Burford

Annual Report 2012

About Burford Capital

Burford Capital is the world's largest provider of investment capital and risk solutions for litigation with more than $300 million in capital and the largest and most experienced dedicated team in the industry. Burford is publicly traded on the London Stock Exchange's AIM market under the ticker symbol BUR. Burford provides a broad range of corporate finance and insurance solutions to lawyers and clients engaged in significant litigation and arbitration around the world.

Financial Highlights	01
Financial Summary	02
At a Glance	03
Report to Shareholders	04
Questions and Answers	14
Directors' Report	17
Independent Auditors' Report	19
Consolidated Statement of Comprehensive Income	20
Consolidated Statement of Financial Position	21
Consolidated Statement of Cash Flows	22
Consolidated Statement of Changes in Equity	23
Notes to the Consolidated Financial Statements	24
Directors, Management and Administration	48

2012 Performance

- Burford's total income for 2012 was $54.2 million, a 117% increase (2011: $25.0 million).
- Burford's 2012 profit before tax and the accounting impact of the Firstassist acquisition and the Reorganisation was $34.1 million, a 115% increase (2011: $15.9 million).
- In 2012, Burford generated investment recoveries of $47 million on a gross basis and $18 million net of invested capital – a 61% net return on invested capital (2011: $12 million net).
- At year end 2012, a further $53 million in gross investment recoveries and $19 million in net investment recoveries were pending.
- Burford continued active investing in 2012 based on its strong pipeline, making $72 million in new commitments to nine new investments.
- A 30% increase in the dividend is recommended, to 4.758¢. Including the proposed dividend, Burford will have paid almost $23 million in dividends to shareholders in the past two years.

Performance since inception

- Burford has generated investment recoveries of $93 million on a gross basis and $35 million net of invested capital – a 61% net return on invested capital.
- Burford has committed $373 million to investments.

2012 income increase

117%

Burford's total income for 2012 was $54.2 million, a 117% increase over 2011 income ($25.0 million).

2012 operating profit increase

115%

Burford's 2012 profit before tax and the accounting impact of the Firstassist acquisition and the Reorganisation was $34.1 million, a 115% increase over 2011 ($15.9 million).

Dividend per share

4.758¢

A 30% increase in the dividend over last year is recommended to 4.758¢.

Returned to shareholders

$23m

Including the proposed dividend, Burford will have paid almost $23 million in dividends to shareholders in the past two years.

2012 net returns on case investments

61%

In 2012, Burford generated investment recoveries of $47 million on a gross basis and $18 million net of invested capital – a 61% net return on invested capital (2011: $12 million net).

2012 new investments

$72m

Burford continued active investing in 2012 based on its strong pipeline, making $72 million in new commitments to nine new investments.

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

(US$'000)	2012	2011	% change
Litigation-related investment income	32,457	16,684	
Insurance-related income	16,152	–	
Other income	5,628	8,286	
Total income	54,237	24,970	117%
Operating expenses – corporate and investment (including 2012 expenses that would have previously been capitalised)	(15,054)	(9,077)	
Operating expenses – insurance	(5,085)	–	
Profit before taxation and the impacts relating to the Firstassist acquisition and the 2012 Reorganisation	34,098	15,893	115%
Taxation*	(2,556)	–	
Profit after tax**	31,542	15,893	98%
Profit per share**	17.40¢	8.83¢	97%
Net asset value, net of dividends paid	332,108	309,272	7%
Dividends paid and recommended, cumulative	22,907	13,175	74%

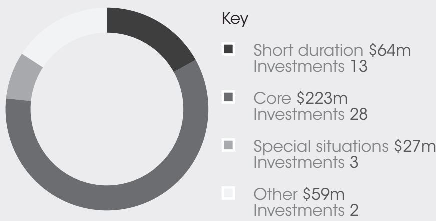
* Taxation does not include deferred taxation credit on amortisation of embedded value intangible asset.

** This is profit after tax excluding the impact of the Firstassist acquisition and the Reorganisation, which are included in the Consolidated Statement of Comprehensive Income on page 20.

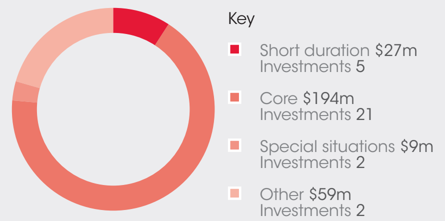
Burford had a splendid 2012. Our investment portfolio performed well and justified our confidence and patience. Our new UK operations contributed handsomely. We continued to commit capital to new investments at an impressive rate. Our financial performance was strong. Litigation finance showed broad market appeal and Burford's brand is clearly synonymous with market leadership.

Investment activity

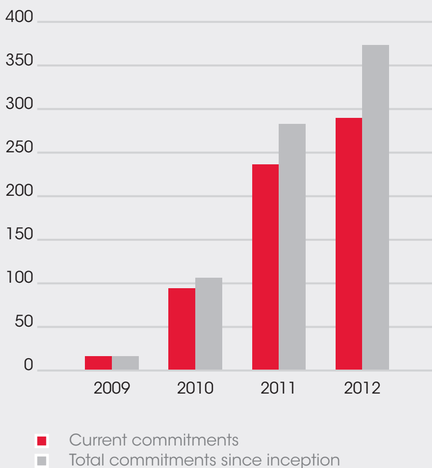
Total commitments since inception



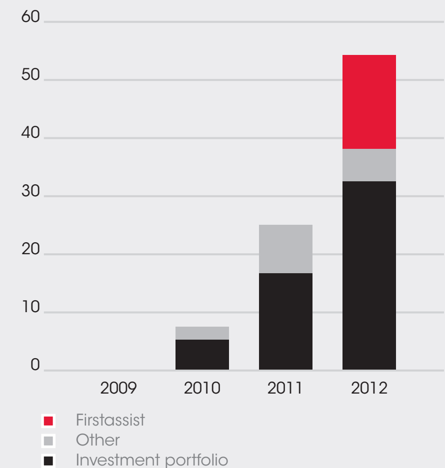
Current commitments



Investment commitments
($ millions)



Annual performance since inception
($ millions)



Sir Peter Middleton

Christopher Bogart

Jonathan Molot

Burford had a splendid 2012. Our investment portfolio performed well and justified our confidence and patience. Our new UK operations contributed handsomely. We continued to commit capital to new investments at an impressive rate. Our financial performance was strong. Litigation finance showed broad market appeal and Burford's brand is clearly synonymous with market leadership.

We are thus recommending a substantial increase in our dividend, of 30%, from 3.660¢ to 4.758¢ per share. With that dividend, Burford will have paid almost $23 million to shareholders in the past two years.

This report provides commentary on Burford's business and performance and also discusses the ever-increasing complexity associated with the IFRS accounting for this business and this new asset class. (For example, our cash spending on operating expenses did not actually go up in quite the way it seems on the face of the financial statements.) Thereafter, we set out in question and answer format a number of the queries we hear from shareholders.

This is also our first report to shareholders since Burford became a unitary, internally managed business. We are very pleased with how the reorganised Burford has been working and with the strong culture of corporate governance and responsibility that imbues the organisation. We are grateful for the strong support of our shareholders.

Investment portfolio performance and details

We continue to be advocates of a diversified portfolio management approach to investing in this asset class.

It has been challenging over the past few years to balance the often-insatiable desire from investors for detailed information about the portfolio with the business and legal imperative not to publish any such information. That challenge was exacerbated by the duration of litigation investments, which typically take several years to mature, so we were faced with the twin challenges of not having information about our investments to share, and not having many mature investments to demonstrate performance.

No longer. We still cannot provide information about ongoing investments, but the passage of time (and investor patience) has taken us to a position where we have a material number of results.

Since inception, 18 investments have generated $93 million in gross investment recoveries and $35 million net of invested capital, producing a 61% net return on invested capital.[1]

In 2012 alone, 12 investments produced $47 million in gross investment recoveries and $18 million net of invested capital – likewise a 61% net return on invested capital.

The acceleration in portfolio activity in 2012 is noteworthy: 2012 alone produced as much in investment recoveries as the *two* preceding years combined.

Moreover, Burford had as at 31 December 2012 an additional $53 million in gross pending investment

1 *Investment recoveries* refer to those investments where there is no longer any litigation risk remaining. We use the term to encompass: (i) entirely concluded investments where Burford has received all proceeds to which it is entitled (net of any entirely concluded investment losses); (ii) the portion of investments where Burford has received some proceeds (for example, from a settlement with one party in a multi-party case) but where the investment is continuing with the possibility of receiving additional proceeds; and (iii) investments where the underlying litigation has been resolved and there is a promise to pay proceeds in the future (for example, in a settlement that is to be paid over time) and there is no longer any litigation risk involved in the investment. When we express returns, we do so assuming all investment recoveries are paid currently, discounting back future payments as appropriate. We do not include wins or other successes where there remains litigation risk in the definition of "investment recoveries".

"The past year has been a very successful one for Burford, in which the Company has further bolstered its leading position in this continually evolving and growing market. We remain grateful for the continued support of our investors, and the Board is pleased to propose an increased dividend of 4.758¢ per share, reflecting its confidence in the future prospects for the Company."

Sir Peter Middleton, Chairman

recoveries across seven investments and $19 million net of invested capital.[2]

Commitments

Since inception, Burford has committed $373 million of capital to 46 investments:

	Commitment amount ($million)	Number of investments
Short duration portfolio	64	13
Core portfolio	223	28
Special situations portfolio	27	3
Other investments	59	2
Total	373	46

At 31 December 2012, Burford's current commitments were as follows:

	Commitment amount ($million)	Number of investments
Short duration portfolio	27	5
Core portfolio	194	21
Special situations portfolio	9	2
Other investments	59	2
Total	289	30

During 2012 and on an ongoing basis, Burford continued actively to make new investments, and committed $72 million to nine new investments in 2012 as well as deploying additional capital (and in some cases increasing prior total commitment levels) in existing matters. Burford is experiencing regular turnover in the portfolio as well as meaningful earnings from non-portfolio sources, freeing up previous commitments to reinvest.

As we have before, we try to compensate for our inability to provide investment-specific information while investments are pending by providing some commentary on investments that have concluded entirely, and we include that later in this report. However, when payment obligations to us or to our client continue to exist, our discussion must be circumspect, as also may be the case depending on the terms of non-disclosure agreements. It is important to bear in mind that litigation is sensitive and the information about any matter is the client's, not ours, and our ability to release any information at all depends entirely on the client.

We look forward to the continued maturity of the portfolio.

The UK

We completed the acquisition of one of the UK's leading legal expenses insurance providers, Firstassist Legal Expenses ("Firstassist"), through the acquisition of Firstassist Legal Group Holdings Limited (now named Burford Capital Holdings (UK) Limited) (the "Firstassist acquisition"), following FSA approval, on 29 February 2012. We won't repeat here the background we have given previously to the acquisition, its rationale and to the Jackson reforms.

