Burford

Annual Report 2013

About Burford Capital

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

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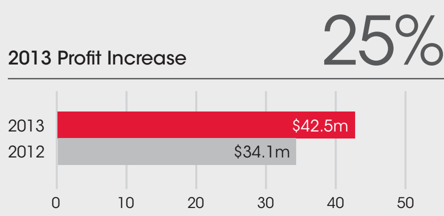
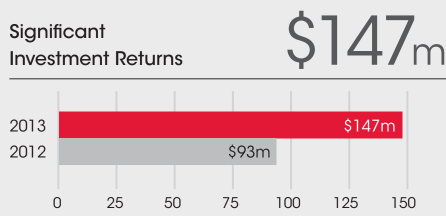
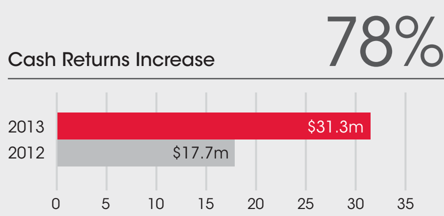
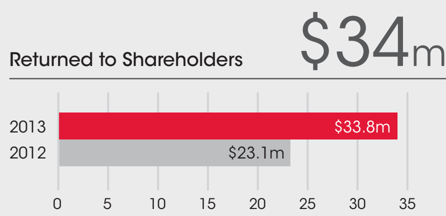
- A 25% increase in Burford's profit before tax for 2013* to $42.5 million (2012: $34.1 million).
- Notable increases in income from both the litigation investment and insurance businesses:
  – A 20% increase in litigation-related investment income, reflecting continued portfolio activity and maturity.
  – A 29% increase in insurance income during the period of Burford's ownership, reflecting strong performance of the historical book.
- Continued strong investment returns: since inception, 25 investments have generated $147 million in gross investment recoveries and $50 million net of invested capital (a 43% increase over 2012's $35 million), producing a 52% net return on invested capital.
- Material increase in cash generation: in 2013, Burford generated $31.3 million of cash from the investment portfolio, an increase of 78% over 2012's $17.7 million.
- Significant levels of activity in the insurance business, with more than $150 million in new business exposure written in 2013 – more than in all of 2011 and 2012 combined.
- Ongoing demand for Burford's capital, reflected in $62 million of new capital deployed in 2013, bringing commitments since inception to $419 million to 59 investments, and current commitments to $264 million to 35 investments.
- First major step towards capital structure evolution with the successful issue of $40 million in contingent preferred shares to improve capital utilisation and balance sheet flexibility.
- Active cost control, with operating costs declining by 10% over 2012.
- Dividend increase of 10% to 5.23¢ per share proposed on top of last year's 30% increase.









* Excluding the accounting impact of the Burford UK acquisition, the 2012 Reorganisation and UK Restructuring costs.

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

(US$'000)	2013	2012	% change
Litigation-related investment income	**38,847**	32,457	**20%**
Insurance-related income	**20,910**	16,152	**29%**
Other income	**903**	5,628	
Total income	**60,660**	54,237	**12%**
Operating expenses – corporate and investment	**(11,367)**	(15,054)	
Operating expenses – insurance	**(6,779)**	(5,085)	
Profit before tax and the impacts relating to the Burford UK acquisition, the 2012 Reorganisation and UK Restructuring costs	**42,514**	34,098	**25%**
Taxation*	**(2,276)**	(2,556)	
Profit after tax* **	**40,238**	31,542	**28%**

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

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

In 2013, Burford continued its strong financial performance. Profits[1] increased by 25%.

Our investment portfolio and our insurance business both contributed to the significant growth in profit over 2012, and our new investments and extraordinary levels of new insurance business position the business for ongoing success.

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The past year also saw continued acceptance and adoption of litigation finance. Burford's annual survey showed sharp increases in lawyers' views of litigation finance as a useful tool, along with an even more dramatic uptick in the views of corporate CFOs favouring its use. Investors are similarly enthusiastic, with hundreds of millions of dollars of new capital entering the asset class – which is a necessary part of continuing the establishment of litigation finance as a normal, mainstream part of litigation. Burford's returns, high and uncorrelated, have delivered on our initial aspirations and have also served to fuel the overall growth of the market.

Our new structure as a unitary operating business, our adoption of IFRS 9 and the ever-increasing expansion of our business lines and structures make our IFRS accounts the single best window into Burford's financial performance, although even those accounts still do not capture what we expect to be the ultimate performance of our investment portfolio. However, for those investors who prefer to look at cash results, those too saw a significant increase in 2013: we generated $31.3 million of cash from the investment portfolio, an increase of 78% over 2012's $17.7 million. Our level of outstanding portfolio receivables – amounts due to Burford over time as to which there is no further litigation risk, has also increased to $50.9 million.

In response to shareholder feedback, we provide later in this report a substantial increase in detail about the Burford investment portfolio. In overview:

- Since inception, 25 investments have generated $147 million in gross investment recoveries[2] and $50 million net of invested capital (a 43% increase over 2012's $35 million), producing a 52% net return on invested capital.
- All of the investments we made in 2009 are now concluded[3], and generated a 133% net return on invested capital as well as the potential for incremental returns over time.
- All of the investments we made in 2010 are either concluded or have progressed such that their fair value has been adjusted based on some material event.
- The investment portfolio presently contains 35 separate investments with total commitments of $264 million that are still ongoing (some of which are comprised of multiple underlying litigation matters); the portfolio continues to develop and mature.

1 As defined on the preceding page.

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

3 We view matters as concluded when there is no longer litigation risk associated with their outcome and when our entitlement is crystallised or well-defined. While concluded matters often produce cash returns rapidly, some concluded matters are still in the process of being monetised.

- Burford also has an additional $39 million in gross pending investment recoveries across seven investments and $13 million net of invested capital, for a return on invested capital of 49%[4].

In 2011, Burford lent $30 million on a secured, recourse basis against a litigation portfolio at a point in Burford's development when it did not have immediate need of all the cash it had raised. That loan has now been fully repaid, somewhat ahead of schedule (which earned Burford further fees). Over its life, Burford earned $9.5 million from this advance, and now has the capital back to redeploy. As we have not historically regarded this transaction as being within our core investing activity, we show this income as "other income" and conservatively do not include it in our litigation portfolio investment returns[5].

The insurance business has also performed strongly. It produced more than $20 million in income and more than $10 million in profits in 2013, a new high under Burford's ownership. In 2013, there was profound regulatory change in UK litigation that affected all aspects of the market, including litigation expenses insurance – what we have called previously the "Jackson reforms" – and it is still too soon to make any future predictions. However, the significant tail of business written during and before 2013 in this business positions it for several years of sustained profitability while we wait for the market to stabilise.

During 2013, we made real progress towards our goal of establishing a capital structure appropriate for a perpetual commercial finance institution. The first step was to complete our $40 million contingent preferred share issue, which we did in November 2013. Having this contingent capital available on demand to Burford increases our flexibility and enhances our ability to optimise our balance sheet.

We propose to shareholders a 10% increase in the dividend to 5.23¢ per share, on top of last year's 30% increase. We have consistently paid dividends above the level of the dividend policy we announced at the time of our IPO, and henceforth the Board will consider the dividend and make its recommendation to shareholders. Given the attractive investment opportunities we see, we continue to believe that a combination of attractive dividend income and the reinvestment of capital will maximise shareholder returns.

As expected and as described to shareholders in our 2012 Annual Report and our 2013 Interim Report, the non-cash charges mandated by IFRS for Burford's restructuring in 2012 continued into 2013, but those have now come to an end with this set of financial statements, and no further charges were taken since the release of the 2013 interim results.

The litigation finance market continues to grow and evolve. Each year brings new opportunities (and concomitant challenges). We are pleased to be in a continuing position of market leadership and look forward to addressing the opportunities that will present themselves in 2014.

Burford's performance[6]

Insurance business

We begin our performance discussion with the insurance business (notwithstanding its smaller scale) so that it does not get lost behind the lengthy discussion we provide below about the investment portfolio.

Burford entered the litigation expenses insurance business through its February 2012 acquisition of Firstassist, a long-standing UK-based provider of such insurance.

4 Pending investment recoveries refers 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.

5 Burford's other income has also historically included cash management income, which has declined this year given Burford's lower cash balances.

6 Unless otherwise noted, figures and data throughout this report relate to the fiscal year in question and the report does not address business performance subsequent to 31 December 2013.

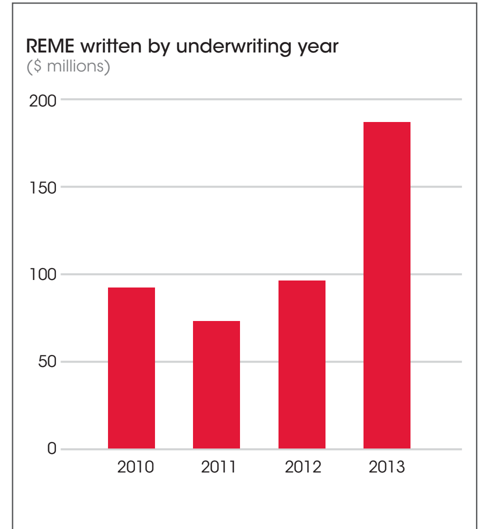
As we have noted previously, that was an excellent acquisition.

