 2016, litigation investments at fair value is $549,173,000 (2015: $319,615,000) and litigation investments at amortised cost is $10,514,000 (2015: $14,597,000), totaling $559,687,000 (2015: $334,212,000) as shown on the Consolidated Statement of Financial Position.

	2016 $'000	2015 $'000
As at 1 January	**334,212**	266,831
Additions	**271,627**	124,152
Realisations	**(177,624)**	(139,172)
Net realised gain for year	**47,474**	60,351
Fair value movement (net of transfers to realisations)	**87,818**	22,006
Net gain on investments at amortised cost	**1,747**	739
Foreign exchange loss	**(5,567)**	(695)
As at 31 December	**559,687**	334,212

Continued

7. Litigation investments continued

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

	2016 $'000	2015 $'000
Net realised gains on litigation investments (above)	**47,474**	60,351
Fair value movements on litigation investments (above)	**87,818**	22,006
Interest and other income due from settlement of litigation investments (Note 8)	**3,148**	4,068
Interest and other income from continuing litigation investments	**–**	713
Net gain on litigation investments at amortised cost	**1,747**	739
Total litigation investment income	**140,187**	87,877

Further detail and commentary on realised gains on litigation investments and unrealised gains on litigation investments is included in the Report to Shareholders on pages 13 to 15.

8. Due from settlement of litigation investments

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

	2016 $'000	2015 $'000
As at 1 January	**61,609**	63,507
Transfer of realisations from litigation investments (Note 7)	**177,624**	139,172
Interest and other income due from settlement of litigation investments	**3,148**	4,068
Proceeds from settled litigation investments	**(202,981)**	(144,910)
Proceeds from interest income due from settlement of litigation investments	**(30)**	(225)
Foreign exchange translation differences	**(2)**	(3)
As at 31 December	**39,368**	61,609
Split:		
Non-current assets	**29,814**	30,421
Current assets	**9,554**	31,188
Total due from settlement of litigation investments	**39,368**	61,609

9. New initiatives investments

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

	2016 $'000	2015 $'000
As at 1 January	**3,509**	–
Additions	**4,274**	3,006
Realisations	**(11,590)**	–
Net realised gain	**7,514**	(263)
Fair value movement (net of transfers to realisations)	**(1,110)**	822
Foreign exchange translation differences	**(260)**	(56)
As at 31 December	**2,337**	3,509

9. New initiatives investments continued

New initiatives income on the face of the Consolidated Statement of Comprehensive Income is $8,849,000 (including income of $2,419,000 from fees for enforcement services and other income of $26,000) for the year ended 31 December 2016 (2015: new initiatives income was $2,510,000, including income of $1,951,000 from fees for enforcement services).

10. Total operating expenses

	2016 $'000	2015 $'000
Staff costs	**29,333**	16,535
Pension costs	**566**	438
Non-Executive Directors' remuneration	**315**	348
Non-staff operating expenses	**6,782**	7,670
Investment related costs	**2,030**	849
	39,026	25,840

Directors' remuneration* comprise:	**2016 $'000**	2015 $'000
Sir Peter Middleton	**103**	114
Hugh Steven Wilson	**96**	106
David Charles Lowe	**58**	64
Charles Nigel Kennedy Parkinson	**58**	64
	315	348

* Directors' remuneration is Sterling denominated.

Fees paid and payable to Ernst & Young LLP comprise:	**2016 $'000**	2015 $'000
Audit fees	**681**	466
Interim review fees	**32**	36
Tax compliance fees	**253**	387
Tax advisory fees	**253**	364
Other advisory fees	**87**	–
	1,306	1,253

11. Receivables and prepayments

	2016 $'000	2015 $'000
Trade receivable – insurance segment	**7,062**	4,231
Trade receivable – new initiatives segment	**718**	674
Investment management receivable	**1,133**	–
Prepayments	**166**	124
Other debtors	**1,161**	481
	10,240	5,510

Continued

12. Payables

	2016 $'000	2015 $'000
Audit fee payable	**448**	384
Claim costs payable	**69**	–
General expenses payable	**17,105**	6,631
	17,622	7,015

13. Loan capital

On 19 August 2014, the Group, through a 100% owned subsidiary, Burford Capital PLC, issued retail bonds to the value of $149,562,000 (£90,000,000). The bond proceeds were converted to US Dollars in the weeks following the offering, producing $149,937,975 of proceeds. The bonds are listed on the London Stock Exchange's Order Book for Retail Bonds. The bonds will mature on 19 August 2022, and pay a fixed rate of interest of 6.5% per annum. The fair value of the loan capital at 31 December 2016, based upon the market value of the bonds at that time, is $120,028,000.