After we completed the acquisition, the UK government announced that the implementation of the Jackson reforms was being delayed from October 2012 until April 2013. That delay extended the window for Firstassist to continue to write business under the pre-Jackson regime where insurance premiums are recoverable costs from the other side upon a loss. This permitted us to increase the value of the tail of business sitting

2 *Pending investment recoveries* refer to those investments where trial or some initial adjudication has been completed but further proceedings remain, such as an appeal, and we express this category on a net basis assuming that the initial result is maintained as the final result (whether it is a win or a loss). Naturally, that won't always happen – trial results will be reversed and cases will settle lower to avoid appeals, among other outcomes – and this metric is not intended to predict final results but rather to give a window into the portfolio as it matures.

"Although the results validate the success of our investment strategy to date, we have not stood still while the market moves rapidly around us and we have remained focused on expanding the business and developing initiatives which make us even better suited to meeting the demands of our clients."

Christopher Bogart, Chief Executive Officer

in Firstassist, the profits from which will continue to flow for several years.

That factor, along with the strong performance of the business generally, led us to conclude that the earn-out payment that we had negotiated would likely be paid, and so we negotiated an early payment of the earn-out in exchange for a discount, which made both economic and operational sense. (We were required to operate our insurance and funding businesses separately until we paid the earn-out, as no earn-out was due on funding revenue.) We also cleaned up the capital structure of the business and eliminated the minority interests, so that Burford now owns 100% of the business, and we restructured the business' management into functional verticals.

As a result, we have been unfettered since late 2012 in managing Firstassist and integrating it into what we are increasingly calling the "global" Burford. That has gone well. We have retired the Firstassist brand, and all of our insurance and litigation funding activities in the UK now occur under the Burford brand, which has good market recognition and traction.

As the Jackson reforms have moved towards implementation (when this is published, they will be 11 days old), we have seen a significant volume of new insurance business as lawyers and clients hastened to commence cases under the pre-Jackson regime. This "last chance" insurance business has added further to the significant and likely profitable tail that will run through the UK business for several years, although it has to some extent slowed our deployment rate of litigation funding, as we have been literally swept off our feet with the demand for high margin insurance products.

Going forward, it is too soon to tell what will transpire in the UK market. The Jackson reforms are far-reaching and will fundamentally alter the economics of UK litigation. We have conducted extensive market research and developed new products and pricing models that we believe will suit the post-Jackson environment. In the new world of UK litigation, our competitive advantage is our unique ability to offer both litigation finance and litigation insurance. We are the only player in the market with that ability and we now offer a comprehensive suite of solutions from which our clients can create their own bespoke litigation finance packages. We have significant optimism about both the market and our position in it because we are uniquely qualified to offer a desirable suite of products that lawyers say they want. However, we remain flexible and ready to reconsider our approach should circumstances point us in a different direction.

Given the noise around accounting for the Firstassist acquisition, it is worth setting out here how we think about it:

- At completion, we paid £7.3 million for the Firstassist operating business. (We transferred more money than that, but the excess was for cash and tangible assets, like current receivables, left in the business.)
- We then made a further payment a couple of months after completion to true-up the tangible asset balance, but again we received only cash and net tangible assets for that payment, and indeed we discounted their face value somewhat.
- We then paid £5.1 million later in 2012 to eliminate a potential £7 million earn-out, and we bought in the minority equity positions for £87,000. (That will also cause the minority interests shown on the face of the financials to disappear going forward.)

"We are optimistic about the future and continue to believe the business model has substantial scope for continued profitable capital deployment and expansion."

Jonathan Molot, Chief Investment Officer

So, we effectively acquired Firstassist on a cash-free, debt-free basis for £12.5 million (about $18.75 million).

Against that purchase price, Firstassist has generated for us in the ten months we owned it in 2012 net profits before taxes (and ignoring the non-cash acquisition accounting) of $11.1 million.

While that is already impressive and the business has continued to prosper in 2013, it must be remembered that we only book income from the insurance business when cases conclude and premium is earned; we do not recognise any revenue when we first take on new business. Thus, looking at new business written is a predictor of future earnings as cases mature, in the 12-36 months that cases tend to take to resolve in the UK. In 2012, Firstassist's "gross written premium" (in other words, the amount of incremental premium dollars taken on cover, without allowance for loss or expenses) was in excess of $40 million for the year.

Said another way, we like the Firstassist acquisition very much, and even if we did not take on a single dollar of future business after the Jackson reforms come into effect, we would still have a substantial future stream of cash earnings from this business.

Market environment and Burford's approach to the business

When Burford was founded in 2009, litigation finance was relatively unknown among lawyers and their business clients. That is not the case today. A recent Burford survey found that more than 90% of partners at major US law firms are now aware of litigation finance, and many expect its use and prevalence to continue to grow.

That growth is accompanied by an ever-increasing range of business and investment opportunities for Burford. What began as a business of financing the legal costs of individual litigation matters – what we now call "basic litigation funding" – has continued to grow and expand with the market, so that Burford today has become a multi-product, multi-geography specialty finance business focused on litigation assets that plays to our core strength of assessing and pricing litigation risk.

This is all for the good. Basic litigation funding is a good business: its performance is uncorrelated to the equity markets, and it has the potential to deliver high returns, especially when managed on a diversified portfolio basis. However, it is also lumpy, unpredictable and high risk. Expanding our range of product offerings opens the possibility of continuing to harness the benefits of basic litigation funding while at the same time introducing other lines of business that moderate some of the downsides of the original product and set the stage for Burford's continued growth and evolution.

We should emphasise that while we are excited with the prospects for Burford's future growth, we do not see this expansion as a real choice, but rather as the kind of necessary innovation that is Burford's hallmark. Burford is a client-focused business, responding to the needs and desires of law firms and their corporate clients. Having introduced many of our clients to the benefits of applying external capital to litigation assets, those clients are seeking continual expansion of the ways in which capital can be used to solve problems and relieve economic tensions in the litigation process, and we are leading the way in responding to those needs. Were we not to evolve along with our clients and continue to serve their needs, we would sacrifice the market position we have painstakingly built and we would not maximise our potential nor retain our talent.

We thus today offer a wide variety of financial solutions beyond basic litigation funding, all of which are premised on our strong skill set in evaluating and pricing litigation risk.

Those solutions include:

- Providing recourse or non-recourse financing to businesses for use for a business purpose other than the payment of litigation costs – in other words, allowing businesses to unlock the financeable value of their contingent litigation assets.
- Providing recourse or non-recourse financing to portfolios or pools of litigation assets, either to a single business or to a law firm for a portfolio of matters involving multiple clients.
- Purchasing or otherwise monetising judgements or settlements to accelerate receipt of cash payment to the ultimate beneficiary.
- Purchasing assets or businesses where litigation is needed to recover or unlock their value or whose value is substantially affected or determined by litigation.
- Providing litigation expenses insurance, security for costs or enabling the issuance of judicial bonds.

As we continue to add lines of business with different risk/return characteristics and differing levels of predictability, it is our hope to build Burford into a multi-line finance business with less lumpy revenues and greater ability for shareholders and the market to value the business as a whole and as a going concern.

No market discussion is complete without mentioning competition and opposition.

Interestingly, the UK is the most active global market for dedicated litigation finance, at least measured by noise and number of self-declared entrants. It seems clear that the UK government's clear public policy in favour of third-party financial and capital involvement in law and litigation has encouraged entry and created a favourable climate for funders and clients alike. The Association of Litigation Funders of England & Wales, a new quasi-regulatory body of which Burford is a charter member, now reports nine funder members, meaning that they have satisfied the Association that they have the resources to be able to engage responsibly in providing litigation funding. However, while the presence of multiple credible players continues to raise the profile of litigation finance in a positive way, we do not believe that it has resulted in the emergence of material price competition. We also believe that the competition that does exist is centred at the large case end of the UK market, whereas Burford operates in the middle market as well, which is poorly served and provides meaningful opportunity.

The competitive profile in the US is quite different. The US legal market is much larger and more diffuse than in the UK, and to have a national presence requires substantial resources that few entrants can muster. There are several small firms seeking initial capital in the US and several others deploying small amounts of capital, but overall the commercial litigation finance market is not heavily populated by dedicated, specialist players like Burford. However, hedge funds remain a force in the market, especially in larger investments, although they tend to have difficulty matching Burford's speed (because we do not outsource our investment diligence) and experience.

Burford remains of the view that entry and competition are good things for this business and that the benefits of establishing a credible and robust industry outweigh any concerns about pricing pressure.

The UK and US markets also differ in regulatory and public policy tone. We have already discussed the UK's favourable climate. In the US, the concept of litigation finance faces opposition from a large lobby group, the US Chamber of Commerce. That opposition is focused more on "retail" litigation finance, the business of the non-recourse provision of small amounts of money at high rates of return to individual claimants while their cases wait for resolution, and en masse tort class actions, but it has spilled over into all forms of litigation finance. The Chamber's present position advances the interests of some large companies with a vested interest in an uneven litigation playing field, while the bulk of the Chamber's membership appears to be content with the concept of litigation finance and indeed happy to have the financial option available.

Thus, while the Chamber's activities are distracting and require the expenditure of resources, there does not appear to be a national groundswell of support for the Chamber's position – and Burford hears regularly from Chamber members who want the products Burford is offering.

Burford today

It is worth a moment to outline how Burford has evolved.

Burford Capital Limited, the public Guernsey company in which shareholders own stock, continues to be governed by its four member board of non-executive directors that has been in place, unchanged, since its founding. The Board is active and deeply involved in the business, assembling in-person for quarterly meetings that span two or three days each quarter. Every director attended every meeting in full in 2012. In-between board meetings, the Directors remain active through committee meetings and direct contact with management. We continue to maintain the complete separation between the Board and management that we have had since Burford was founded, with no executive directors, although both the Chief Executive Officer and the Chief Investment Officer of Burford Capital LLC work closely with the Board. We recognise that our board structure is not the norm for UK firms, but less customary in the US for multiple executives to be directors, and we believe the current structure works well and provides a high level of robust corporate governance.

In the US, Burford carries on its activities through a US subsidiary that is based in New York and also has people located in Washington DC, California and Texas. Burford has about 20 people in the US, combining senior lawyers and investment professionals and marketing, finance and support staff. Burford fields the most experienced team in the market by a long stretch: our people collectively have more than two hundred years of legal experience, with billions of dollars of trial and litigation settlement experience. We serve clients engaged in litigation and arbitration anywhere in the world except the UK from our US base, with local or specialist partners as needed.

In the UK, as noted previously, we have now moved entirely to the use of the Burford brand and have retired the Firstassist name. We have more than thirty people based in the UK engaged in offering litigation finance and litigation insurance products to law firms and their clients across the country. In addition to our main office in the London suburbs, we cover all of England and Wales with a distributed team of client relations people who interact directly with law firms. Our UK business has offered litigation expenses insurance continuously and successfully for more than 15 years and now offers a combined litigation funding/insurance product as well.

Burford has continued to mature, with the addition of Miriam Connole as Chief Financial Officer based in the UK and Christina Yue as Vice President, Finance based in New York, as well as adding to our underwriting and marketing strength.

Capital structure

Burford is today a 100% equity capital business, consistent with its roots as a closed-ended investment fund. However, an all-equity structure is not the optimal model for this asset class. We noted previously that we were considering the issuance of contingent preferred securities; we continue to evaluate that prospect and consult with shareholders about it. We are also evaluating other capital structure possibilities. We are not suggesting the conversion of Burford into a leveraged or geared strategy, but we do see Burford as akin to a specialty finance provider, where a capital structure that includes some debt is appropriate. The issue is this: our commitments can precede our actual deployments of capital. Our future deployments are largely predictable, but our future cash receipts (dependent as they are on the vagaries of the litigation process) are not.