The performance of the existing book of business has been strong. We do not recognise revenue from insurance matters until we earn a premium, which generally occurs only at the successful conclusion of a litigation case (either through settlement or adjudication). As a result, we are now seeing the profits from business generally written several years ago.

Insurance matters are not on autopilot once written, however. A considerable degree of skill and effort is required to maximise performance of the book, and we have adopted a fully integrated and active approach to managing the insurance business.

A yardstick for the insurance business is what we call "REME", which stands for "realistic estimated maximum exposure". In short, this is the amount of litigation cost that we estimate we would have to pay in the event of a loss if a matter went all the way to trial (and the denominator in our premium calculations if matters proceed to trial and win, as our premiums are generally expressed as a percentage of the actual exposure ultimately assumed in a matter). REME is necessarily an overstated number, as many matters settle before reaching trial and in such an event our premium will only be the agreed percentage of the adverse costs exposure to that point in the matter, but it is a key metric in the management of the business, as it is impossible to predict which matters will settle as opposed to proceed to trial, and our REME levels should generally correlate to future premium income.

In 2013, the insurance business had an excellent year. Not only did it produce record levels of income and profit[7] from previously written business, but it wrote an extraordinary amount of new business that will position the business for future profitability.

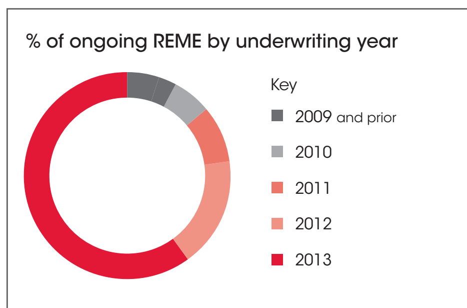


* Excludes lines of business that are not directly underwritten by Burford Capital UK.

The question of future profitability depends not only on initial activity levels but on outstanding balances of REME, as those represent matters in progress and thus premiums still to be earned.

7 The only year in the business' history with higher profits was 2011, when a single very large case was successful and generated a $7.5 million premium.

As at 31 December 2013, the distribution of REME in outstanding matters was as follows:



* Excludes lines of business that are not directly underwritten by Burford Capital UK.

This chart demonstrates an expected multi-year continuation of insurance profits from our existing business.

We discuss later in this report the UK market dynamics around the future provision of litigation insurance and litigation finance.

Litigation investment business

Burford's investment portfolio performed well in 2013 by any measure – cash generation, returns on capital, and progress of outstanding investments.

It may be useful, for context, to recap how Burford's litigation investments tend to work and how we account for them before setting out a variety of information about the current state of the portfolio.

Burford makes many different types of investments. We are just as comfortable investing capital in a single litigation matter at its outset, in a portfolio of matters in various stages of the litigation process, and in assets or entities whose value is principally based on litigation outcomes. Indeed, as the litigation finance market continues to develop and mature, it is essential that we are prepared to consider whatever our clients bring us, and our business has evolved to be much more than the simple funding of legal fees in a single litigation matter.

When we invest, we also do so using widely varying structures. Sometimes, our capital is entirely invested at closing; in other investments, it is provided over time (sometimes at our option, sometimes at our counterparty's). Our capital can be used for many different purposes, ranging from paying litigation costs to providing risk transfer solutions for law firms and their clients to providing operating capital for businesses with material litigation assets. We engage in both recourse and non-recourse transactions. We seek to generate overall high returns by creating a diversified portfolio of litigation risk, with different risk and return profiles.

The timing and nature of our returns are similarly variable. Sometimes, matters conclude and we are paid a single lump sum immediately. But there can also be a material period when we have a receivable (devoid of litigation risk). Thus, there is frequently a linear process from investment, to increase in unrealised value based on the progress of the proceeding, to resolution creating a receivable, to payment (sometimes in a non-cash form that takes further time to reduce to cash). Many of our investment structures include a time-based component so that delays in monetising litigation results and in Burford receiving its entitlement will result in us receiving incremental compensation – and indeed sometimes at levels where it is a desirable outcome for us to have matters be slow in paying us.

It is important to note that our status as a passive finance provider means that we generally have no ability to control or influence these factors, other than by structuring our investments initially. It is not uncommon for businesses to be able to extract better litigation settlements if they contain either a delayed payment provision or if they are willing to include non-cash assets as part of a settlement. Thus, while the often leisurely pace of litigation compounded with some back-end result that is not an immediate cash payment can be frustrating, the reality is that such outcomes often maximise value.

This reality is reflected in our new IFRS 9 accounting. When we first invest in a matter, we hold that investment at cost. As the matter progresses, developments in the litigation process (such as interlocutory rulings by the court or tribunal) typically cause us to adjust the fair value of the matter. While each matter is unique both in its transaction structure and the manner in which it progresses through the litigation process, we are more likely to adjust fair value based on guaranteed recoveries than contingent recoveries. So, for example, if our terms provide for a priority return of two times our investment with a back-end contingency of 25% of the recovered damages, we would generally increase the fair value of that matter as appropriate by recognising some part of the priority return, and we are less likely to assign some value to the back-end 25% contingency before there is some merits adjudication of the matter. Of course, this process works both ways, so that we may reduce the fair value of a matter whose progress is disappointing, the impact of which is included in the net returns we publish.

Ultimately, once we are no longer taking litigation risk on a matter, such as when there has been an agreed (but unpaid) settlement, we move the matter into a receivable. At that point, we stop the IFRS fair valuing process, and we record the estimated result (discounted appropriately), and thereafter recognise separately any further increments caused by the passage of time, such as from interest running on our entitlement. At the end of the day, we receive cash from the matter, although many matters are likely to progress through the receivable stage for varying lengths of time before generating cash. We have never had a receivable that was not paid.

Thus, one must look at several different strands of recovery to understand our total return from a matter, including both cash receipts and receivable creation.

Let us now apply that theoretical discussion to the actual investment portfolio. We present below a number of different ways of looking at the portfolio and its performance.

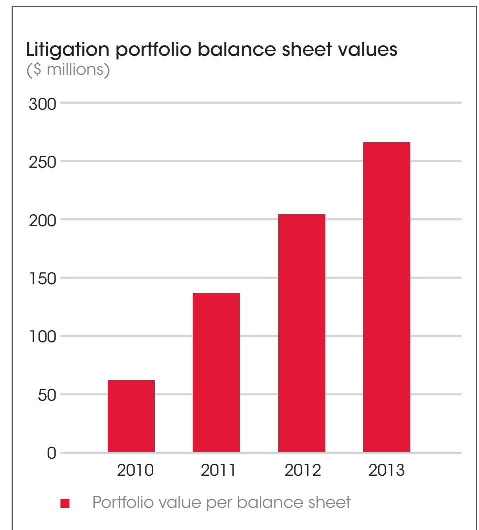
Since inception, Burford has committed $419 million of capital to 59 investments:

	Commitment amount ($million)	Number of investments
Short duration portfolio	65	13
Core portfolio	268	41
Special situations portfolio	27	3
Other investments	59	2
Total	419	59

At 31 December 2013, Burford's outstanding commitments were as follows:

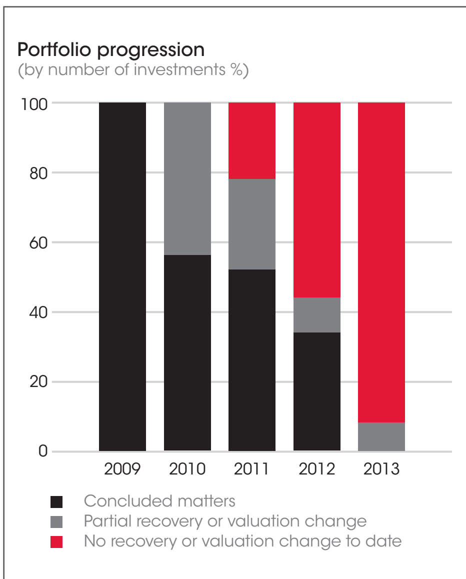
	Commitment amount ($million)	Number of investments
Short duration portfolio	27	5
Core portfolio	200	28
Special situations portfolio	8	1
Other investments	29	1
Total	264	35

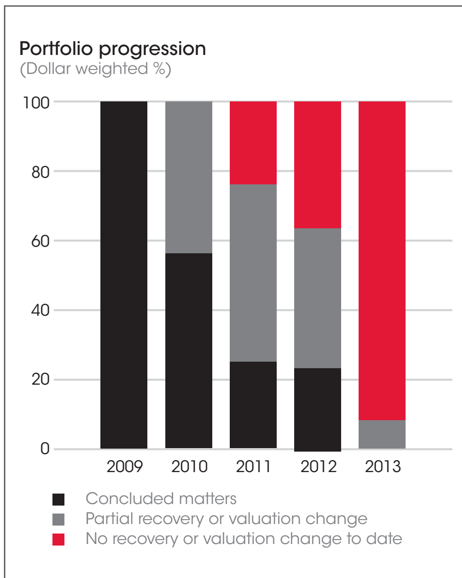
Moreover, while the portfolio continues to revolve, it has shown consistent asset value growth.