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

Retail bonds	2016 $'000	2015 $'000
As at 1 January	**134,454**	141,418
Retail bonds issued	**145,840**	–
Bond issue costs	**(2,042)**	–
Finance costs	**13,984**	9,290
Interest paid	**(11,994)**	(8,926)
Exchange movements	**(45,984)**	(7,328)
As at 31 December	**234,258**	134,454
Split:		
Loan capital	**230,243**	131,280
Loan interest payable	**4,015**	3,174
Total loan capital	**234,258**	134,454

	2016 $'000	2015 $'000
Loan capital interest expense	**13,504**	8,917
Bond issue costs incurred as finance costs	**480**	373
Loan notes interest expense (Note 14)	**124**	–
Total finance costs	**14,108**	9,290

14. Loan notes

On 14 December 2016, the Company's 100% (indirectly) owned subsidiary, Burford Capital LLC, issued promissory notes to the value of $43,750,000 related to the acquisition of GKC Holdings, LLC. The notes will mature on 14 December 2019, and pay at a rate per annum equal to LIBOR plus 5.00% (semi-annual interest payment), but the interest rate shall not exceed 6.00% per annum (however, under certain circumstances, a 1.00% increase could be triggered).

	2016 $'000
As at 1 January	–
Loan notes issued	43,750
Finance costs	124
As at 31 December	43,874
Split:	
Loan notes	43,750
Loan interest payable	124
Total loan notes	43,874

15. Acquisition of subsidiary

On 14 December 2016, the Group acquired GKC Holdings, LLC ("GKC"), the parent of Chicago-based Gerchen Keller Capital, LLC. The Company has acquired 100% of the share capital of GKC.

GKC is a legal and regulatory risk focused investment manager registered as an investment adviser with the US Securities and Exchange Commission.

The amounts recognised at the time of acquisition in respect of the identifiable assets acquired and the liabilities assumed are as set out in the table below:

	$'000
Assets	
Intangible asset in connection with investment management income	39,666
Tangible fixed assets	402
Receivables	1,126
Cash at bank and in hand	469
	41,663
Liabilities	
Payables	(1,174)
Total identifiable net assets	40,489
Goodwill (Note 17)	133,011
Total consideration	173,500
Satisfied by:	
Cash	93,750
Loan notes	43,750
Equity consideration	22,500
Contingent equity consideration	13,500
Total consideration	173,500

Continued

15. Acquisition of subsidiary continued

	$'000
Net cash outflow arising on acquisition:	
Cash consideration	(93,750)
Less: cash consideration settled on 5 January 2017	57,863
Less: cash and cash equivalent balance acquired	469
	(35,418)

The $22,500,000 of equity consideration resulted in the Company issuing 3,692,524 new shares. The per share value was determined on the basis of the average closing price on the five days before the announcement date of the acquisition (14 December 2016, the same day as the closing of the acquisition) converted to US dollars at the Bank of England's spot rate on the day before the announcement (13 December 2016).

The acquisition includes $15,000,000 of contingent equity consideration. Based on the formula set forth above, 2,461,682 shares will be issued only after GKC's existing investment funds contribute more than $100 million in performance fee income (and, in certain instances, fee income from new funds or other investment income) to Burford within the prescribed timeframe. If the $100 million income target is not achieved no contingent consideration is payable. In calculating the fair value of the contingent consideration a discount rate of 10% has been applied for non-performance risk.

Transaction costs of $5,945,000 were treated as current expenses and are included in acquisition costs in the Consolidated Statement of Comprehensive Income. There were $5,858,000 of acquisition costs payable at 31 December 2016.