Reserving dollar for dollar of equity capital against future commitments is not efficient, but taking undue risk on a potential mismatch between inflows and outflows is not prudent. So, we are searching for a capital structure that accommodates better our needs in this regard. This is a long-term, not a short-term, issue; in the short term, we have more than adequate cash on hand to meet our needs and continue to make new investments.

This discussion would be incomplete without mentioning capital adequacy in the litigation finance industry as a whole. We touched on this issue last year as well, and it remains important. Indeed, it has been the subject of considerable discussion this year at the Association of Litigation Funders.

It would be bad for business, and bad for this nascent asset class, for a litigation funder to agree to fund a matter and then be unable part way through to meet its commitments. This issue is more complex in this business than in most because (i) litigation takes years to conclude, and so funding commitments can stretch out for a very long time

and (ii) the timing and quantum of cash inflows from concluded cases are highly unpredictable. The Association is appropriately very stern about this, and has recently promulgated new rules (authored by an industry group in which Burford actively participated) to ensure capital adequacy in such situations. We are regularly distressed to find lawyers and clients dealing with "funders" who are not Association members and who do not have the capital on hand to meet their commitments, and we regularly recommend to parties seeking capital that they thoroughly diligence the capital providers with which they are dealing.

Accounting

We have written before about the challenges of adapting IFRS to this business. There is no concept of litigation finance or investing in litigation matters in IFRS. We have tried over time to surmount these challenges, but it seems that each new year brings yet more of them.

We highlight three separate issues this year.

IFRS 9

We have adopted the new IFRS standard, IFRS 9 Financial Instruments, effective for the 2012 fiscal year. Before IFRS 9, we accounted for our investments using the "available-for-sale" classification. Under that approach, we attempted to arrive at a fair value of each investment at the end of each accounting period, notwithstanding that litigation is inherently speculative until resolved and that there is no secondary market or "screen price" for any of our investments. Any positive changes in fair value that we applied – which we tried to keep to a minimum before a litigation resolution while still complying with the accounting standard – only occurred below the profits level on the income statement and affected only "comprehensive income". Then, when an investment concluded successfully, we reversed the "below the line" fair value changes and booked a profit on the investment on the income statement in the conventional manner. We also capitalised diligence and closing costs into our individual investments so that they were appropriately matched with their associated cash flows.

Under IFRS 9, the "available-for-sale" category is abolished. Capitalisation of investment expenses is eliminated. Now, when we fair value investments, we are required to take immediately into income any fair value increase, or expense any decrease, all with an immediate impact on profits even if the case is continuing and the result is not yet known. Moreover, we will have to expense immediately any diligence or closing costs, which in some investments can be substantial, rather than netting them against case proceeds. The impact of this will be to increase the volatility of our earnings and also to decrease somewhat our current earnings level because of the elimination of capitalisation of deal expenses, which makes it appear as though our operating expenses have gone up by $2.3 million in 2012 whereas this is just a reallocation. (Bear in mind that we often earn an investment return on those formerly capitalised expenses because they can be included in our invested principal on which we are ultimately due a return.) It also means that our efforts not to have speculative changes in investment values impact profits will be constrained.

An example may assist. Let's assume we invest $100 in a matter and we're entitled to $300 if the case wins. When we first make the investment, we will hold the matter at $100 on the balance sheet because there is no basis to change the fair value. However, as the case proceeds, things go very well and there is a win at trial – but there is still an appeal with real risk, and we are still far away from getting any money. At that point, a third party would probably pay more than $100 for the investment if we were to try to sell it, and so we would probably increase the fair value, say to $175. Previously, that $75 increase would go "below the line" and affect other comprehensive income but not profit, and our profit would only be affected when the appeal is won and we become entitled definitively to the $300, at which point we would back the $75 out of other comprehensive income and book the $200 profit. Under the new standard, however, we would immediately book the $75 increase as income and increase profits as a result even though we had not yet had a final result or definitive entitlement, and would book the remaining $125 of profit when the case concludes.

This new standard also cannot be applied fully retroactively, so our 2011 numbers will not provide easy comparatives to 2012. Moreover, to the extent our 2011 numbers included unrealised gains (which they did, in a gross amount of $8.1 million), those unrealised gains will never become realised gains and thus profits even if the investments with which they are associated are successful; any gains will bypass the income statement and go straight onto the balance sheet in equity. So, assuming we

win those cases at their current fair value, we have just foregone forever $8.1 million of IFRS profit even though the cash result is the same.

Nevertheless, we elected to swallow the medicine now and adopt IFRS 9 early while our unrealised gains were still fairly small and to avoid some other accounting challenges associated with available-for-sale accounting.

While we are discussing this part of our accounting, we should also note that once our entitlement in a matter is sufficiently definite, it moves to a receivable and we stop fair valuing it. The value at the time it moves to a receivable determines the amount we record as a realised gain, and any future incremental value (such as for interest running on an unpaid entitlement, which for us can sometimes be substantial) does not show up as incremental realised gain but rather as "interest and other income". Thus, some computation is now needed to get to the total investment income on the face of the income statement we have shown earlier in this report in the financial summary.

Firstassist acquisition

We wrote about the rather unusual accounting for the Firstassist acquisition in our interim report, and we won't repeat here the background to how we have come to have a "bargain purchase gain" along with "amortisation of embedded value intangible asset" and the "deferred tax credit" on the foregoing amortisation even though no tax will ever be due or credited. All of this, of course, is entirely non-cash accounting.

Intervening events have further complicated matters. As noted above, we have prepaid the earn-out. Because the original accounting for the earn-out recognised the liability in 2012 even though it was entirely contingent and not due until 2014, paying it early at a discount has now created a paper profit out of the discount. We have not included that profit in our financial summary earlier in this report.

Reorganisation

The accounting treatment for the 2012 Reorganisation as described in Burford Capital Limited's announcement of 22 November 2012 (the "Reorganisation") creates, unfortunately, a further significant layer of non-cash accounting complexity.

One part of the Reorganisation involved the Company buying Burford Group Limited, its former investment adviser. Burford Group Limited had independence from the Company, substantial market position, a leading team and a contract providing for management and performance fees. The Company acquired that package of assets and benefits in exchange for the issue of locked-up stock.

Despite the potential appropriateness of conventional acquisition accounting, some recent IFRS pronouncements sharpened the accounting view that the theoretical value of the stock issued should be expensed in 2012 and 2013 and run through the income statement. These are non-cash charges that do not affect net asset value.

The result of this approach will be a non-cash charge of $11 million in 2012 and a further $27 million in 2013. There is really no broader impact; our net assets are not affected at all by this approach.

It is unfortunate that our financial statements make it challenging to separate operating business performance from non-cash accounting treatments.

Investment-specific commentary

As mentioned earlier, we provide below a number of investment-specific commentaries as a window into the portfolio's operation and performance, subject to the limitations and constraints previously discussed.

- A key executive of a public company moved to a direct competitor and absconded with customer information and trade secrets that the competitor began using. The former employer really had no choice but to commence litigation, but did not welcome the costs involved as a financial accounting matter. The alternative of litigation finance, with no interim P&L impact, was very appealing. The matter ultimately settled after mediation. Burford invested $3.5 million in this matter and is entitled to $6.4 million in total return over time, some of which has already been paid and the remainder of which is forthcoming with interest, all of which taken together will produce an IRR of 30%.

- An innovative technology-based competitor developed a new solution that was promptly squashed by the dominant market player.

Burford's financing permitted high-quality antitrust counsel to represent the smaller firm, which would not have been economically possible otherwise, and the case settled less than a year after Burford's involvement. Burford received $5.2 million on its $3 million investment – an IRR of more than 150%. Perversely, this is a bittersweet result for Burford: while rapid settlement and a high IRR are gratifying, the settlement value of this matter would likely have been significantly higher had the plaintiff not elected to settle early for other business reasons.

- Burford has financed a portfolio of cases where a significant corporate entity is the plaintiff. One of those cases settled in 2012, while the remainder continues. That settlement provided net proceeds to Burford of $4.4 million. More details about this matter can only be provided once all the cases are resolved.

- An award in the claimant's favour in an international arbitration matter funded by Burford was rendered in 2012, and the parties ultimately settled the matter to avoid further proceedings with payments to be made over a relatively short period of time. More details about this matter can only be provided once all settlement payments are made.

- Burford financed a smaller technology company in a heated dispute with a much larger firm. This was a successful investment for Burford but it illustrates both the need for litigation finance and the challenges with uneven resources in litigation. There is no question that the matter could not have proceeded, relying solely on the plaintiff's resources. Even with Burford's additional resources in the case, the defendant's strategy was to overwhelm and overburden completely the plaintiff in every aspect of the litigation, and that strategy succeeded to some extent. Burford is extremely reluctant to finance matters to the extent that our returns could interfere with a logical settlement of a matter, and had we advanced more capital to this matter to counteract the defendant's tactics, we could well have reached that point. Thus, the matter settled – too early and for too little, in our view – because the plaintiff was ultimately worn down by the defendant's disproportional tactics. Burford received $6.5 million in gross proceeds on its $4.9 million investment, a net profit of $1.6 million in 14 months and an IRR of 37% – an eminently satisfactory investment return, but one that might have been higher but for the unchecked defence tactics.

- Burford invested $1.4 million in a patent dispute. After the plaintiff won the Markman hearing (the non-jury adjudication of issues like patent construction), the defendant settled, and Burford almost doubled its money, with a $1.1 million net profit on the investment after 15 months. However, in another patent matter that has been previously discussed, Burford invested $3.1 million in a patent matter after trial when the plaintiff had won a substantial judgment that was on appeal. Ultimately, the second matter was reversed by the appellate court on a point of law that was not even central to the defendant's appellate arguments, and Burford lost its investment; we won't repeat the longer explanation we have given before of this matter. Our experience to date in patent matters has suggested that while patent wins can be disproportionately large, there is also a greater risk of appellate reversal and unanticipated loss than in other types of litigation, and we are generally more comfortable taking patent litigation risk only on a portfolio basis. Our website has more details about our new approach to patent matters. (By the way, our website at www.burfordcapital.com is the most comprehensive in the industry, and we'd encourage shareholders to explore it.)