We are increasingly presenting the portfolio by investment vintage in an effort to help investors understand the progression of investment matters through the litigation process.

The charts that follow illustrate graphically that progression. As can be seen below, the older the vintage, the more investments have either concluded entirely or achieved material substantive progress. It is thus natural that our 2009 vintage investments are entirely concluded, just as it is natural that our 2013 vintage investments show relatively little activity yet. This suggests that the portfolio is poised to continue to deliver significant performance as investments continue to mature – and that continuing investment in matters has the potential to generate ongoing, long-term profitability.



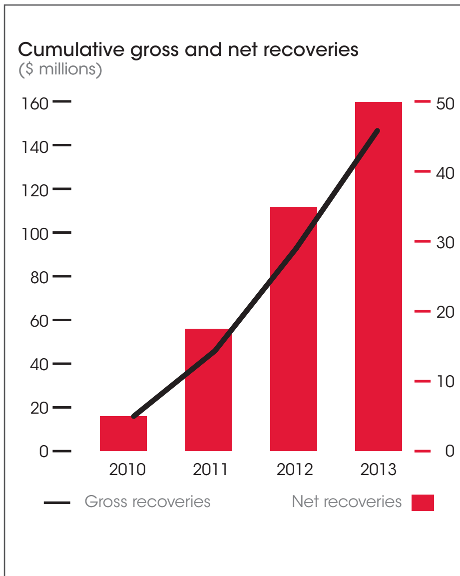


While the preceding information is useful in understanding the position and development of the portfolio, ultimately, this business is about performance – our ability to generate profits on a portfolio of litigation investments. Thus, we now move to a consideration of portfolio performance.

We continue to believe that the best measure of performance is the one we introduced in 2012 – the concept of net returns on invested capital once matters are concluded (i.e. no longer subject to litigation risk).

Burford's performance on that measure continues to be impressive.

Since inception, 25 investments have generated $147 million in gross investment recoveries and $50 million net of invested capital (a 43% increase over 2012's $35 million), producing a 52% net return on invested capital.



We are often asked about IRRs. Particularly given the multiple lines of business in which Burford is now engaged and the widely varying nature of our investments, we regard IRRs as a less helpful measure than return on invested capital (on a per investment or portfolio basis) and return on equity (for the entire business). That is especially true when one considers that we have one matter with IRR in excess of 15,000%, another in excess of 1,000% and several more well into the hundreds – but that does not necessarily signify that those were fantastic investments (although we were perfectly happy with them) because we can't reliably put out capital in our business repeatedly and have it returned as quickly as occurred in those matters. Indeed, as a general matter, we would have preferred our capital to be outstanding for longer in those ultra-high IRR matters, so that we generated greater cash profits but lower IRRs.

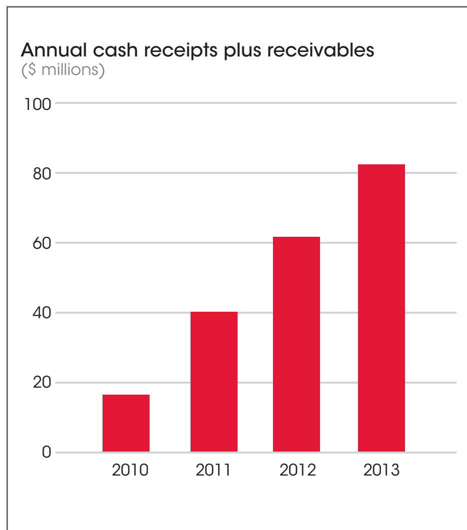
Nevertheless, we are pleased to report that the litigation investment portfolio has generated an IRR of approximately 26% to date, with all losses taken into account.

No discussion of portfolio performance is complete without mentioning cash. We have traditionally looked at actual cash receipts from investments, and we present cash data below, but both the accounting rules and the approach of other industry players have moved away from a cash-based approach to this asset class, principally because a pure cash approach when considering the duration and complexity of our transactions now clearly undervalues the portfolio and leaves that incremental value to conjecture. While we initially resisted such a move given the challenges of valuing the portfolio, we have come to accept that a pure cash approach does not give a realistic sense of the embedded value of the portfolio's assets, particularly those that have advanced in the process and have achieved significant positive results but have not yet generated cash (or are in the process of doing so over time). Moreover, our experience and the historical track record we have developed provide greater comfort and reliability around our portfolio valuations.

Notwithstanding the foregoing comments, we are pleased with the cash performance of the portfolio

- Since inception, we have generated $90.5 million in gross cash receipts from investments.
- The pace of cash generation has increased substantially as the portfolio has matured, so that in 2013, we generated $31.3 million in gross cash receipts, a 78% increase over 2012.

When one examines the combination of actual cash receipts and receivables created (which are not subject to litigation risk), we see steady growth:



In short, we believe that after more than four years of investment activity, we have demonstrated a consistent ability to produce attractive returns in this asset class, and we look forward to continuing to build and grow the portfolio in the years to come.

Finally, some investors have asked for more granular information about our investment results. We have previously explained the issues around individual investment disclosure and we have tried to provide textual descriptions of entirely concluded investments, but there still remains a desire for a classic tabular presentation of individual investment performance. Thus, in our continuing quest to find the right balance on this issue, we are this year moving from our historical textual approach to this tabular one, and solicit feedback from investors about this change.

We would note that the continuing evolution of the business makes past performance not necessarily indicative of future results.

We have always analogised Burford and its portfolio to a venture capital fund: investments will produce widely varying results, some performing as expected, some outperforming substantially, and some disappointing or producing total losses. This is just what we have experienced.

We wanted to address the 2010 investment vintage as the chart below makes it appear as though 2010 is an outlier in terms of portfolio performance. There are, however, two factors at work in 2010. First, the largest concluded investment in that year was outstanding for only six days before it was fully returned along with a profit of more than a million dollars. That produced an extraordinary IRR – more than 15,000% – but quite a low ROIC that depressed overall ROIC because of its relative proportion of the year's denominator. Second, and more significantly, we have several large investments in that vintage that are quite mature and have progressed well (and have increased in value) but are not yet concluded and are thus not included in our presentation of investment performance. We do not believe the current 2010 result will ultimately be representative of the vintage's performance once all investment matters from that year conclude.

Concluded Investment Performance

($ million)

Vintage	Total investment	Total recovered	Return on invested capital	IRR
Investments made in 2009 – 100% complete	7.0	24.6	254%	51%
	2.0	2.0	(1%)	–
	2.5	–	–	–
2009 Performance to date	**11.5**	**26.6**	**133%**	**33%**
Investments made in 2010 – 56% complete	2.1	4.5	119%	52%
	1.4	2.5	76%	32%
	6.1	10.5	71%	75%
	4.8	7.8	62%	23%
	2.6	3.5	33%	11%
	9.1	10.2	13%	15590%
	4.5	4.0	(12%)	–
	3.2	0.2	(95%)	–
	3.9	0.03	(99%)	–
2010 Performance to date	**37.7**	**43.2**	**15%**	**10%**
Investments made in 2011* – 53% complete	7.4	15.8	113%	104%
	3.5	6.4	83%	34%
	4.9	6.5	32%	29%
	10.0	7.5	(25%)	–
	4.4	–	–	–
	1.1**	11.8**	996%	311%
2011 Performance to date	**31.3**	**48.0**	**53%**	**31%**
Investments made in 2012 – 33% complete	1.0	2.4	150%	436%
	2.9	5.2	76%	156%
	4.3	7.5	74%	13%
	8.2**	13.7**	67%	29%
2012 Performance to date	**16.4**	**28.8**	**75%**	**32%**
Investments made in 2013 – all still ongoing	0.1**	0.7**	1172%	1166%
2013 Performance to date	0.1	0.7	1172%	1166%
TOTAL INVESTMENT RECOVERIES TO DATE	**97.0**	**147.3**	**52%**	**26%**

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

Burford's current operations and structure
Burford is composed of its publicly traded parent company, Burford Capital Limited, and a number of wholly owned subsidiaries in various jurisdictions through which it conducts its operations and makes its investments.

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

They are:

Sir Peter Middleton GCB, *Chairman:*
Sir Peter Middleton is UK Chairman of Marsh & McLennan Companies and Chairman of Mercer Ltd. He was previously Permanent Secretary at HM Treasury and Group Chairman and Chief Executive of Barclays Bank PLC.

Hugh Steven Wilson, *Vice Chairman:*
Mr. Wilson was a senior partner with Latham & Watkins, where he was Global Co-Chair of the Mergers and Acquisitions Practice Group and former Chairman of both the National Litigation Department and the National Mergers and Acquisitions Litigation Practice Group. He is the former Managing Partner of Tennenbaum Capital Partners.

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

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

The Board holds a quarterly in-person meeting during which it reviews thoroughly all aspects of the business' strategy and performance; the Directors spend at least one evening and one full day together for each meeting, and every Director attended all meetings held in 2013. The Board reviews its performance and Director compensation annually and regularly discusses succession planning and management oversight. The Board meets in closed session without management present at each of its meetings. The Board also operates through three committees, Audit, Investment and Remuneration, all of which meet throughout the year as required. The Remuneration committee reviews and approves compensation for all senior staff. No members of management sit on the Board.