The goodwill of $133,011,000 comprises the excess of total consideration over the total identifiable net assets. Goodwill represents the economies of scale achieved in combining the complementary operations of Burford and GKC, the increased revenue diversification from investment management income and an integrated platform for the Group to offer public and private capital solutions to the industry of finance for law. Goodwill arising in the US is expected to be deductible for US income tax purposes.

GKC contributed $647,000 in total income and $204,000 in operating profit to the Group in the period between the date of acquisition and the reporting date, before deduction of $271,000 in respect of non-cash amortisation of the intangible asset and other one time or non-recurring expenses related to the acquisition.

If the acquisition had been completed on the first day of the financial year, attributable Group income contributed would have been $15,489,000 and Group operating profit (after excluding non-recurring expenses related to the acquisition) would have been $9,209,000.

16. Intangible asset

	2016 $'000
At 1 January	–
Additions	39,666
Amortisation	(271)
At 31 December	39,395

GKC was acquired on 14 December 2016. The intangible asset represents an assessment, for accounting purposes, of the value of GKC's future investment management income at the date of acquisition. The intangible asset has an estimated useful life extending to 2020 and is being amortised over this period, in accordance with revenue generated from investment management income.

17. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities assumed on the date of the acquisition.

	2016 $'000	2015 $'000
At 1 January	**1,109**	–
Additions	**133,011**	1,109
Foreign exchange	**(188)**	–
At 31 December	**133,932**	1,109

On 14 December 2016, the Group acquired GKC (see Note 15). The allocation of goodwill from the GKC acquisition to the Group's cash-generating units is pending analysis.

The Group performed its annual impairment test on goodwill from the acquisition of Focus Intelligence Limited, and at 31 December 2016 and 2015, there was no impairment recognised.

18. Fair value of assets and liabilities

Valuation Methodology

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

Fair Value Hierarchy

31 December 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Litigation investments*	**–**	**–**	**549,173**	**549,173**
New initiatives investments	**–**	**–**	**2,337**	**2,337**
Cash management investments:				
Listed fixed income securities and investment funds	**11,098**	**–**	**–**	**11,098**
Loan capital, at fair value	**(250,427)**	**–**	**–**	**(250,427)**
Total	**(239,329)**	**–**	**551,510**	**312,181**

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

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

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

Continued

18. Fair value of assets and liabilities continued

Movements in Level 3 fair value assets

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

	Litigation investments $'000	New initiatives investments $'000	Total Level 3 assets $'000
As at 1 January 2016	**319,615**	**3,509**	**323,124**
Additions	**264,742**	**4,274**	**269,016**
Realisations	**(164,909)**	**(11,590)**	**(176,499)**
Net gains on investments	**135,292**	**6,404**	**141,696**
Foreign exchange adjustment	**(5,567)**	**(260)**	**(5,827)**
As at 31 December 2016	**549,173**	**2,337**	**551,510**

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

Sensitivity of Level 3 valuations

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2016, 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 $55,151,000 (2015: $32,312,000).

Reasonably possible alternative assumptions

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

19. Risk management

Market and investment risk

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

19. Risk management continued

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 2016, 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 $1,110,000 (2015: $14,021,000).

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

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

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2016, 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 $55,151,000 (2015: $32,312,000).

Liquidity risk

The Group is exposed to liquidity risk. The Group's investment in litigation investments and new initiatives investments require funds to meet investment commitments (see Note 24) and for ongoing settlement of operating liabilities. The Group's investments (as described in Note 2) typically require significant capital contributions with little or no immediate return and no guarantee of return or repayment. In order to manage liquidity, risk the Group makes investments with a range of anticipated durations and invests in cash management investments which can be readily realised to meet those liabilities and commitments. Cash management investments include investments in listed fixed income instruments and investment funds that can be redeemed on short notice or can be sold on an active trading market.

During 2014 and 2016 the total issues of $294 million retail bonds raised sufficient extra capital to help mitigate liquidity risk. Interest payments on the bonds will total approximately $100 million over the remaining six-year and eight-year periods until maturity in August 2022 and October 2024, respectively, at which point the principal amounts shall be repaid.