- An unusual feature of the US litigation environment is the existence of statutory whistle-blower programmes. Very generally, these are matters in which private parties can provide information to the government, and obtain as a matter of legal right a predetermined portion of any proceeds thereby recovered by the government. We are regularly asked to invest in such matters, and there is a long history of sizeable recoveries in them. The 2012 result in one such investment in our special situation portfolio was unfortunate, however. A significant risk in these cases is that the government will not pursue a matter or not collect what is potentially due, and in such an event the whistle-blower will receive nothing as well. As a result, the pricing for these matters reflects a higher degree of risk and uncertainty. In the matter under discussion, the whistle-blower made a highly credible and detailed

submission alleging a very large scheme that defrauded the government of substantial sums of money. Billions of dollars were potentially at issue, and the whistle-blower is entitled to a set share of any such proceeds collected. Unusually for Burford, in addition to our own extensive diligence, we retained outside specialist counsel to review this matter, and concluded that it was highly meritorious. Our question was not so much whether the government would pursue this avoidance, but how much it would ultimately recover. After several years, however, in 2012 the government informed the whistle-blower that it was not pursuing the matter at all, a position we believe is highly irresponsible given the quality of the evidence presented but nevertheless not one that we or the whistle-blower are in a position to challenge given the government's discretion. Moreover, unlike some whistle-blower matters, this is not a matter that the whistle-blower can pursue on his own, on behalf of the government. Thus, our $3.9 million investment is a total loss and we have written it off. Had the government pursued the matter and had the whistle-blower received its share of the recovery, we could have earned well over $100 million on the investment – an attractive risk/return proposition notwithstanding the unfortunate result in this particular matter, and the kind of matter appropriate for our special situations portfolio, where this investment was booked.

- In the second half of 2012, Burford financed a law firm's activities in a matter that then settled only a few months later, before year end. Burford is entitled to its portion of the settlement proceeds over time. More details about this matter can only be provided once all settlement payments are made.

In addition to the foregoing matters, our long-running saga concerning the large 2010 Arizona real estate victory that has been previously reported took a major step further forward. As we have reported previously, we have already received $4 million in cash against our $7 million investment in this matter, but the real money was in our entitlement to a portion of the proceeds from the sale of the underlying land. In 2012, after significant negotiations and substantial effort, we succeeded in converting that inchoate entitlement into an interest bearing first mortgage. The mortgage has a face value of $51 million if not paid until its maturity in 2016 and includes a high rate of interest (one tranche is at 30% and another at 16%). If prepaid, for example, at 30 June 2013, the amount due under the mortgage would be $18.4 million. This matter in total under any scenario of repayment will have produced very high returns for Burford; we will report precise returns once the mortgage is paid.

Burford in 2013

We are very proud of what has been accomplished at Burford in three short years. While we were optimistic and enthusiastic about the business from its inception, it has exceeded even our own sense of the possible, and the future appears to hold out the prospect of yet more opportunity and excitement. The extent to which it has achieved traction and visibility in the marketplace can perhaps be best expressed through other recent voices:

Wall Street Journal, 8 April 2013: "A certain class of investors sees one aspect – big commercial lawsuits – as an increasingly good bet."

Financial Times, 3 November 2012: Litigation finance has "emerged from nowhere… to become a viable alternative asset class… Litigation funding should be a classic, non-correlated investment that will probably continue to prosper even if the UK slips back into recession or the eurozone implodes."

The (London) Times, 27 November 2012: "Like the Flat White and Ugg boots, litigation funding… is taking off rapidly."

Los Angeles Daily Journal, 16 November 2012: "Litigation funding has landed on the shores of America, brought here by astute financier-lawyers."

The American Lawyer, 4 February 2013: "Burford CEO Talks Litigation Finance… Litigation finance loses its mystery."

Transnational Dispute Management, 14 March 2013: Litigation funding is "that new element in the cultural landscape of international arbitration".

Financial News, 24 January 2013: "Litigation investment comes of age".

Sir Peter Middleton GCB
Chairman

Christopher Bogart
Chief Executive Officer

Jonathan Molot
Chief Investment Officer

April 2013

Why can't we have individual investment information? I would like a spreadsheet that shows your investments, one by one, with the amount, date and result so I can analyse better your performance.

We believe that the use of litigation finance should be an entirely unexceptional matter. Indeed, we believe that the disclosed presence of Burford in a case should make a defendant think twice about its position, as it would then know that a dispassionate, highly skilled, profit-motivated entity had evaluated the plaintiff's case and concluded that it had real merit. So, left to our own devices, we would shout it from the rooftops.

However, the legal system has not caught up with that way of thinking. If Burford's presence is disclosed in a matter, distracting and expensive third-party discovery is sure to result. In 2012, Burford spent *more than a million dollars* addressing third-party discovery requests directed to it and other collateral attacks on its presence in pending litigation matters. Moreover, we don't quite know the impact of the presence of litigation finance on judges and juries. There are clear rules in the US about plaintiffs not being able to tell juries about the presence of insurance, and about defendants not being able to talk about contingency fees. There are no such clear rules about litigation finance. Thus, we put the business, our clients and our returns at risk when we disclose information about pending matters.

That is even true as to just the amount or date of investment. Often, defendants have financial information in discovery about the plaintiffs. Making public even the amount of an investment can lead a defendant to match that to the information it has and draw a path to us; it has happened to us before.

Moreover, this is ultimately a decision for our clients, not for us. It is the client's litigation matter, not Burford's, and it is the client's choice about what and how much information can be publicly revealed, even after a matter is concluded.

So, while we realise it is frustrating for investors, prudence counsels that we remain entirely silent about investment matters until they are entirely concluded and we are fully paid, and even thereafter our disclosures are subject to our obligations to our clients.

How should we think about the operating costs of the business?

This is an expensive business to operate, for several reasons, but we believe the returns justify the expense load. First, we are dependent on skilled lawyers for investment assessment, and quality lawyers are expensive resources and are generally highly compensated. Second, there is a real marketing element to this business to drive investment flow, and marketing to lawyers is expensive. Finally, the fact that litigation finance does not fit neatly into an existing pigeonhole and raises issues of first impression with courts and regulators exposes us to very high professional fees.

When looking at year-to-year comparisons, it is also important to consider that 2011 was not a year in which we were operating at our current capacity. We only completed our secondary Placing in December 2010, and we spent 2011 ramping up the business to meet our newly expanded capital base. One thus cannot compare 2011 and 2012 on an "apples to apples" basis as a number of our 2011 expenses reflected expanded activity levels but for well less than a full year by the time they were in place.

That said, let us provide some granularity about operating costs.

First, we have a pool of costs that arise simply from being a public company in this asset class. Those costs are higher than we'd like them to be because of the novelty and complexity of the issues the asset class presents and amount to several million of dollars each year. As an example, we paid more than a million dollars just to Ernst & Young for audit and tax services in 2012.

Second, we have staff and basic operating costs for our non-UK investment and financing business. Those costs reflect the need for experienced legal talent, which is expensive compared to the average provider of finance and investment capital. Those costs are in excess of $5 million annually and are currently roughly equivalent to the management fees we used to pay the investment adviser (which amounted to around $6 million annually). Ultimately, some incentive compensation arrangements will also be needed for staff, but those have yet to be designed and should in any event be dependent on business performance.

Third, we have a collection of marketing, business development, public policy, legal and similar expenses that are necessary to establish and maintain our market position and advance the asset class, amounting to another couple of million dollars annually.

The combined total of those three areas was roughly $13 million in 2012 and is not expected to rise dramatically in 2013. The largest wild card in those costs is the amount we need to spend on legal fees for Burford's own affairs, including with respect to third-party discovery matters.

It should be emphasised that the cost structure and expense profile of the business has not been affected at all by the Reorganisation. Burford's costs would have been the same for the same level of activity with or without the Reorganisation.

On top of those costs, we now also have the operating expenses associated with our UK operations (formerly called Firstassist). For the ten months we owned Firstassist in 2012, it incurred around $5 million in expenses (against more than $16 million in income). In our prior discussion of the Firstassist acquisition, we presented the business' performance net of expenses, but for financial statement purposes, those operating expenses are separated out and aggregated with our historical expenses, which is why they now seem so much higher.

Finally, as mentioned in our discussion of our move to IFRS 9, we now expense currently the costs associated with diligencing and closing investments, which were formerly capitalised. In 2012, those costs amounted to $2.3 million. Going forward, this area will vary widely based on activity. It is unhelpful to account for these costs in this manner as they are divorced from the cash flows to which they relate and it is often the case that we are due an investment return on them to boot, so that from our perspective, they are often "investments" rather than "expenses".

Why isn't the Reorganisation just value leakage from the fund?

Everyone connected with Burford – the Board, the investment adviser, our external advisers – all concluded for a variety of reasons we have expressed earlier that internalising the investment adviser made good sense. The question was simply the economics of that transaction. Burford did not want to pay any cash, and the principals of the adviser did not seek any. That left only stock. The Board felt that having the principals holding stock aligned them completely with shareholders, and as to the quantum of stock, the Board needed to take account of the fact that the principals had created a business with real economic value (including the leading brand in the business) and that they were foregoing management and performance fees. The ultimate transaction was arrived at following active negotiations and with the benefit of a fairness opinion from Burford's nominated adviser.

I don't want a fancy and complicated multi-faceted business. I just want Burford to make some good investments, return some good profits, pay a handsome dividend and let me get on with my life.

The simple answer is that the market we helped found is on fire, and it seems foolish not to participate in what we started, especially when people look to us as a market leader. Thus, we took a hard look at where things seemed to be going, and we decided that the right course for the business was not to be a passive participant but a leader. We know that is a change from some shareholders' initial expectations, and indeed it is a change from our own, but it seems foolish not to seize the moment when it was ours to lose. We are now positioned where we think the largest future value creation will occur, and we're reluctant to sit back and let someone else take advantage of what we have built. This is a decision that the Board and management took only over time and after extensive discussion, but we believe it is the right decision and in the best interests of shareholders. We hope you will give us the benefit of the doubt and come along for the ride to see what happens. Clearly, we're putting our money behind it, for not only have the members of the Board bought stock in Burford but the principals have traded cash for stock.

If everything is so rosy, why is the share price so low?

The Board's view is that a large part of it has to do with the small amount of trading that actually occurs, which the Board considers may result in the share price not being fully representative of the price at which shareholders may actually be willing to buy or sell the stock. Indeed, if one looks at the number of shares held by our six largest institutional shareholders at the end of 2010 and

two years later at the end of 2012, that number (which accounts for a substantial majority of our total shares outstanding) is virtually unchanged because those shareholders are not active traders of the stock – in fact, some have never traded a share since their initial purchase. Thus, unlike a more widely traded company, it is likely that the trading price that is reported and published does not reflect the price at which most of our shareholders are prepared to buy and sell Burford stock, but instead reflects simply the last trade made, which is often quite a small trade not necessarily representative of the overall sentiment of shareholders. Unfortunately, we can't control the share price, but for the moment, we hope that our impressive dividend returns are a salve.

I see a lot of competition here and I worry about its impact, and your returns are so good that more competitors are sure to emerge.

The returns are indeed good. But we're not so worried. There are a few reasons.

First, we have always been enthusiastic about the entry of other players. Litigation is an enormous economic activity – accounting for hundreds of billions of dollars annually in the US alone – and we have long believed that the asset class needs multiple sophisticated players to be credible. We are a very long way away from entry and "competition" causing material pricing pressure and indeed legal economics are relatively inelastic generally.

Second, this is a complicated and demanding business. One can't simply get a couple of lawyer friends together and open a credible and viable litigation financier. A substantial amount of capital is needed to assemble a diversified portfolio – which we continue to believe firmly is the only way to proceed in this asset class. Multi-disciplinary skills are needed to source, evaluate and close investment and financing transactions, and then to manage the portfolio of investments thus created. The larger players typically have people with finance and investment management backgrounds as well as highly skilled litigators.