Following the 2012 Reorganisation, in 2013 the Directors supervised a number of changes in the business as it became a unitary commercial finance provider. Burford has introduced a robust global compliance programme, with compliance officers in both countries where we have operations. We have in-house counsel in both countries. We have insourced our finance and control functions under the direction of our new Chief Financial Officer, Miriam Connole, who joined us in February 2013 from senior finance roles at Friends Life Group and RSA. We also engaged in a restructuring of our UK operations to position the business to meet the needs of the market in the aftermath of the Jackson reforms, which we discuss in greater detail below.

Thus, today Burford is organised with operations in both the US and the UK. In the US, we have staff located in New York, Washington DC and California, with further market coverage via arrangements with a collection of distinguished retired lawyers in other locations. In the UK, our staff are all located in the London area. As a general proposition, we engage in underwriting and managing UK and Channel Islands domestic litigation and insurance matters from our UK office, and US and international matters from our US team, although we run a globally integrated investment function that both pools resources and also involves personnel from both countries in our global investment committee, whose approval is required for any new investment. All told, we have more than 30 full-time staff.

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

Burford's senior team[8] includes:

Christopher Bogart,
Chief Executive Officer:
Mr. Bogart co-founded Burford. He was the Executive Vice President & General Counsel of Time Warner Inc. and a litigator at New York's Cravath, Swaine & Moore. Before founding Burford he held a variety of executive management roles, including as the Chief Executive of Time Warner Cable Ventures.

Jonathan Molot,
Chief Investment Officer:
Mr. Molot co-founded Burford. He is a Professor of Law at Georgetown University Law Center and an experienced litigator, an expert in the litigation finance field and a former senior U.S. government official. He clerked for Justice Breyer of the U.S. Supreme Court and practiced with Cleary Gottlieb and Kellogg, Huber.

Ernest Getto,
Managing Director:
Mr. Getto was a senior partner and Global Chair of the Litigation Department at Latham & Watkins, one of the world's largest law firms, and is a Fellow of the American College of Trial Lawyers.

Aviva Will,
Managing Director:
Ms. Will was a senior litigation manager and Assistant General Counsel at Time Warner Inc. and a litigator at Cravath, Swaine & Moore.

Miriam Connole,
Chief Financial Officer:
Ms. Connole was Group Commercial Finance Director at Friends Life Group and Chief Financial Officer of RSA's Central & Eastern European region. She has a CA and a Masters in Accounting and practiced with Arthur Andersen before entering the insurance industry with AIG and ACE.

Peter Benzian,
Managing Director:
Mr. Benzian was a senior partner at Latham & Watkins and Chairman of the firm's San Diego Litigation Department.

John Blackburn,
Managing Director:
Mr. Blackburn was a Managing Director at Merrill Lynch for 16 years managing various principal investment desks at the firm. He has both a JD and a MBA and has worked previously with Citibank, Freddie Mac and AmRock Capital.

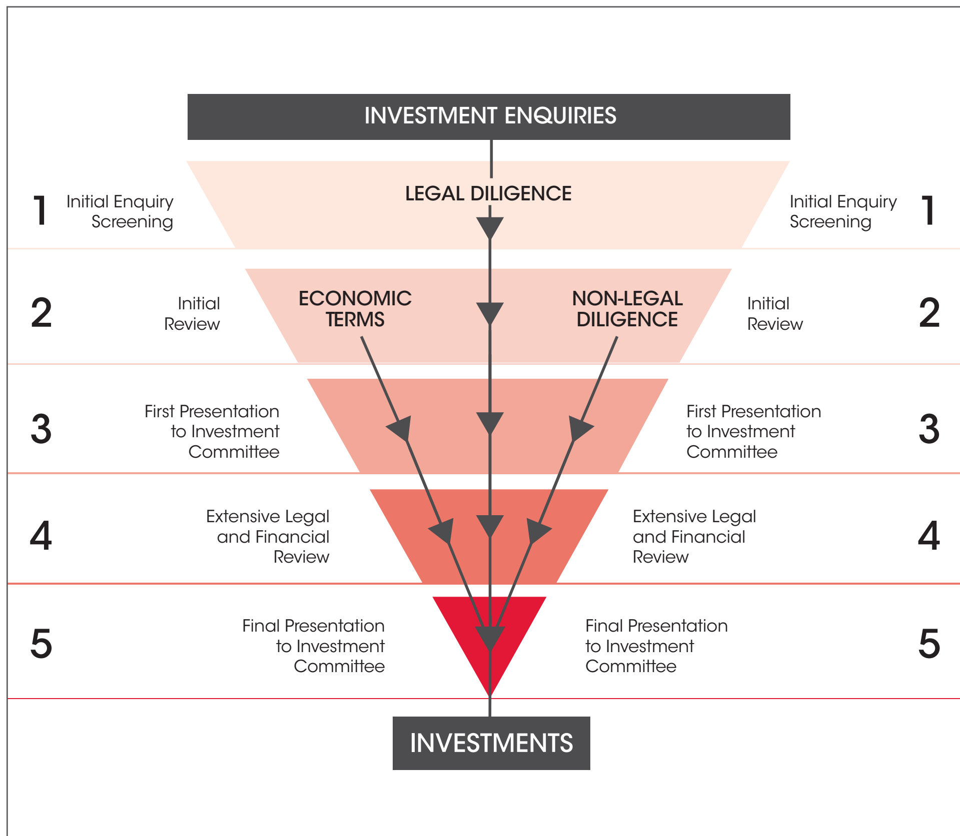
Ross Clark,
UK Chief Investment Officer:
Mr. Clark has spent more than twenty years at Burford UK and its predecessors following his studies during which he earned a law degree, a MBA and the Chartered Insurer designation

Elizabeth O'Connell CFA,
Managing Director:
Ms. O'Connell was the Chief Financial Officer of Glenavy Capital LLC and Churchill Ventures Limited, and was a senior investment banker at Credit Suisse and Citigroup.

8 Burford's management team members are employed by various operating subsidiaries of the Company depending on their geographic location and scope of responsibility. None of Burford's management team is employed by, or is an officer or director of, Burford Capital Limited.

In addition to those members of management, Burford's team includes experienced lawyers and finance professionals drawn from major law firms, professional services firms and financial institutions such as Debevoise & Plimpton, Ernst & Young, Travelers Insurance, Olswang, Freshfields and American Express.

Burford puts our human resources to work to follow a rigorous and detailed investment process that is conducted predominantly in-house. This represents both our view about the right way to run an investment business and also a clear competitive advantage: we believe that outsourcing due diligence to law firms does not provide as complete an investment profile as we can compile with our own multi-disciplinary approach and is also more expensive and time-consuming.



The litigation finance business worldwide

The litigation finance business is engaged in a remarkable level of growth and attention around the world. From being virtually unknown when Burford was founded in 2009, litigation finance is now regularly featured in the press, the topic of active academic study, the subject of professional conferences and seminars too numerous to mention and an ever-growing focus of law firm and client attention. Indeed, Burford's co-founders were recently named as "Legal Business Trailblazers and Pioneers" by the *National Law Journal* for their "pioneer spirit" in reshaping the way law firms conduct business.

Here is just a sample of 2013's headlines:

- *The Wall Street Journal*
  Litigation Investors Gain in US
- *The Economist*
  Fat Returns for Those Who Help Companies Take Legal Action
- *Management Today*
  Litigation Funding is Back, and it Could Help Your Business
- *LegalFutures*
  Legal Sector "Ripe" for Investment
- *LegalWeek*
  Mining Your Claim: Turning Litigation into a Business Tool
- *Reuters*
  How to Cash in On Lawsuits
- *Inside Counsel*
  Litigation: Are Lawsuits the Newest Commodity?

What is the underlying reason for this enthusiasm? The answer to that question lies in a number of complex variables.

Law firm structure and economics are very relevant to the litigation finance business. While there are national exceptions, as a general proposition law firms are classic equity partnerships, where partners earn annual compensation based on their firm's performance and do not retain their equity interests following retirement. Moreover, law firms tend not to have the ability to take on external equity or structural debt. Thus, they tend to run very simple balance sheets, and law firm partners are sensitive to reducing their cash compensation in exchange for longer-term potential rewards because partners who retire while those rewards are being created not only don't share in them but also suffer reductions in current compensation while at-risk matters run through the litigation process.

Thus, depending on their culture, major law firms have varying but generally low tolerance for assuming their clients' litigation risk.

Clients, on the other hand, have an ever-increasing unwillingness to sign up for large and uncertain levels of expenditure to pursue claims. There are several reasons for this. Litigation costs have risen sharply over the past decade while corporate budget tolerance for high and unpredictable spending has declined. Moreover, defence spending has also risen, especially in certain industries such as financial services, leaving clients particularly disinclined to commit capital to pursue claims. Finally, the accounting treatment of pursuing litigation claims is unfavourable for many corporate clients because the costs of doing so are booked as current expenses. All of those factors lead clients to seek financial options for the pursuit of litigation and, as discussed, law firms are generally unwilling to be the providers of those options.