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

	2016 $'000	2015 $'000
Less than 3 months	**94,446**	27,919
3 to 6 months	**4,862**	–
6 to 12 months	**8,460**	4,335
1 to 5 years	**107,056**	34,676
Greater than 5 years	**263,561**	150,709
No contractual maturity date	**2,865**	–
Total undiscounted cash outflows	**481,250**	217,639

Continued

19. Risk management continued

Credit risk

The Group is exposed to credit risk in various investment structures (see Note 2), most of which involve investing sums recoverable only out of successful investments with a concomitant risk of loss of investment cost. On becoming contractually entitled to proceeds, depending on the structure of the particular investment, the Group could be a creditor of, and subject to direct or indirect credit risk from, a claimant, a defendant, both or other parties. Moreover, the Group may be indirectly subject to credit risk to the extent a defendant does not pay a claimant immediately notwithstanding successful adjudication of a claim in the claimant's favour. The Group's credit risk is uncertain given that its entitlement pursuant to its investments is generally not established until a successful litigation resolution and the Group's potential credit risk is mitigated by the diversity of its litigation counterparties and indirect creditors.

The Group is also exposed to credit risk in respect of the cash management investments and cash and cash equivalents. The credit risk of the cash and cash equivalents is mitigated as all cash is placed with reputable banks with a sound credit rating (A-2). The credit risk of the cash management investments is mitigated by investment restrictions as regards security type, geographical origin and acceptable counterparties; those investments are entirely or largely made in investment grade bonds with a corporate rating of BBB or better. There are no significant concentrations of credit risk. At the year end the Group is invested in 37 (2015: 78) securities with the bulk of its cash management investments held in fixed income securities.

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

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

Currency risk

The Group holds assets denominated in currencies other than US Dollars, the functional currency of the Company, including Sterling, the functional currency of Burford UK. Further, the Group issued Sterling loan capital during 2014 and 2016. 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 2016, the Group's net exposure to currency risk can be analysed as follows:

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

19. Risk management continued

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

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

At 31 December 2016 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 $19,248,000 (2015: decreased and increased respectively by $6,974,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

At 31 December 2016 should Euro have strengthened or weakened by 10% against the US Dollar and all other variables held constant, the Group's net profit and net assets would have increased and decreased respectively by $1,239,000 (2015: $1,307,000) 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, certain cash management investments, and loan notes outstanding. All cash bears interest at floating rates. Loan notes also bear interest at floating rates; however, there is a cap on the maximum interest rate charged so exposure is limited. There are certain litigation investments, due from settlement of litigation investments and cash management investments that earn interest based on fixed rates; however, those assets do not have interest rate risk as they are not exposed to changes in market interest rates. The Group's loan capital incurs interest at a fixed rate and so is not exposed to changes in market interest rates. The following table sets out the Group's exposure to interest rate risk.

	2016 $'000	2015 $'000
Non-interest-bearing	**541,638**	282,604
Interest-bearing – floating rate	**114,621**	54,425
Interest-bearing – fixed rate	**(60,100)**	96,998
Total net assets	**596,159**	434,027

The interest-bearing floating rate assets and liabilities are denominated in both US Dollars and Sterling. If interest rates increased/decreased by 25 basis points while all other variables remained constant, the profit for the year and net assets would increase/decrease by $287,000 (2015: $136,000). For fixed rate assets and liabilities, it is estimated that there would be no material profit or net assets impact. Fixed rate liabilities include the loan capital and loan notes as disclosed in Note 13 and Note 14, respectively.

Continued

19. Risk management continued

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

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

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

Management of capital

The Company's objective is to provide shareholders with attractive levels of dividends and capital growth. Cash management assets are managed to ensure adequate liquidity to meet commitments and to ensure resources are available to finance investments as opportunities arise. The Company issued loan capital in the form of retail bonds in 2014 and 2016, which addressed this potential risk by raising significant amounts of capital.

20. Share capital

Authorised share capital	**2016 $'000**	2015 $'000
Unlimited Ordinary Shares of no par value	**–**	–

Issued share capital	**Number**	Number
Ordinary Shares of no par value	**208,237,979**	204,545,455

80,000,001 Ordinary Shares were issued at 100p each on 21 October 2009. A further 100,000,000 Ordinary Shares were issued at 110p each on 9 December 2010. A further 24,545,454 shares were issued on 12 December 2012. A further 3,692,524 shares were issued on 14 December 2016 as part of the GKC acquisition as discussed in Note 15.