Third, one needs to bear in mind that this asset class is, after all, focused on litigation – and litigation brings with it a special emotional component, even for corporations. People don't like to be sued, and they tend to look askance at anyone who facilitates them being sued. Thus, it is difficult for financial institutions with broad client relationships to provide litigation financing, and indeed both Credit Suisse and Allianz have withdrawn from the litigation finance business for just that reason, citing the difficulty of managing client conflicts and relationships.

The Directors present their Annual Report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

Business activities

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital and risk solutions with a focus on the litigation and arbitration sector. The Company is an authorised closed-ended investment company 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 and have made it Company policy to adopt clear practices in this area. In particular, the Board complies with the new Guernsey Code of Corporate Governance (the ''Code") which came into effect on 1 January 2012. The Code includes many of the principles contained in the UK Corporate Governance Code.

Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 20.

The directors propose a dividend of 4.758¢ (United States cents) per ordinary share in the capital of the Company for the year ended 31 December 2012. A resolution for the declaration of this dividend shall be put to the shareholders of the Company at the Company's forthcoming Annual General Meeting (scheduled for 15 May 2013). If approved by shareholders, the record date for this dividend will be 24 May 2013. Payment of this dividend would then occur on 17 June 2013. 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 US Dollars unless they request otherwise.

The Directors proposed and paid a dividend of 3.66¢ per share based on the Company's performance in 2011 and on known results in the year to the date of the dividend. The dividend was paid on 23 May 2012 to shareholders on the register as at close of business on 20 April 2012.

Directors

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

Directors' interests

	Number of shares	% Holding at 31 December 2012
Sir Peter Middleton	60,000	0.03
Hugh Steven Wilson	150,000	0.07
David Charles Lowe	100,000	0.05

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 those International Financial Reporting Standards.

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

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

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

Disclosure of information to auditors

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

Auditors

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

Charles Parkinson
Director

10 April 2013

To the members of Burford Capital Limited

We have audited the consolidated financial statements of Burford Capital Limited for the year ended 31 December 2012 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 24. 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 page 17 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. 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 2012 and of its profit and comprehensive income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP
Guernsey

10 April 2013

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 2012

	Notes	2012 $'000	2011 $'000
Income			
Net gains on litigation-related investments	10,11	21,273	14,927
Insurance-related income		16,152	–
Interest and other income from litigation-related activities	12,13	11,184	1,757
Net gains on cash management investments at fair value through profit or loss	9	4,960	8,283
Net gains on foreign exchange		661	1
Bank interest income		7	2
Total income		54,237	24,970
Operating expenses	14	(20,139)	(9,077)
Profit for the year before taxation and impacts relating to the Firstassist acquisition and the Reorganisation		34,098	15,893
Non-cash, non-NAV charge associated with the Reorganisation	7	(11,315)	–
Reorganisation advisory fees		(700)	–
Non-recurring Firstassist acquisition impacts	5	5,886	–
Amortisation of embedded value intangible asset arising on Firstassist acquisition	6	(11,079)	–
Profit for the year before taxation		16,890	15,893
Taxation	4	(2,556)	–
Deferred tax credit on amortisation of embedded value intangible asset	4	2,979	–
Total taxation		423	–
Profit for the year after taxation		17,313	15,893
Attributable to non-controlling interest		(67)	–
Attributable to controlling interests		17,380	15,893
		17,313	15,893
Other comprehensive income			
Fair value change in available-for-sale financial assets	11	–	4,340
Exchange differences on translation of foreign operations on consolidation		127	–
Total comprehensive income for the year		17,440	20,233
Attributable to non-controlling interests		(67)	–
Attributable to controlling interests		17,507	20,233
		Cents	Cents
Basic and diluted profit per ordinary share	18	9.59	8.83
Basic and diluted comprehensive income per ordinary share	18	9.66	11.24

The notes on pages 24 to 47 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2012

	Notes	2012 $'000	2011 $'000
Assets			
Non-current assets			
Embedded value intangible asset	6	21,196	–
Tangible fixed assets		565	–
Litigation-related Investments	10,11	159,749	122,940
Litigation portfolio financing	12	30,000	30,000
Due from settlement of litigation-related investments	13	28,482	14,694
		239,992	167,634
Current assets			
Cash management investments at fair value through profit or loss	9	50,790	144,805
Due from settlement of litigation-related investments	13	15,358	–
Receivables and prepayments	15	13,311	539
Cash and cash equivalents		25,559	8,902
		105,018	154,246
Total assets		345,010	321,880
Liabilities			
Current liabilities			
Payables	16	6,312	2,354
Taxation payable		1,503	–
Due for purchases of cash management investments at fair value through profit or loss		–	10,254
		7,815	12,608
Non-current liabilities			
Deferred taxation payable	4	5,087	–
Total liabilities		12,902	12,608
Total net assets		332,108	309,272
Represented by:			
Share capital	17	302,210	290,376
Revenue reserve		29,898	10,799
Other reserves		–	8,097
Total equity shareholders' funds		332,108	309,272

		Cents	Cents
Net asset value per share			
Net asset value per ordinary share	18	162.36	171.82

The notes on pages 24 to 47 form an integral part of these consolidated financial statements.

The financial statements on pages 20 to 47 were approved by the Board of Directors on 10 April 2013 and were signed on its behalf by:

Charles Parkinson
Director

10 April 2013

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	2012 $'000	2011 $'000
Cash flows from operating activities		
Profit for the year before tax	16,890	15,893
Adjusted for:		
Fair value change on cash management investments at fair value through profit or loss	586	(4,923)
Fair value change on litigation-related investments	(9,517)	–
Fair value gain included in interest and other income from litigation-related activities	(5,201)	–
Realised gains on disposal of cash management investments at fair value through profit or loss	(4,704)	(318)
Realised gains on realisation of litigation-related investments	(11,782)	–
Realised gains on disposal/realisation of available-for-sale investments	–	(14,927)
Non-cash, non-NAV charge associated with the 2012 reorganisation	11,315	–
Amortisation of embedded value intangible asset	11,079	–
Non-recurring Firstassist acquisition impacts	(8,538)	–
Depreciation of tangible fixed assets	66	–
Effect of exchange rate changes on cash and cash equivalents	(112)	(1)
	82	(4,276)
Changes in working capital		
Decrease in receivables	3,353	135
Increase/(decrease) in payables	899	(111)
Taxation paid	(2,416)	(357)
Net proceeds from disposal of cash management investments at fair value through profit or loss	87,879	100,717
Purchase of litigation-related investments	(57,106)	(84,723)
Proceeds from litigation-related investments	17,651	25,307
Litigation portfolio financing	–	(30,000)
Net cash inflow from operating activities	50,342	6,692
Cash flows from financing activities		
Issue expenses	–	(201)
Dividend paid	(6,588)	(6,587)
Cost of acquisition of non-controlling interest in subsidiary	(144)	–
Net cash outflow from financing activities	(6,732)	(6,788)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(27,038)	–
Purchases of tangible fixed assets	(27)	–
Net cash outflow from investing activities	(27,065)	–
Net increase/(decrease) in cash and cash equivalents	16,545	(96)
Reconciliation of net cash flow to movements in cash and cash equivalents		
Cash and cash equivalents at beginning of year	8,902	8,997
Increase/(decrease) in cash and cash equivalents	16,545	(96)
Effect of exchange rate changes on cash and cash equivalents	112	1
Cash and cash equivalents at end of year	25,559	8,902

The notes on pages 24 to 47 form an integral part of these consolidated financial statements.

for the year to 31 December 2012

31 December 2012

	Share capital $'000	Revenue reserve $'000	Available-for-sale reserve $'000	Foreign currency consolidation reserve $'000	Non-controlling interest $'000	Total $'000
At 1 January 2012	290,376	10,799	8,097	–	–	309,272
Transfer on adoption of IFRS 9 (note 2)	–	8,097	(8,097)	–	–	–
Profit for the year	–	17,380	–	–	(67)	17,313
Other comprehensive income	–	–	–	127	–	127
Dividends paid (note 19)	–	(6,588)	–	–	–	(6,588)
Issue of share capital (note 7)	11,834	–	–	–	–	11,834
Transactions with non-controlling interests-acquisition of minority (note 5)	–	83	–	–	67	150
Balance at 31 December 2012	302,210	29,771	–	127	–	332,108

31 December 2011

	Share capital $'000	Revenue reserve $'000	Available-for-sale reserve $'000	Total $'000
At 1 January 2011	290,577	1,493	3,757	295,827
Issue expenses	(201)	–	–	(201)
Profit for the year	–	15,893	–	15,893
Other comprehensive income	–	–	4,340	4,340
Dividends paid	–	(6,587)	–	(6,587)
Balance at 31 December 2011	290,376	10,799	8,097	309,272

The notes on pages 24 to 47 form an integral part of these consolidated financial statements.

1 Legal form and principal activity

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, financing and risk solutions with a focus on the litigation and arbitration sector and following the acquisition of Firstassist Legal Group Holdings Limited (Firstassist) on 29 February 2012, the provision of litigation insurance. Firstassist changed its name to Burford Capital Holdings (UK) Limited on 25 January 2013. The Company is a closed-ended investment company that 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 period from 1 January 2012 to 31 December 2012.

2 Principal accounting policies

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

Basis of accounting

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

Significant estimates and judgements

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

Fair values are determined on the specifics of each investment and will typically change upon an investment progressing through a key stage in the litigation or arbitration process 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 reassess the fair value of an investment. Arbitration matters tend to have fewer stages at which a reassessment of fair value is appropriate, often being limited to the issuance of an award by the tribunal and any permissible challenges thereafter.

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, hence little relevant data for benchmarking the effect of investment progression on fair value.

In addition, there are significant estimates and judgements involved in assessing the value of the embedded value intangible arising on the acquisition of Firstassist and the amortisation thereof (note 5).

2 Principal accounting policies continued

Further estimates and judgements were required in recognition of the cost attributable in the period relating to the Reorganisation (note 7).

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.

IASB and IFRIC have issued the following standards and interpretations, which are not yet effective and have not been adopted:

		Effective date
IFRS 7	Financial Instruments: Disclosures: Offsetting of financial assets and liabilities	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interest in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 1	Presentation of items of other comprehensive income	1 July 2012
IAS 19	Employee benefits	1 January 2013
IAS 27	Separate financial statements	1 January 2013
IAS 28	Investments in associates and joint ventures	1 January 2013
IAS 32	Financial instruments presentation: Offsetting financial assets and financial liabilities	1 January 2014

No material change is expected to result from the implementation of the above standards with the exception of additional disclosures in respect of IFRS 13.

Early adoption of IFRS 9: Financial Instruments

The Group has adopted IFRS 9: Financial Instruments (2010) ("IFRS 9") with a date of initial application of 1 January 2012. IFRS 9 is required to be adopted by 1 January 2015; the Group has 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. Pursuant to IFRS 9, the Group is providing transitional disclosures but 2011 will not be restated.