In addition to client disenchantment with the costs of litigation, businesses are also recognising that their ownership of significant litigation claims that are proceeding through the litigation process represents meaningful contingent asset value that is capable of being monetised currently, without waiting what can be years for resolution and payment. Businesses factor receivables and securitise future cash flows, and there is no reason for pending litigation claims to be treated differently.

It is in no way exceptional for the provider of goods or services (a law firm, in our context) to prefer the involvement of an external specialist capital provider to meet the needs of clients who want financing for those goods or services. That is the premise, for example, on which the leasing industry is built. There is no reason for legal services to be any different.

These themes are seen clearly in Burford's most recent survey of lawyers and clients, which yielded the following findings:

- 77% of lawyers report their largest business challenge to be pressure from clients on their legal fees, while 75% of general counsel and 81% of CFOs report their largest challenge to be cost cutting.
- 83% of CFOs believe litigation finance is a useful tool and 58% of CFOs believe their company has had a case that could have benefited from its use – and half of CFOs believe that litigation finance should be considered as an option in every litigation matter, even if it is not ultimately used (just as they believe in considering financing alternatives for any capital purchase).
- 79% of lawyers think litigation finance is a useful tool and can expand the scope of their law firms.

The full survey is available on Burford's website.

Litigation finance is evolving differently by geography and thus we present below focused discussions about our principal markets.

United States
The United States is Burford's largest market, and the largest litigation market in the world.

The US market is characterised by a substantial amount of complexity and a wide range of litigation risk transfer structures.

To be sure, there is a market in the US for what we call "basic litigation funding" – a transaction where Burford pays some or all of the costs of a claimant bringing a litigation matter using an hourly fee law firm. Typically, Burford engages in such transactions using a non-recourse investment or derivative structure that provides Burford's capital back plus a first dollar priority return (often increasing over time), followed by an entitlement to some portion of the net recovery. However, the market has evolved, and such transactions represent the minority of Burford's US business.

Instead, the market has moved significantly towards transactions where the risk of loss can be reduced in an effort to moderate the binary risk premium that would otherwise need to be charged, typically by using a portfolio or multi-case structure, but also through other structures such as interest-bearing recourse debt (sometimes with a premium based on net recoveries) or the purchase of equity or debt assets that underlie litigation or arbitration claims.

The fundamental reason for this evolution is that the price Burford charges for its capital in single case non-recourse matters is quite high, reflecting the binary risk of loss such investments present, and many counterparties are enthusiastic about the concept of litigation finance but not about the implied cost of capital. This is, moreover, a difficult conversation with counterparties, as even corporate litigants tend to believe strongly in the merits of their own litigation position, and thus find it difficult to be dispassionate about the concept of Burford's need to price matters to overcome a certain level of aggregate losses. In plain language, everyone is sure that it is not their case that will be the losing one, and thus no one thinks they should pay to cover losses in a portfolio.

Nevertheless, there is substantial interest in the various propositions Burford can offer, and we continue to expand our offerings in response to market demand. Each year, we speak to thousands of lawyers about litigation finance, and continue to build new relationships. We work with many of the country's largest law firms as well as a significant number of litigation boutiques, and in an increasing number of instances end up with repeat business from the same law firm. Indeed, law firms have begun marketing their ability to work with us and access our capital in their own marketing pitches to their clients.

The competitive environment in the US is fragmented. There are a few other specialty litigation finance providers with available capital, but that market is not especially deep nor is it particularly price competitive (just as the overall legal services market tends to eschew direct price competition). As transaction sizes increase, however, hedge funds and other multi-strategy investment vehicles become more prevalent, although their general lack of specialised in-house diligence capability tends to put them at a disadvantage in transactions when speed or efficiency are relevant.

Litigation finance continues to enjoy generally favourable progress in terms of courts recognising its legitimacy and protecting communications with clients from disclosure. There remains some opposition to the concept, particularly among a few insurer- and defendant-financed interest groups, but given that any regulation of litigation finance would be a matter for individual US States, the status quo of commercial litigation finance being generally permissible and unregulated remains unchanged.

The overarching theme in the US market is really that illustrated by our annual survey: a great deal of general awareness (accompanied by substantial media coverage), and a substantial interest by lawyers and clients in expanding the consideration of the use of litigation finance. The nascent asset class institutionalised by Burford in 2009 has clearly flourished and joined the mainstream of US litigation.

United Kingdom

Burford provides both litigation finance and litigation expenses insurance in the UK and in the Channel Islands.

The UK litigation market has been roiled by the enactment of the Jackson reforms, which were implemented in April 2013. Those reforms made a number of fundamental changes in the conduct of UK litigation and go far beyond just our business activities. Among other changes, American-style contingency fees are now permitted in UK litigation, building on recent changes to allow lawyers to operate in partnership with non-lawyers, and the courts are responsible for active case and cost management.

The introduction of such sweeping changes, particularly in a relatively traditional market, could be expected to have a tumultuous result, and that expectation was borne out.

As an initial matter, the timetable for the actual implementation of the reforms was uncertain for some time, and thus when it became clear early in 2013 that the government intended to rush to implement the reforms as of 1 April 2013, the legal market reacted dramatically. Because the reforms would not have a retroactive effect, there was an enormous rush among lawyers and their clients to put cases on file before 1 April, which resulted in Burford seeing a record-breaking surge in new insurance business in the first quarter of 2013.

The reforms were then implemented in such a way as to create confusion and uncertainty in the UK legal market. The President of the London Solicitors Litigation Association described it as a "shambles". *The Law Society Gazette* reported that "few predict a smooth transition". A noted commentator said: "To call the programme of implementation and announcements shambolic is a kindness. We are now undergoing the most chaotic period in legal costs and funding since the concept was codified in the Statute of Westminster 1275."

As a result, and unsurprisingly, the litigation volumes we saw following 1 April fell sharply, as did the demand for our UK offerings.

After the summer, we had expected the market to stabilise and to be able to assess the future. However, while demand did pick up, we do not think we have yet reached any sort of stability in the UK litigation market but we expect 2014 to permit that kind of market assessment.

We have not, however, been standing still.

In the summer of 2013, we entered into an exciting arrangement with Manolete Partners, an insolvency-focused firm backed by Jon Moulton, to joint venture on larger insolvency funding matters. Manolete has been growing rapidly and our collaboration has been bearing fruit.

One of the unintended consequences of rushing the Jackson reforms was that the rules about lawyers taking on contingent cases were poorly drafted and resulted in the conclusion that while lawyers may do full contingencies (where they charge no fees and are paid, if at all, solely from the damages collected), they may not do partial ones (where they charge reduced rates in exchange for a lower "back end" recovery). This all-or-nothing approach is, of course, a significant impediment to lawyers who wanted to move gradually into the contingency risk business. Burford has led the market in inventing innovative solutions to this conundrum, with the introduction of our Hybrid DBA product that would synthetically permit lawyers to do with us what they cannot do directly. We have gleaned significant market awareness and receptivity as a result of this kind of innovation.

International arbitration
Burford was a pioneer in the business of financing international arbitrations (both commercial and investor-state), and they continue to be a meaningful part of our portfolio.

The international arbitration market is quite different than either domestic litigation market in which we are active. Arbitration matters settle less frequently than litigation matters, and as a result fewer matters produce positive outcomes for claimants. Moreover, because arbitrations more often end in awards than settlements compared to domestic litigation, there tends to be more enforcement activity to get to cash receipts. On the other hand, arbitration often is less expensive than the comparable domestic litigation proceeding, and can be faster, although disappointing trends in investor-state arbitration are eroding both of those advantages. These structural dynamics tend to result in capital for arbitrations being priced higher than for comparable domestic litigation matters and for loss rates similarly to be higher.

We remain enthusiastic about arbitration finance for a number of reasons. We have a clear brand position in the arbitration field – and the area is sufficiently specialised that there are only a modest number of competitors. Arbitration permits us to expand our international reach without needing to become enmeshed in the domestic litigation environment of other countries, and we have thus far been able to achieve the kind of economic terms that compensate for the higher loss rates.

Overall, we continue to be excited to be leading this pioneering industry. Law has for too long been without sensible corporate finance alternatives. There is an enormous untapped market to explore. The year ahead promises to provide yet more growth and expansion, and we are grateful to our shareholders for their loyalty and support.

Sir Peter Middleton GCB
Chairman

Christopher Bogart
Chief Executive Officer

Jonathan Molot
Chief Investment Officer

March 2014

Messrs. Bogart and Molot, like all of Burford's people other than our four Directors, are employees and officers of subsidiaries of Burford Capital Limited.

The Directors present their Annual Report and audited consolidated financial statements of the Group for the year ended 31 December 2013.

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

Corporate governance

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

Results and dividend

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

The Directors propose to pay a dividend of 5.23¢ (United States cents) per ordinary share in the capital of the Company during 2014. 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 13 May 2014).

If approved by shareholders, the record date for this dividend will be 23 May 2014 and payment of this dividend would then occur on 16 June 2014.