	2016 $'000	2015 $'000
At 1 January	**328,749**	328,749
Share capital issued	**22,500**	–
At 31 December	**351,249**	328,749

21. Contingent preference shares

As of 30 June 2016, all outstanding preference shares had been repurchased for an aggregate price of $0.11 and were cancelled.

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 obliged the unitholder to pay the amount called within one month and an 'A' preference share converted into a 'B' preference share for each $10,000 paid. 'A' preference shares, subject to Board approval, accrued a 3% dividend. 'B' preference shares, subject to Board approval, accrued dividends at a rate of 30 day LIBOR + 700 basis points. The Group had 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	**2016 $'000**	2015 $'000
400 Contingent preference share units at $100,000 nominal value per unit	**–**	40,000

Contingent preference shares	**2016 $'000**	2015 $'000
Balance at 1 January	**(138)**	(138)
Attributable profit for the period	**600**	1,200
Dividends paid	**(600)**	(1,200)
Redemption of contingent preference shares	**138**	–
Balance at 31 December	**–**	(138)

22. 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 $108,270,000 (2015: $64,473,000) and the weighted average number of ordinary shares in issue for the year of 204,727,055 (2015: 204,545,455). Comprehensive income per ordinary share is calculated based on comprehensive income attributable to ordinary shareholders for the year of $143,191,000 (2015: $67,015,000), and the weighted average number of ordinary shares in issue for the year of 204,727,055 (2015: 204,545,455). There are no dilution or anti-dilution adjustments required.

23. Dividends

The Directors propose to pay a final dividend of 6.48¢ (US cents) per ordinary share in the capital of the Company during 2017. Together with the interim dividend of 2.67¢ paid in October 2016, this makes a total 2016 dividend of 9.15¢. 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 16 May 2017). If approved by shareholders, the record date for this dividend will be 26 May 2017 and payment of this dividend would then occur on 16 June 2017. The proposed dividend will be paid in US Dollars and will be converted to and paid in Sterling for non-US shareholders not electing to receive it in US Dollars.

The Directors proposed and paid a 2015 interim dividend of 2.33¢ in October 2015 and a final dividend of 5.67¢ per share on 17 June 2016 to shareholders on the register as at close of business on 27 May 2016.

Continued

24. 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 2016, the Group had outstanding commitments for $297 million, of which $290 million are for litigation investments and $7 million are for other commitments (2015: $213 million outstanding commitments, of which $207 million are for litigation investments and $6 million are for other commitments). Of the $297 million in commitments, the Group expects less than 50% to be sought from it during the next 12 months.

25. Related party transactions

Directors' fees paid in the year amounted to $315,000 (2015: $348,000). There were no Directors' fees outstanding at 31 December 2016 or 31 December 2015.

There is no controlling party.

26. Subsequent events

The Company has entered into an agreement to sell a further 9% participation in its interest in the Petersen claims for $36 million. Details of the Petersen claims and the sales transaction commence on page 13 of the accompanying Report to Shareholders.

Directors
Sir Peter Middleton (Chairman)
Hugh Steven Wilson (Vice Chairman)
David Charles Lowe
Charles Nigel Kennedy Parkinson

Registered office
Regency Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WW

Advisors to the Company on US and English law
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London
EC4Y 1HS

Nominated Adviser and Joint Broker
Macquarie Capital (Europe) Limited
Ropemaker Place
28 Ropemaker Street
London
EC2Y 9HD

Joint Brokers
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

Numis Securities Ltd
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

Administrator and Company Secretary
International Administration Group (Guernsey) Limited
PO Box 282
Regency Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 3RH

Registrar
Computershare Investor Services (Guernsey) Limited
3rd Floor, Natwest House
Le Truchot
St Peter Port
Guernsey
GY1 1WD

Advisors to the Company on Guernsey law
Ogier
Ogier House
St Julian’s Avenue
St Peter Port
Guernsey
GY1 1WA

Independent Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 R5B

www.burfordcapital.com