Impact of change of accounting policy

In connection with the adoption of IFRS 9, the Group has reclassified its investments in litigation-related assets as fair value through profit or loss investments ("litigation-related investments at fair value through profit or loss"). Prior to 1 January 2012 these were classified as available-for-sale investments. At 1 January 2012, litigation-related investments with a carrying value of $122,940,000 were reclassified from available-for-sale to fair value through profit or loss (see notes 10 and 11). There was no adjustment to fair value on reclassification. As a consequence of the reclassification $2,266,000 of due diligence and closing costs incurred in the year ended 2012 that would previously have been capitalised as part of the investment cost have been expensed in the income statement. In addition, the opening available-for-sale reserve of $8,097,000 was transferred to revenue reserves.

Following the reclassification all movements, realised and unrealised, in the fair value of the litigation-related investments are recognised in the income statement. Previously under the available-for-sale classification realised gains and losses together with unrealised impairments were recognised in the income statement but unrealised gains on investments in litigation-related assets were recognised as other comprehensive income.

Unrealised gains on litigation-related investments were $9,517,000 in the year ended 31 December 2012 (2011: $4,340,000).

2 Principal accounting policies continued

Basis of consolidation

The consolidated financial statements comprise the financial statements of Burford Capital Limited and the entities it controls, i.e. its Subsidiaries. All the Subsidiaries are consolidated in full from the date of acquisition. The presence of non-controlling interests with respect to Firstassist is discussed further in note 5.

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

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

Insurance-related income

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

Segment reporting

Management consider that there are two operating business segments, being (i) provision of litigation investment (reflecting litigation and arbitration-related investment activities anywhere in the world) and (ii) provision of litigation insurance (reflecting UK litigation insurance activities).

Business combinations, goodwill and negative goodwill

Business combinations are accounted for using the acquisition method. The Reorganisation, which is discussed further at note 7, is not considered to represent a business combination. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interest is measured at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

Contingent consideration is recognised at fair value at acquisition date. Subsequent changes to fair value are recognised in profit or loss.

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

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

Embedded value intangible asset

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

Investment sub-participations

Investment sub-participations 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 net gains on litigation-related investments in the Consolidated Statement of Comprehensive Income.

2 Principal accounting policies continued

Financial instruments

The Group classifies its financial assets into the categories below in accordance with IFRS 9 (until 1 January 2012, IAS 39: "Financial Instruments: Recognition and Measurement"). Where the policy has changed as a result of the adoption of IFRS 9, this has been noted.

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

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

Recognition, derecognition and measurement

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

Movements in the difference between cost and valuation and realised gains and losses on disposal or maturity of investments, including interest income, are reflected in Income in the Consolidated Statement of Comprehensive Income.

Net gains on cash management investments at fair value through profit or loss

Listed interest bearing debt securities are valued at their quoted bid price. Movements in fair value are included within net gains on cash management investments at fair value through profit or loss. 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 are included within net gains on cash management investments at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

2) Litigation-related investments at fair value through profit or loss – policy applicable from 1 January 2012

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

Recognition, derecognition and measurement

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

Movements in fair value are included with net gains on litigation-related investments in the Consolidated Statement of Comprehensive Income.

3) Available-for-sale financial assets – policy applicable prior to 1 January 2012

Unless otherwise determined by the Group, its litigation-related investments are categorised as available-for-sale financial assets. Investments are initially measured as the cash sum invested. Attributable due diligence and closing costs are included in the cost of the investment.

Recognition, derecognition and measurement

Purchases and sales of available-for-sale financial assets 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

2 Principal accounting policies continued

disbursements occur over time. Investments are measured as the sum invested including attributable due diligence and closing costs. Sales of available-for-sale financial assets are generally recognised on the date on which the Group receives, or becomes contractually entitled to receive, cash or marketable securities. When the Group has transferred its rights to receive a proportionate share of the cash flows from an asset, and has transferred substantially all of the associated risks and rewards, a proportion of the asset is derecognised.

Subsequent to initial measurement and prior to actual realisation, investments are measured at fair value. Increases and insignificant short-term decreases in fair value related to each investment are taken to the available-for-sale reserve in equity and other comprehensive income. When actual gains or losses with respect to each investment occur, they are recorded in income and reversed out of other comprehensive income.

4) Financial assets at amortised cost
Financial assets, including litigation portfolio financings and amounts due from settlement of litigation-related investments, that have fixed or determinable payments representing principal and interest that are not quoted in an active market, are classified as financings and receivables, measured at amortised cost using the effective interest method, less any impairment.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3 – Those inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Due diligence costs – *policy applicable prior to 1 January 2012*
Due diligence costs and closing costs attributable to investments are included in the cost of the investment. Due diligence costs attributable to potential investments that the Group has decided not to pursue have been expensed in the Consolidated Statement of Comprehensive Income. Due diligence costs attributable to potential investments that remain under consideration at period end have been capitalised and are included within receivables and prepayments.

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.

Firstassist operates and prepares financial statements denominated in Sterling. For the purposes of preparing consolidated financial statements, Firstassist's 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 period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity (foreign currency consolidation reserve).

2 Principal accounting policies continued

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 period 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 period.

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

Expenses
All expenses are accounted for on an accruals basis.

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

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

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

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

Dividends
Dividends paid during the period are dealt with in the Statement of Changes in Equity. Dividends proposed but not approved by shareholders are disclosed in the notes as commitments.

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	4-5 years
Computer hardware and software	4-5 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.

2 Principal accounting policies continued

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. Incremental costs directly attributable to the issue of new shares are deducted from equity in share capital.

Forward foreign exchange contracts

Forward foreign exchange contracts are valued by reference to similar contracts settled at the balance sheet date. Fluctuations in the fair value of open forward foreign exchange contracts are recorded as unrealised gains or losses. Upon the closing of a contract the gain or loss is recorded as a realised gain or loss. Realised and unrealised gains and losses are disclosed as gain or loss on foreign exchange in the Consolidated Statement of Comprehensive Income.

3 Material agreements

Investment Adviser Agreement

Prior to the Reorganisation (see note 7) and pursuant to an investment advisory agreement (the "Investment Adviser Agreement") dated 16 October 2009, as amended, most recently as of 1 January 2012, the Group had appointed Burford Group Limited (the "Investment Adviser") to provide advisory services to the Group. The Investment Adviser was entitled to be paid a fee based on the adjusted net asset value ("Adjusted NAV") of the Group, payable quarterly in advance at an annual rate of 2% provided, however, that the Adjusted NAV for the period from Admission through 9 December 2010 shall exclude the impact of the Placing of ordinary shares in December 2010 and provided that the fee shall not be less than $6 million for each of 2012 and 2013. Adjusted NAV means the net asset value of the Group at the relevant time, after accruing for the annual advisory fee but not taking into account any liability of the client for accrued performance fees and after (i) deducting any unrealised gains on available-for-sale investments; (ii) adding the amount of any write downs with respect to available-for-sale investments which have not been written off in full; and (iii) adding the amount of any dividends paid since Admission. The Investment Adviser was also entitled to be paid a performance fee under certain circumstances that had not occurred prior to the Reorganisation.

Following the acquisition of the Investment Adviser under the Reorganisation (see note 7) no fees will be payable under the Investment Adviser Agreement with effect from 1 January 2013.

3 Material agreements continued

Administration fee

Under the terms of an administration agreement dated 15 October 2009 between the Company and International Administration Group (Guernsey) Limited (the "Administrator"), as amended, effective 1 January 2011, the Administrator is entitled to receive an annual fee, payable quarterly in advance, and further annual fees for the administration of each of the Subsidiaries expected to total approximately $400,000 per annum.

Cash management arrangements

The Company retained Potomac River Capital LLC ("Potomac") to provide treasury management services and to perform investment services with respect to the Company's surplus cash pending investment. No fees are payable other than fees embedded in the underlying investments made by Potomac.

4 Taxation

The Company is exempt from tax in Guernsey. In certain cases a subsidiary of the Company may elect to make use of investment structures that are subject to income tax in a country related to the investment. Firstassist and its subsidiaries (see note 8) are subject to UK taxation based on profits and income for the period as determined in accordance with relevant tax legislation.

All material tax arising in the current period arose in Firstassist and comprises current taxation of $2,546,000 and a deferred tax credit of $2,979,000 relating to the amortisation of the intangible asset.

	$'000
Deferred tax on embedded value intangible asset at acquisition	7,968
Tax released on amortisation of embedded value intangible asset	(2,979)
Foreign exchange adjustment	98
Deferred tax liability at 31 December 2012	5,087

5 Acquisition of subsidiary

On 29 February 2012, the Company acquired Firstassist and its subsidiaries. Firstassist's principal activity was the provision of litigation insurance. Firstassist was regulated by the FCA (formerly known as the FSA) as an insurance intermediary. The Company originally acquired 100% of Firstassist's preferred ordinary shares and 87.5% of Firstassist's ordinary shares. The remaining 12.5% ordinary shares were acquired on 21 December 2012. The acquisition enables expansion into the UK market through an existing profitable business and the Group also gains the services of a leading team to pursue litigation finance in addition to the insurance business acquired.

5 Acquisition of subsidiary continued

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	
Embedded value intangible asset	31,874
Tangible fixed assets	266
Trade receivables	9,194
Other receivables	5,844
Cash at bank and in hand	6,627
	53,805
Liabilities	
Accruals and other payables	(2,582)
Taxation payable	(1,363)
Deferred taxation on embedded value intangible asset	(7,968)
Total identifiable net assets	41,892
Non-controlling interest	(292)
Negative goodwill (bargain purchase gain)	(6,247)
Total consideration	35,353
Satisfied by:	
Cash (net of preferred dividend receivable)	24,916
Contingent consideration	10,437
Total consideration	35,353

	$'000
Net cash flow arising on acquisition:	
Cash consideration	(25,872)
Settlement of contingent consideration	(8,263)
Less: cash and cash equivalent balance acquired	6,627
	(27,508)

The negative goodwill arising is principally attributable to the value of the embedded value intangible asset. The negative goodwill is not taxable.

The contingent consideration recognised at the acquisition date is the net present value of £7,000,000 ($11,156,000) discounted at 3% per annum based on a 31 May 2014 payment date. This resulted in a net present value of £6,549,000 ($10,437,000) at 29 February 2012. The contingent consideration arrangements required the achievement of EBITDA targets in 2012 and 2013 and total premium targets in 2013. The consideration was capped at £7,000,000. This was provided in full based on budgeted performance. The contingent consideration was settled early for £5,142,000 ($8,263,000), resulting in a further gain, after amortisation, of US$2,291,000.

The non-controlling interest in Firstassist is determined after deducting the preferred ordinary shares, which are held 100% by the Group from the identifiable net assets (including the embedded value intangible asset).

5 Acquisition of subsidiary continued

The acquisition of the remaining 12.5% of ordinary shares on 21 December 2012 for $144,000 gave rise to a credit in equity of $83,000.

The net non-recurring gain of $5,886,000 associated with the Firstassist acquisition recorded in the Consolidated Statement of Comprehensive Income is broken down below:

	$'000
Bargain purchase gain arising on Firstassist acquisition	6,247
Net gain on early settlement of deferred consideration	2,291
Firstassist acquisition costs – non-recurring	(2,652)
	5,886

Firstassist contributed $16,152,000 total income and an after tax profit of $8,521,000 to the Group in the period between the date of acquisition and the reporting date, before deduction of $8,100,000 in respect of non-cash amortisation of the embedded value intangible asset less associated deferred tax credit.