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

The Directors proposed and, following shareholder approval, paid a dividend of 4.758¢ per share on 17 June 2013 to shareholders on the register as at close of business on 24 May 2013.

Directors

The Directors of the Company who served during the year and to date are as stated on page 52.

Directors' interests

	Number of shares	% Holding at 31 Dec 2013
Sir Peter Middleton	100,000	0.05
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 International Financial Reporting Standards.

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

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

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

Disclosure of Information to auditors

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

Auditors

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

Charles Parkinson
Director

28 March 2014

To the members of Burford Capital Limited

We have audited the consolidated financial statements of Burford Capital Limited for the year ended 31 December 2013 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 20 the Company's Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the consolidated financial statements.

In addition, we read all the financial and non-financial information in the report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of affairs of the Group as at 31 December 2013 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

28 March 2014

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 2013

	Notes	2013 $'000	2012 $'000
Income			
Net gains on litigation-related investments	10	31,594	21,273
Interest and other income from litigation-related activities	11	7,253	11,184
Insurance-related income		20,910	16,152
Net gains on cash management investments at fair value through profit or loss	9	645	4,960
Net gain on foreign exchange		175	661
Bank interest income		83	7
Total income		60,660	54,237
Operating expenses	13	(18,146)	(20,139)
Profit before tax and the impacts relating to the Burford UK acquisition, the 2012 Reorganisation and UK Restructuring costs		42,514	34,098
Non-cash, non-NAV charge associated with the 2012 Reorganisation	7	(26,539)	(11,315)
Reorganisation advisory fees		(1,479)	(700)
UK Restructuring costs	15	(1,171)	–
Non-recurring Burford UK acquisition impacts	5	–	5,886
Amortisation of embedded value intangible asset arising on Burford UK acquisition	6	(11,179)	(11,079)
Profit for the year before taxation		2,146	16,890
Taxation	4	(2,276)	(2,556)
Deferred tax credit on amortisation of embedded value intangible asset	4	2,795	2,979
Total taxation		519	423
Profit for the year after taxation		2,665	17,313
Attributable to non-controlling interests		–	(67)
Attributable to contingent preference shares		89	–
Attributable to ordinary shareholders		2,576	17,380
		2,665	17,313
Other comprehensive income			
Exchange differences on translation of foreign operations on consolidation		212	127
Total comprehensive income for the year		2,877	17,440
Attributable to non-controlling interests		–	(67)
Attributable to contingent preference shares		89	–
Attributable to ordinary shareholders		2,788	17,507
		Cents	Cents
Basic and diluted profit per ordinary share	18	1.26	9.59
Basic and diluted comprehensive income per ordinary share	18	1.36	9.66

The notes on pages 26 to 51 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2013

	Notes	2013 $'000	2012 $'000
Assets			
Non-current assets			
Embedded value intangible asset	6	9,771	21,196
Tangible fixed assets		504	565
Litigation-related investments	10	214,873	159,749
Litigation portfolio financing	12	–	30,000
Due from settlement of litigation-related investments	11	41,430	28,482
Deferred tax asset	4	695	–
		267,273	239,992
Current assets			
Cash management investments at fair value through profit or loss	9	26,147	50,790
Due from settlement of litigation-related investments	11	9,469	15,358
Receivables and prepayments	14	15,526	13,311
Cash and cash equivalents		57,667	25,559
		108,809	105,018
Total assets		376,082	345,010
Liabilities			
Current liabilities			
Litigation-related investments payable		15,639	–
Payables	15	4,711	6,312
Taxation payable		1,994	1,503
		22,344	7,815
Non-current liabilities			
Deferred taxation payable	4	2,227	5,087
Total liabilities		24,571	12,902
Total net assets		351,511	332,108
Represented by:			
Ordinary share capital	16	328,749	302,210
Revenue reserve		22,422	29,771
Other reserves		339	127
Total equity attributable to ordinary shareholders		351,510	332,108
Equity attributable to contingent preference shares		1	–
Total equity shareholders' funds		351,511	332,108

The notes on pages 26 to 51 form an integral part of these consolidated financial statements.

The financial statements on pages 22 to 51 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf by:

Charles Parkinson,
Director

28 March 2014

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	2013 $'000	2012 $'000
Cash flows from operating activities		
Profit for the year before tax	2,146	16,890
Adjusted for:		
Fair value change on cash management investments at fair value through profit or loss	2,634	586
Fair value change on litigation-related investments	(23,583)	(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	(2,880)	(4,704)
Realised gains on realisation of litigation-related investments	(8,011)	(11,782)
Non-cash, non-NAV charge associated with the 2012 Reorganisation	26,539	11,315
Amortisation of embedded value intangible asset	11,179	11,079
Non-recurring Burford UK acquisition impacts	–	(8,538)
Depreciation of tangible fixed assets	260	66
Effect of exchange rate changes	82	(112)
	8,366	82
Changes in working capital		
(Increase)/decrease in receivables	(3,140)	3,353
(Decrease)/increase in payables	(268)	899
Taxation paid	(2,480)	(2,416)
Net proceeds from disposal of cash management investments at fair value through profit or loss	24,889	87,879
Funding of litigation-related investments	(46,781)	(57,106)
Proceeds from litigation-related investments	31,338	17,651
Litigation portfolio financing asset received	30,000	–
Net cash inflow from operating activities	41,924	50,342
Cash flows from financing activities		
Issuance of contingent preference shares	1,200	–
Issue expenses	(1,288)	–
Dividend paid	(9,925)	(6,588)
Cost of acquisition of non-controlling interest in subsidiary	–	(144)
Net cash outflow from financing activities	(10,013)	(6,732)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	–	(27,038)
Purchases of tangible fixed assets	(236)	(27)
Net cash outflow from investing activities	(236)	(27,065)
Net increase in cash and cash equivalents	31,675	16,545
Reconciliation of net cash flow to movements in cash and cash equivalents		
Cash and cash equivalents at beginning of year	25,559	8,902
Increase in cash and cash equivalents	31,675	16,545
Effect of exchange rate changes on cash and cash equivalents	433	112
Cash and cash equivalents at end of year	57,667	25,559

Supplemental Disclosure	2013 $'000	2012 $'000
Cash received from interest income	3,901	5,094

The notes on pages 26 to 51 form an integral part of these consolidated financial statements.

for the year ended 31 December 2013

31 December 2013

	Share capital $'000	Revenue reserve $'000	Foreign currency consolidation reserve $'000	Equity attributable to ordinary shareholders $'000	Contingent preference shares $'000	Total $'000
At 1 January 2013	302,210	29,771	127	332,108	–	332,108
Profit for the year	–	2,576	–	2,576	89	2,665
Other comprehensive income	–	–	212	212	–	212
Dividends paid (note 19)	–	(9,925)	–	(9,925)	–	(9,925)
Issue of share capital (note 7)	26,539	–	–	26,539	–	26,539
Contingent preference shares (note 17)	–	–	–	–	(88)	(88)
Balance at 31 December 2013	328,749	22,422	339	351,510	1	351,511

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	–	8,097	(8,097)	–	–	–
Profit for the year	–	17,380	–	–	(67)	17,313
Other comprehensive income	–	–	–	127	–	127
Dividends paid	–	(6,588)	–	–	–	(6,588)
Issue of share capital	11,834	–	–	–	–	11,834
Transactions with non-controlling interests-acquisition of minority	–	83	–	–	67	150
Balance at 31 December 2012	302,210	29,771	–	127	–	332,108

The notes on pages 26 to 51 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 was incorporated under The Companies (Guernsey) Law, 2008 (the "Law") on 11 September 2009. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009.

These financial statements cover the year from 1 January 2013 to 31 December 2013.

2 Principal accounting policies

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

Basis of accounting

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

Significant estimates and judgements

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

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

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

2 Principal accounting policies continued

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

In addition, there are significant estimates and judgements involved in assessing the amortisation of the embedded value intangible arising on the acquisition of Firstassist (note 6).

Further estimates and judgements were required in recognition of the cost attributable during the year 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
IAS 32 Financial instruments presentation:	
Offsetting financial assets and financial liabilities	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities	1 January 2014

No material change is expected to result from the implementation of the above standards.

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. 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.

Basis of consolidation

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

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

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

2 Principal accounting policies continued

Insurance-related income

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

Business combinations, goodwill and negative goodwill

Business combinations are accounted for using the acquisition method. The 2012 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. A non-controlling interest is measured at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

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:

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

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 within net gains on litigation-related investments in the Consolidated Statement of Comprehensive Income.

3) 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 measured at amortised cost using the effective interest method, less any impairment.

2 Principal accounting policies continued

Fair value hierarchy of financial instruments

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

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

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

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

Valuation processes for level 3 investments

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

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

Valuation methodology

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

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

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

2 Principal accounting policies continued

Foreign currency translation

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

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

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

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

Bank interest income

Bank interest income is recognised on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis.

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.

2 Principal accounting policies continued

Taxation

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

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

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

Dividends

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

Tangible fixed assets

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

Leasehold improvements	Life of lease
Fixtures, fittings and equipment	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.

Receivables and prepayments

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

Payables

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

Capital and reserves

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

3 Material agreements

Investment Adviser Agreement

Following the acquisition of the Investment Adviser under the 2012 Reorganisation (see note 7) the Investment Adviser Agreement was terminated at the end of 2012. Details of the Investment Adviser Agreement were disclosed in the 2012 Annual Report.

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 was entitled to receive an annual fee payable quarterly in advance, and further annual fees for the administration of each of the Subsidiaries totalling approximately $400,000 per annum. The agreement was further amended, effective 1 January 2014, with 2014 fees expected to total approximately $170,000.

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

The taxation charge for the year ended 31 December 2013 of $2,276,000 (2012: $2,556,000) includes Burford UK's current taxation of $2,851,000 (2012: $2,546,000) and US subsidiaries' current taxation of $120,000 (2012: $10,000), which is partially offset by a deferred taxation credit of $695,000 (2012: $nil) (see below for deferred taxation movements).

Deferred tax asset	2013 $'000	2012 $'000
At 1 January	–	–
Movement on UK deferred tax – temporary differences	12	–
Unused tax losses in US	683	–
At 31 December	695	–

During the year ending 31 December 2013, the Group also has a deferred taxation credit of $2,795,000 (2012: $2,979,000) relating to the amortisation of the embedded value intangible asset.

Deferred tax liability	2013 $'000	2012 $'000
At 1 January	5,087	–
Deferred tax on embedded value intangible asset at acquisition	–	7,968
Tax released on amortisation of embedded value intangible asset	(2,795)	(2,979)
Movement on UK deferred tax – temporary differences	(23)	–
Foreign exchange adjustment	(42)	98
At 31 December	2,227	5,087

5 Acquisition of subsidiary

On 29 February 2012, the Company acquired Burford UK (formerly known as Firstassist) and its subsidiaries. Burford UK's principal activity is the provision of litigation insurance. Burford UK is regulated by the FCA (formerly known as the FSA) as an insurance intermediary. The Company originally acquired 100% of Burford UK's preferred ordinary shares and 87.5% of Burford UK's ordinary shares. The remaining 12.5% ordinary shares were acquired on 21 December 2012.

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 net non-recurring gain of $5,886,000 associated with the Burford UK acquisition recorded in the 31 December 2012 Consolidated Statement of Comprehensive Income is broken down below:

	2012 $'000
Bargain purchase gain arising on Burford UK acquisition	6,247
Net gain on early settlement of deferred consideration	2,291
Burford UK acquisition costs – non-recurring	(2,652)
	5,886

5 Acquisition of subsidiary continued

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

Like the Company, Burford UK'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 Burford UK as well. The principal additional risks unique to Burford UK are (i) that Burford UK 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 Burford UK's current product offerings.

6 Embedded value intangible asset

	2013 $'000	2012 $'000
At 1 January	21,196	–
Additions	–	31,874
Amortisation	(11,179)	(11,079)
Exchange difference on retranslation	(246)	401
At 31 December	9,771	21,196

Burford UK was acquired on 29 February 2012. The intangible asset represents the value of Burford UK's book of business at the date of acquisition, 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 "2012 Reorganisation") the ultimate effect of which was to internalise the management of the Company and acquire the Investment Adviser. The consideration for the acquisition was 24,545,454 shares of the Company's stock. The Reorganisation was completed on 12 December 2012, and the Company issued the aforementioned shares on that date to the Investment Adviser's principals, Christopher Bogart and Jonathan Molot. As a result of the Reorganisation, the Group has, inter alia, become the owner of Burford Capital LLC, the US operating entity that employs what are now the Group's US employees and which has built a substantial market-leading position in the litigation finance market, and the Company is also no longer obliged to make payments of management and performance fees to the Investment Adviser.

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

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

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

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

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

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 2013

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

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 2013

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

8 Segmental information continued

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

9 Cash management investments at fair value through profit or loss

	2013 $'000	2012 $'000
Listed corporate bond fund	2,169	9,137
Unlisted fixed income and investment funds, including mutual funds	23,978	41,653
Total cash management investments at fair value through profit or loss	26,147	50,790

Reconciliation of movements:

	2013 $'000	2012 $'000
Balance at beginning of year	50,790	144,805
Purchases	46,315	92,528
Proceeds on disposal	(71,204)	(190,661)
Realised gains on disposal	2,880	4,704
Fair value change in year	(2,634)	(586)
Balance at end of year	26,147	50,790

During the year ended 31 December 2013, 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:

	2013 $'000	2012 $'000
Realised gains (including interest income)	3,279	5,546
Fair value movement	(2,634)	(586)
Net gains	645	4,960

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.

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

31 December 2013

	Balance at fair value as at 31 December 2012 $'000	Additions $'000	Realisations $'000	Net realised gain/(loss) for year $'000	Fair value movement $'000	Foreign exchange gain $'000	Balance at fair value as at 31 December 2013 $'000
Short Duration Investments	34,854	685	(166)	166	2,864	–	38,403
Core Investments	111,856	61,735	(37,306)	10,836	21,199	111	168,431
Special Situations Investments	13,039	–	–	(4,520)*	(480)	–	8,039
Total litigation-related investments at fair value through profit or loss	159,749	62,420	(37,472)	6,482	23,583	111	214,873

* The table above shows a realised loss in the special situations portfolio. This loss is a non-cash loss (except for $520,000 of investment expenses expended). In 2010, the Company made a $4 million investment in a special situations matter and in the same period sold a $4 million participation in that investment, leaving the Company with no capital outstanding and at risk (other than the previously mentioned investment expenses) in the investment. The Company initially recorded the participation as a payable in its 2010 accounts, and in 2011 reduced that payable as described in note 7 to the 2011 Annual Report. The Company did not recognise a gain on the investment in 2011 nor did it report the participation as a realisation in the equivalent investments table in note 7 to the 2011 Annual Report. In the current year, the Company entered into an agreement with the participant whereby the Company retained the $4 million paid by the participant in 2010 and disclaimed any further interest in the investment. Thus, on a cash basis, the impact on the Company was neutral; the Company neither gained nor lost any cash on the investment (other than the previously mentioned investment expenses). However, pursuant to IFRS and also in light of the Company's adoption of IFRS 9, the matter will be accounted for as a realised loss to clear the impact of the prior accounting entries.

31 December 2012

	Transfer from available-for-sale financial assets $'000	Additions $'000	Realisations $'000	Net realised gain/(loss) 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

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

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:

	2013 $'000	2012 $'000
Net realised gains on litigation-related investments at fair value through profit or loss (above)	6,482	11,782
Fair value movement (above)	23,583	9,517
Net decrease/(increase) in liabilities for investment sub-participations	1,529	(26)
Net gains on litigation-related investments at fair value through profit or loss	31,594	21,273

11 Due from settlement of litigation-related investments

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

	2013 $'000	2012 $'000
Due from settlement of litigation-related investments		
At 1 January	43,840	14,694
Transfer of realisations from litigation-related investments (note 10)	37,472	41,596
Fair value gain on due from settlement of litigation-related investments	–	5,201
Interest income on due from settlement of litigation-related investments	1,239	138
Proceeds from settled litigation-related investments	(31,338)	(17,651)
Proceeds from interest income on due from settlement of litigation-related investments	(314)	(138)
At 31 December	50,899	43,840
Split:		
Non-current assets	41,430	28,482
Current assets	9,469	15,358
Total due from settlement of litigation-related investments	50,899	43,840

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

	2013 $'000	2012 $'000
Interest and other income on litigation portfolio financing (note 12)	3,405	4,407
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)	1,239	138
Interest and other income from continuing litigation-related investments	2,609	1,438
Interest and other income from litigation-related activities	7,253	11,184

12 Litigation portfolio financing

	2013 $'000	2012 $'000
Total litigation portfolio financing	–	30,000
Interest and other income from litigation portfolio financing	3,405	4,407

The litigation portfolio financing balance was measured at amortised cost and attracted interest at 13.5% per annum, payable monthly. The asset had a maturity date of 31 July 2016, with repayments due to commence on 31 January 2014, but was repaid early in full on 3 October 2013. An early repayment fee of $300,000 was also received in addition to monthly interest payments up to the date of repayment. Interest and other income in 2012 also included extension fee income of $300,000. The interest income from litigation financing assets is included in "Interest and other income from litigation-related activities" in the Consolidated Statement of Comprehensive Income.