If the acquisition had been completed on the first day of the financial year, attributable Group total income contributed would have been an additional $3,325,000 and Group profit after taxation would have been an additional $831,000.

As a result of the acquisition the Group has additional exposure to currency risk as Firstassist conducts its operations in Sterling.

Like the Company, Firstassist's business is centred around litigation activity and the assessment of litigation risk and thus the substantive risks set forth previously for the Group generally apply to Firstassist as well. The principal additional risks unique to Firstassist are (i) that Firstassist obtains insurance capacity through an arrangement with Great Lakes Reinsurance (UK) Plc (a wholly owned subsidiary of MunichRe) and thus is dependent on the continuation of that arrangement and the ongoing solvency of Great Lakes (which is currently rated A+ by AM Best and AA- by S&P) and (ii) that the implementation of the recently passed Legal Aid, Sentencing and Prosecution of Offenders Act will reduce the demand for Firstassist's current product offerings.

6 Embedded value intangible asset

	2012 $'000	2011 $'000
At 1 January	–	–
Additions	31,874	–
Amortisation	(11,079)	–
Exchange difference on retranslation	401	–
At 31 December	21,196	–

Firstassist was acquired on 29 February 2012. The intangible asset represents the value of Firstassist's book of business at the date of acquisition; it has an estimated useful life extending to 2016 and is being amortised in accordance with the expected maturity of the business.

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

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

The fair value was determined using the implied market value of the shares issued based on their bid price converted to US Dollars and without considering their illiquidity or certain contractual restrictions on their transfer, and thus the total consideration for the Reorganisation is $38,373,111. Of that amount, $518,534 relating to tangible assets acquired and a non-cash charge of $11,315,080, reflecting the internalisation referred to above are recognised in the Group's 2012 financial statements. The Group's 2013 financial statements will not include investment advisory-related fees and there will be a further non-cash charge to the income statement of $26,539,497. No intangible assets will be created.

8 Segmental information

Management consider that there are two operating business segments, being (i) provision of litigation investment (reflecting litigation and arbitration-related investment activities anywhere in the world) and (ii) provision of litigation insurance (reflecting UK litigation insurance activities).

Segment revenue and results

31 December 2012

	Litigation Investment $'000	Litigation Insurance $'000	Other corporate activity $'000	Total $'000
Income	32,457	16,152	5,628	54,237
Operating expenses	(11,161)	(5,085)	(3,893)	(20,139)
Non-recurring Firstassist acquisition impacts	–	–	5,886	5,886
Non-cash, non-NAV charge associated with the Reorganisation	–	–	(11,315)	(11,315)
Reorganisation advisory fees	–	–	(700)	(700)
Amortisation of embedded value intangible asset	–	–	(11,079)	(11,079)
Profit for the year before taxation	21,296	11,067	(15,473)	16,890
Current taxation	–	(2,546)	(10)	(2,556)
Deferred tax credit	–	–	2,979	2,979
Other comprehensive income	–	–	127	127
Total comprehensive income	21,296	8,521	(12,377)	17,440

8 Segmental information continued

Segment assets

31 December 2012

	Litigation Investment $'000	Litigation Insurance $'000	Other corporate activity $'000	Total $'000
Non-current assets				
Embedded value intangible asset	–	–	21,196	21,196
Tangible fixed assets	–	231	334	565
Litigation-related Investments	159,749	–	–	159,749
Litigation portfolio financing	30,000	–	–	30,000
Due from settlement of litigation-related investments	28,482	–	–	28,482
	218,231	231	21,530	239,992
Current assets				
Cash management investments at fair value through profit or loss	–	–	50,790	50,790
Due from settlement of litigation-related investments	15,358	–	–	15,358
Receivables and prepayments	1,172	11,952	187	13,311
Cash and cash equivalents	12,249	12,809	501	25,559
	28,779	24,761	51,478	105,018
Total assets	247,010	24,992	73,008	345,010
Current liabilities				
Payables	(4,686)	(1,016)	(610)	(6,312)
Taxation payable	–	(1,503)	–	(1,503)
	(4,686)	(2,519)	(610)	(7,815)
Non-current liabilities				
Deferred taxation payable	–	–	(5,087)	(5,087)
	–	–	(5,087)	(5,087)
Total liabilities	(4,686)	(2,519)	(5,697)	(12,902)
Total net assets	242,324	22,473	67,311	332,108

For periods prior to 31 December 2012 there was a single segment being litigation investment.

9 Cash management investments at fair value through profit or loss

	2012 $'000	2011 $'000
Listed interest bearing debt securities – fixed rate	–	29,045
Listed corporate bond fund	9,137	14,859
Unlisted fixed income and investment funds, including mutual funds	41,653	100,901
Total cash management investments at fair value through profit or loss	50,790	144,805

Reconciliation of movements:

	2012 $'000	2011 $'000
Balance at beginning of year	144,805	230,027
Purchases	92,528	715,024
Proceeds on disposal	(190,661)	(805,487)
Realised gains on disposal	4,704	318
Fair value change in year	(586)	4,923
Balance at end of year	50,790	144,805

During the year ended 31 December 2012, the bulk of the cash management investments at fair value through profit or loss were in fixed income and investment funds.

Net changes in cash management investments at fair value through profit or loss:

	2012 $'000	2011 $'000
Realised (including interest income)	5,546	3,360
Fair value movement	(586)	4,923
Net gains	4,960	8,283

Fair value measurements are based on level 1 inputs of the three level hierarchy system for $9,137,000 (2011: $43,904,000) of the fair value through profit and loss investments which indicates inputs based on quoted prices in active markets for identical assets. For $41,653,000 (2011: $100,901,000) of the fair value through profit and loss investments (including commercial paper) fair value measurements are based on level 2 inputs of the three level hierarchy system which indicates inputs other than quoted prices included in level 1 that are observable, either directly (as prices) or indirectly (derived from prices).

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

The Company structures its investment portfolio to include a mixture of shorter duration investments intended to produce short-term returns; medium duration or "core" investments and "special situations" investments with higher risk and longer duration designed to add noteworthy returns to the portfolio over time. The Group classifies its litigation-related investments at fair value through profit or loss into tranches consistent with the foregoing portfolio structure as outlined below.

31 December 2012

	Transfer from available-for- sale financial assets $'000	Additions $'000	Realisations $'000	Net realised gain for year $'000	Fair value movement $'000	Balance at fair value as at 31 December 2012 $'000
Short duration investments	36,646	8,356	(15,707)	5,972	(413)	34,854
Core investments	71,375	46,760	(25,855)	9,646	9,930	111,856
Special situations investments	14,919	1,990	(34)	(3,836)	–	13,039
Total litigation-related investments at fair value through profit or loss	122,940	57,106	(41,596)	11,782	9,517	159,749

The net realised gain for 2012 is not directly comparable with the net realised gain shown in note 11 for the year ending 31 December 2011 as, in accordance with IFRS 9, net realised gains in 2012 are split between litigation-related investments at fair value through profit or loss and due from settlement of litigation-related investments (note 13).

Fair value measurements are based on level 3 inputs of the three level hierarchy system which indicates inputs for the assets that are not based on observable market data (unobservable inputs).

The net gains on litigation-related investments included at fair value through profit or loss included on the face of the Consolidated Statement of Comprehensive Income comprise:

	2012 $'000	2011 $'000
Net realised gains on litigation-related investments at fair value through profit or loss (above)	11,782	–
Fair value movement (above)	9,517	
Net increase in liabilities for investment sub-participations	(26)	–
Net gains on litigation-related investments at fair value through profit or loss	21,273	–

11 Litigation-related investments classified as available-for-sale

As disclosed in note 2, the Group has taken the decision to early adopt IFRS 9 in 2012 which removes the available-for-sale classification. Consequently, the Group's available-for-sale financial assets at 31 December 2011 have been reclassified as litigation-related investments at fair value through profit or loss with effect from 1 January 2012.

31 December 2011

	Balance at fair value as at 1 January 2011 $'000	Additions $'000	Realisations $'000	Transfers $'000	Net realised gain for year $'000	Fair value movement $'000	Balance at fair value as at 31 December 2011 $'000
Short duration investments	38,073	9,016	(29,691)	3,287	12,100	3,861	36,646
Core investments	15,662	69,150	(10,310)	(3,287)	160	–	71,375
Special situations investments	8,084	6,356	–	–	–	479	14,919
Total litigation-related investments classified as available-for-sale	61,819	84,522	(40,001)	–	12,260	4,340	122,940

The realised gains on disposal of litigation-related investments classified as available-for-sale included on the face of the Consolidated Statement of Comprehensive Income comprise:

	2012 $'000	2011 $'000
Net realised gain for the year	–	14,714
Impairment in respect of short duration investment	–	(2,454)
Reduction in liability for investment sub-participations	–	2,667
Net gains on litigation-related investments classified as available-for-sale	–	14,927

12 Litigation portfolio financing

	2012 $'000	2011 $'000
Total litigation portfolio financing	30,000	30,00
Interest and other income from litigation portfolio financing	4,407	1,757

Litigation portfolio financing is measured at amortised cost. The $30,000,000 financing attracts interest at 13.5% per annum, payable monthly and is repayable in instalments commencing on 31 January 2014 and maturing on 31 July 2016. It is secured on the assets of the borrower. The interest income from litigation financing assets is included in "Interest and other income from litigation financing activities" in the Consolidated Statement of Comprehensive Income.

13 Due from settlement of litigation-related investments

Amounts due from settlement of litigation-related investments relate to the recovery of litigation-related investments that have successfully concluded and where there is no longer any litigation risk remaining. The settlement terms and duration vary by investment.

	2012 $'000	2011 $'000
Due from settlement of litigation-related investments		
At 1 January	14,694	–
Transfer of realisations from litigation-related investments (note 10)	41,596	40,001
Fair value gain on due from settlement of litigation-related investments	5,201	–
Interest income on due from settlement of litigation-related investments	138	–
Proceeds from settled litigation-related investments	(17,651)	(25,307)
Proceeds from interest income on due from settlement of litigation-related investments	(138)	–
At 31 December	43,840	14,694
Split:		
Non-current assets	28,482	14,694
Current assets	15,358	–
Total due from settlement of litigation-related investments	43,840	14,694

The interest and other income on litigation-related activities on the face of the Consolidated Statement of Comprehensive Income comprises:

	2012 $'000	2011 $'000
Interest and other income on litigation portfolio financing (note 12)	4,407	1,757
Fair value gain on due from settlement of litigation-related investments (above)	5,201	–
Interest income on due from settlement of litigation-related investments (above)	138	–
Interest and other income from continuing litigation-related investments	1,438	–
Interest and other income from litigation-related activities	11,184	1,757

14 Total operating expenses

	2012 $'000	2011 $'000
Investment advisory fee	5,995	5,927
Non-executive directors' remuneration	335	318
Staff costs – insurance segment	3,557	–
Non-staff costs – insurance segment	1,528	–
Non-staff costs – litigation and corporate segments	6,458	2,832
Litigation investment related costs that would previously have been capitalised	2,266	–
	20,139	9,077

Directors' remuneration comprises:

	2012 $'000	2011 $'000
Sir Peter Middleton	120	119
Hugh Steven Wilson	100	100
Charles Nigel Kennedy Parkinson	59	51
David Charles Lowe	56	48
	335	318

Fees paid and payable to Ernst & Young LLP comprise:

	2012 $'000	2011 $'000
Audit and interim review fees	412	170
Reorganisation advisory fees	700	–
Tax compliance fees	115	36
Transaction advisory fees in relation to Firstassist	199	–
Other advisory fees*	265	383
	1,691	589

* Other advisory fees for the year ended 31 December 2011 were capitalised in available-for-sale financial assets whereas fees for the year ended 31 December 2012 were expensed in profit or loss in accordance with IFRS 9.

15 Receivables and prepayments

	2012 $'000	2011 $'000
Trade receivable – insurance segment	11,264	–
Prepayments accrued	441	135
Accrued bond interest	–	334
Litigation portfolio financing interest receivable	988	–
Other debtors	618	70
	13,311	539

16 Payables

	2012 $'000	2011 $'000
Audit fee payable	160	94
Reorganisation advisory fees payable	450	–
General expenses payable	1,595	124
Investment advisory fee payable	–	122
Claim costs payable	562	681
Investment sub-participations	3,545	1,333
	6,312	2,354

17 Share capital

Authorised share capital	2012 $'000	2011 $'000
Unlimited Ordinary Shares of no par value	–	–

Issued share capital	Number	Number
Ordinary shares of no par value	204,545,455	180,000,001

80,000,001 ordinary shares were issued at 100p each on 21 October 2009. A further 100,000,000 ordinary shares were issued at 110p each on 9 December 2010. As detailed in note 7, a further 24,545,454 shares were issued on 12 December 2012 as consideration for the acquisition of the Investment Adviser.

	2012 $'000	2011 $'000
1 January	290,376	290,577
Shares issued in 2012 Reorganisation	11,834	–
Allocation of issue costs	–	(201)
31 December	302,210	290,376

The Company has authority to make market purchases of up to 15% of its own issued ordinary shares, expiring at the conclusion of the 2012 Annual General Meeting.

18 Profit per ordinary share, comprehensive income per ordinary share and net asset value per ordinary share

Profit per ordinary share is calculated based on profit for the year of $17,380,000 (2011: $15,893,000) and the weighted average number of ordinary shares in issue for the year of 181,274,219 (2011: 180,000,001). Comprehensive income per ordinary share is calculated based on comprehensive income for the year of $17,507,000 (2011: $20,233,000), and the weighted average number of ordinary shares in issue for the year of 181,274,219 (2011: 180,000,001). Profit for the year includes interest earned of $10,671,000 (2011: $3,076,000).

Profit per share in the financial summary is calculated based on the weighted average number of ordinary shares in issue for the year of 181,274,219 (2011: 180,000,001).

Net asset value per ordinary share was calculated by dividing the total assets less total liabilities of the Group of $332,108,000 (2011: $309,272,000) by the number of ordinary shares then in issue of 204,545,455 (2011: 180,000,001).

19 Dividends

The directors proposed and paid a dividend of 3.66¢ (United States cents) per share based on the Group's performance in 2011 and on known results in the year to the date of the dividend. The dividend was paid on 23 May 2012 to shareholders on the register as at close of business on 20 April 2012. That dividend was proposed and paid in US Dollars and was converted to Sterling for those UK shareholders not electing to receive it in US Dollars at the time of payment.

The directors propose a dividend of 4.758¢ (United States cents) per ordinary share in the capital of the Company for the year ended 31 December 2012. A resolution for the declaration of this dividend shall be put to the shareholders of the Company at the Company's forthcoming Annual General Meeting (scheduled for 15 May 2013). If approved by shareholders, the record date for this dividend will be 24 May 2013. Payment of this dividend would then occur on 17 June 2013. The proposed dividend is being proposed, and will be paid, in US Dollars, and will be converted to and paid in Sterling for UK shareholders not electing to receive it in US Dollars.

20 Financial risk management

Market and investment risk

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

With respect to the Group's cash management investments, including interest bearing securities, corporate bonds and investment funds, market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as interest rates, credit risk, security and bond prices and foreign exchange rates. Investments in cash management investments are made at the recommendation of Potomac in line with pre-agreed parameters and subject to Board oversight.
At 31 December 2012, 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 $5,079,000 (2011: $14,481,000).

20 Financial risk management continued

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

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

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2012, 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 $15,975,000 (2011: $12,294,000).

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

Liquidity risk

The Group is exposed to liquidity risk. The Group's investment in litigation-related investments require funds for ongoing settlement of operating liabilities and to meet investment commitments (see note 21). 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 that can be readily realised to meet those liabilities and commitments. Cash management investments include investments in fixed income instruments, investment funds and individual liquid securities that can be redeemed on short notice or can be sold on an active trading market, as well as investments that provide monthly liquidity. In addition, the litigation portfolio financing generates regular monthly returns.

Credit risk

The Group is exposed to credit risk in various investment structures (see note 2), most of which involve investing sums recoverable only out of successful investments with a concomitant risk of loss of investment cost. On becoming contractually entitled to proceeds, depending on the structure of the particular investment, the Group could be a creditor of, and subject to credit risk from, a claimant, a defendant, both or other parties. Moreover, the Group may be indirectly subject to credit risk to the extent a defendant does not pay a claimant immediately notwithstanding successful adjudication of a claim in the claimant's favour. The Group is also exposed to credit risk in respect of the cash management investments at fair value through profit or loss and cash and cash equivalents. The credit risk of the cash and cash equivalents is mitigated as all cash is placed with reputable banks with a sound credit rating (A-1+). The credit risk of the cash management investments at fair value through profit or loss is mitigated by investment restrictions as regards security type, geographical origin and acceptable counterparties; those investments are entirely or largely made in investment securities of investment grade quality, such as commercial paper with an A-1 or P-1 rating or corporate bonds with a rating of A or better. There are no significant concentrations of credit risk. At the year end the Group is invested in five (2011: 15) securities with four (2011: 10) different counterparties with the bulk of its cash management investments held in managed funds. Management of the fair value through profit or loss portfolio is outsourced under clear parameters with Board oversight and the assets are held with a third-party custodian.

20 Financial risk management continued

The Group is also exposed to credit risk in respect of its litigation portfolio financing receivable. As disclosed in note 12 the financing is secured against the assets of the borrower.

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 Firstassist. 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 2012, the Group's net exposure to currency risk can be analysed as follows:

	Investments and financing $'000	Other net assets $'000
US Dollar	283,407	9,139
Sterling	972	38,590
	284,379	47,729

At 31 December 2011, the Group's net exposure to currency risk can be analysed as follows:

	Investments and financing $'000	Other net assets $'000
US Dollar	297,745	11,433
Sterling	–	94
	297,745	11,527

At 31 December 2012, 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 increased and decreased respectively by $122,000 (2011: $9,000) from instruments denominated in a currency other than the functional currency of the relevant entity.

20 Financial risk management continued

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash and cash management investments at fair value through profit or loss. Whilst the litigation portfolio financing instrument is not subject to interest rate risk, changes in market interest rates can impact the fair value of the instrument. All cash bears interest at floating rates. The following table sets out the Group's exposure to interest rate risk at 31 December 2012:

	2012 $'000	2011 $'000
Non-interest bearing	237,578	241,325
Interest bearing – floating rate	29,185	8,902
Interest bearing – fixed rate	65,345	59,045
Total net assets	332,108	309,272

The interest bearing floating rate assets are denominated in US Dollars. If the US Dollar 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 $73,000 (2011: $22,000). For fixed rate assets it is estimated that there would be no profit or net assets impact. (2011: $1,352,000 decrease/$1,448,000 increase).

The maturity profile of interest bearing assets is:

Maturity period 2012	Floating $'000	Fixed $'000	Total $'000
Less than 3 months	25,559	–	25,559
3 to 6 months	750	–	750
6 to 12 months	750	15,450	16,200
Greater than 12 months	2,126	49,895	52,021
	29,185	65,345	94,530

Maturity period 2011	Floating $'000	Fixed $'000	Total $'000
Less than 3 months	8,902	10,392	19,294
3 to 6 months	–	–	–
6 to 12 months	–	11,592	11,592
Greater than 12 months	–	37,061	37,061
	8,902	59,045	67,947

20 Financial risk management continued

Management of capital

The Company is closed-ended and therefore there is no requirement to return capital to shareholders until the closure of the Company. 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 also has authority to make market purchases of up to 15% of its own issued ordinary shares as disclosed in note 17. The Company is considering a variety of options, including but not limited to the issue of contingent preferred securities to address the potential risk of a mismatch between commitments and inflows that might arise in the future.

Fair values

The financial assets and liabilities including litigation-related investments and cash management investments at fair value through profit or loss are stated at fair value (see Note 2). The litigation portfolio financing and due from settlement of litigation-related investments are carried at amortised cost. For financial instruments held at amortised cost the carrying value approximates to fair value.

21 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. Moreover, in some agreements, the Group's funding obligations are capped at a fixed amount, whereas in others the commitment is not fixed (although the Group estimates its likely future commitment to each such investment). At 31 December 2012, considering the amount of capped commitments and the Group's estimate of uncapped funding obligations, the Group had outstanding commitments for approximately $95 million (2011: $72 million); that figure does not include executed investment agreements that are capable of cancellation without penalty by the Group for adverse findings during a post-agreement diligence period. Of that $95 million in commitments, the Group expects less than 50% to be sought from it during the next 12 months.

22 Pension costs

The Group's UK operation, Firstassist, has exclusively operated a defined contribution stakeholder plan with Friends Provident since 1 April 2005. The only obligation is a contractual one to contribute a percentage of salary to the individual stakeholder plan. The associated cost to Firstassist for the year ending 31 December 2012 was $140,000.

23 Related party transactions

Investment advisory fees for the year payable to Burford Group Limited amounted to $5,995,000 (2011: $5,927,000). The amount of investment advisory fees outstanding at 31 December 2012 was $Nil (2011: $122,000). Moreover, pursuant to the investment advisory agreement, the Group may elect to ask the Investment Adviser to perform certain services in lieu of the Group performing them directly. The Group is under no obligation to do so, and if it does so elect, the price paid for those services is wholly in the Group's discretion, although the Investment Adviser is similarly under no obligation to accept the Group's request. In 2012, the Group did so elect, and has paid a further $2,900,000 to the Investment Adviser in that regard that replaced expenses that the Group would otherwise incur directly. As per note 7, the investment advisory fees and arrangement terminate with the Reorganisation, and the principals and employees of Burford Group Limited became employees of the Group.

Directors' fees paid in the year amounted to $335,000 (2011: $318,000). There are no Directors' fees outstanding at 31 December 2012 and 2011.

Administration fees payable to International Administration Group (Guernsey) Limited ("IAG") are disclosed in note 3. There are no administration fees outstanding at 31 December 2012 or 2011.

There is no controlling party.

24 Subsequent events

An element of the structure of the original Reorganisation was determined to have an unanticipated non-cash accounting consequence. In March 2013, the relevant structural point was amended nunc pro tunc. The amendment had no effect on the consideration paid. Following the amendment, the accounting treatment for the Reorganisation will be as described in note 7.

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