13 Total operating expenses

	2013 $'000	2012 $'000
Staff costs*	10,181	3,417
Pension costs	317	140
Non-executive directors' remuneration	359	335
Non-staff operating expenses	5,205	7,986
Litigation investment-related costs	1,486	2,266
Investment advisory fee	598	5,995
	18,146	20,139

*2012 staff costs for the litigation investment segment were paid for by the Investment Adviser

Directors' remuneration* comprise:

	2013 $'000	2012 $'000
Sir Peter Middleton	117	120
Hugh Steven Wilson	110	100
Charles Nigel Kennedy Parkinson	66	59
David Charles Lowe	66	56
	359	335

* Directors' remuneration is Sterling denominated

Fees paid and payable to Ernst & Young LLP comprise:

	2013 $'000	2012 $'000
Audit and interim review fees	462	412
Reorganisation advisory fees	895	700
Tax compliance fees	162	115
Transaction advisory fees in relation to Firstassist	–	199
Other advisory fees	13	265
	1,532	1,691

14 Receivables and prepayments

	2013 $'000	2012 $'000
Trade receivable – insurance segment	11,880	11,264
Interest receivable from continuing litigation-related investments	3,297	988
Prepayments	161	441
Other debtors	188	618
	15,526	13,311

15 Payables

	2013 $'000	2012 $'000
Audit fee payable	319	160
Reorganisation advisory fees payable	422	450
General expenses payable	1,976	1,595
UK Restructuring*	242	–
Claim costs payable	643	562
Investment sub-participations	1,109	3,545
	4,711	6,312

* Restructuring costs in the year of $1,171,000 relate to the restructuring of Burford UK in light of the Jackson reforms that came into effect in the UK market on 1 April 2013. The costs include redundancy costs of $954,000, impairment of fixed assets of $76,000 and an onerous contract provision of $141,000. The majority of all the redundancy costs have been paid as at 31 December 2013, with the remaining redundancy costs paid in March 2014. The restructuring costs payable at the end of the year of $242,000 include the remaining redundancy costs payable in March 2014 and the onerous contract provision, which was paid in March 2014.

16 Share capital

Authorised share capital	2013 $'000	2012 $'000
Unlimited ordinary shares of no par value	–	–

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

80,000,001 ordinary shares were issued at 100p each on 21 October 2009. A further 100,000,000 ordinary shares were issued at 110p each on 9 December 2010. 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.

	2013 $'000	2012 $'000
At 1 January	302,210	290,376
Shares issued in 2012 Reorganisation (note 7)	26,539	11,834
At 31 December	328,749	302,210

17 Contingent preference shares

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

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

Contingent preference shares	2013 $'000
At 1 January	–
Contingent preference shares issued	1,200
Share issue costs	(1,288)
At 31 December	(88)

18 Profit per ordinary share and comprehensive income per ordinary share

Profit per ordinary share is calculated based on profit for the year of $2,576,000 (2012: $17,380,000) and the weighted average number of ordinary shares in issue for the year of 204,545,455 (2012: 181,274,219). Comprehensive income per ordinary share is calculated based on comprehensive income for the year of $2,788,000 (2012: $17,507,000), and the weighted average number of ordinary shares in issue for the year of 204,545,455 (2012: 181,274,219).

19 Dividends

The Directors propose to pay a dividend of 5.23¢ (United States cents) per ordinary share in the capital of the Company during 2014. 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 13 May 2014). If approved by shareholders, the record date for this dividend will be 23 May 2014 and payment of this dividend would then occur on 16 June 2014. The proposed dividend is being proposed, and will be paid, in US Dollars, and will be converted to and paid in Sterling for UK shareholders not electing to receive it in US Dollars.

The Directors proposed and paid a dividend of 4.758¢ per share based on the Company's performance in 2012 and on known results in the year to the date of the dividend. The dividend was paid on 24 May 2013 to shareholders on the register as at close of business on 17 June 2013. That dividend was proposed and paid in US Dollars and was converted to Sterling at a rate of 1.5167 for those UK shareholders not electing to receive it in US Dollars at the time of payment.

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. 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 2013, 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 $2,615,000 (2012: $5,079,000).

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

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

Following investment, the Group engages in a semi-annual review of each investment's fair value. At 31 December 2013, 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 $21,487,000 (2011: $15,975,000).

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

Liquidity risk

The Group is exposed to liquidity risk. The Group's investment in litigation-related investments requires funds for ongoing settlement of operating liabilities and to meet investment commitments (see note 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 which can be readily realised to meet those liabilities and commitments. Cash management investments include investments in fixed income instruments, investment funds and individual liquid securities that can be redeemed on short notice or can be sold on an active trading market, as well as investments that provide monthly liquidity. In addition, the litigation portfolio financing generates regular monthly returns until it was repaid in October 2013.

The $40 million contingent preference shares issued in 2013 further mitigates liquidity risk.

20 Financial risk management continued

Credit risk

The Group is exposed to credit risk in various investment structures (see note 2), most of which involve investing sums recoverable only out of successful investments with a concomitant risk of loss of investment cost. On becoming contractually entitled to proceeds, depending on the structure of the particular investment, the Group could be a creditor of, and subject to credit risk from, a claimant, a defendant, both or other parties. Moreover, the Group may be indirectly subject to credit risk to the extent a defendant does not pay a claimant immediately notwithstanding successful adjudication of a claim in the claimant's favour. There is a level of concentration risk present, however, this is mitigated by the fact that no more than 7.5% of total net asset value is invested in any single litigation-related investment.

The Group is also exposed to credit risk in respect of the cash management investments at fair value through profit or loss and cash and cash equivalents. The credit risk of the cash and cash equivalents is mitigated as all cash is placed with reputable banks with a sound credit rating (A-1+). The credit risk of the cash management investments at fair value through profit or loss is mitigated by investment restrictions as regards security type, geographical origin and acceptable counterparties; those investments are entirely or largely made in investment securities of investment grade quality, such as commercial paper with an A-1 or P-1 rating or corporate bonds with a rating of A or better. There are no significant concentrations of credit risk. At the year end the Group is invested in four (2012: five) securities with three (2012: four) 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.

The Group was also exposed to credit risk in respect of its litigation portfolio financing receivable until it was repaid in October 2013.

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

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

Currency risk

The Group holds assets denominated in currencies other than US Dollars, the functional currency of the Company, including Sterling, the functional currency of Burford UK. 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 2013, the Group's net exposure to currency risk can be analysed as follows:

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

20 Financial risk management continued

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 2013, should Sterling or Euro have strengthened or weakened by 10% against the US Dollar and all other variables held constant, the Group's net profit and net assets would have increased and decreased respectively by $360,000 for Sterling (2012: $122,000) or $39,000 for Euro (2012: $nil) from instruments denominated in a currency other than the functional currency of the relevant entity.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market risk for changes in floating interest rates relates primarily to the Group's cash and certain due from settlement of litigation-related investments. All cash bears interest at floating rates. There are also certain litigation-related investments and due from settlement of litigation-related investments that earn interest based on fixed rates; however, those assets do not have interest rate risk as they are not exposed to changes in market interest rates. The following table sets out the Group's exposure to interest rate risk at 31 December 2013:

	2013 $'000	2012 $'000
Non-interest bearing	244,785	237,578
Interest bearing – floating rate	59,792	29,185
Interest bearing – fixed rate	46,934	65,345
Total net assets	351,511	332,108

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 $149,000 (2012: $73,000). For fixed rate assets it is estimated that there would be no profit or net assets impact.

The maturity profile of interest bearing assets is:

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

20 Financial risk management continued

Maturity period 31 December 2013	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

Management of capital

The Company's objective is to provide shareholders with attractive levels of dividends and capital growth. Cash management assets are managed to ensure adequate liquidity to meet commitments and to ensure resources are available to finance investments as opportunities arise. The issuing of contingent preference shares during the year addresses the potential risk of a mismatch between commitments and inflows that might arise in the future.

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 2013, considering the amount of capped commitments and the Group's estimate of uncapped funding obligations, the Group had outstanding commitments for approximately $63 million (31 December 2012: $95 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 the $63 million in commitments, the Group expects less than 50% to be sought from it during the next 12 months.

22 Fair value of assets and liabilities

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

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

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

Level 3 – Those inputs for the asset or liability that are not based on observable market data (unobservable inputs). The inputs into determination of fair value require significant management judgement and estimation.

22 Fair value of assets and liabilities continued

Valuation methodology

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

Fair value hierarchy

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

31 December 2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Litigation-related Investments	–	–	159,749	159,749
Cash Management Investments at fair value through profit or loss:				
Unlisted fixed income and investment funds	–	41,653	–	41,653
Listed corporate bond funds	9,137	–	–	9,137
Total	9,137	41,653	159,749	210,539

The Group recognises transfers between levels in the fair value hierarchy at the beginning of the reporting year. There were no transfers between levels in the fair value hierarchy during the years ended 2013 or 2012.

Movements in level 3 fair value assets

The table below analyses movements in the level 3 financial assets.

31 December 2013	Litigation-related investments $'000	Total level 3 assets $'000
At 1 January	159,749	159,749
Additions	62,420	62,420
Realisations	(37,472)	(37,472)
Net gains on litigation-related investments recognised in the Income Statement	30,065	30,065
Foreign exchange gain	111	111
At 31 December	214,873	214,873

Sensitivity of level 3 valuations

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

22 Fair value of assets and liabilities continued

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

23 Related party transactions

As per note 7, the investment advisory fees and arrangement terminated with the 2012 Reorganisation, and the principals and employees of the Investment Adviser became employees of the Group. A final 2012 true-up investment advisory fee of $598,000 was paid in 2013.

Directors' fees paid in the year amounted to $359,000 (2012: $335,000). There are no Directors' fees outstanding at 31 December 2013 and 2012.

Administration fees payable to International Administration Group (Guernsey) Limited ("IAG") are disclosed in note 3. There are no administration fees outstanding at 31 December 2013 or 2012.

There is no controlling party.

24 Subsequent events

There have been no significant subsequent events.

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