

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED

Performance Report for August 2007

18 September 2007

Tetragon Financial Group Limited (TFG) is a Guernsey closed-ended investment company traded on the Euronext Amsterdam Exchange under the ticker symbol “TFG.”

In this performance report, unless otherwise stated we report on the consolidated business incorporating TFG, Tetragon Financial Group LP and Tetragon Financial Group Master Fund Limited.⁽¹⁾ References to “we” are to Polygon Credit Management LP, TFG’s investment manager.

August 2007 results at a glance:

- ❖ **Overview:** The portfolio performed well in August 2007, supported by stable fundamental credit conditions and opportune asset selection decisions made by many of our portfolio managers. We anticipate that the technically-driven dislocation witnessed by the loan market during July and August 2007 will continue to create attractive reinvestment opportunities for our portfolio managers via discounted secondary purchases, which generate incremental par cushion and increase the yield of our assets, as well as the gradual convergence of new issue spreads with those implied by current secondary prices. Although any spread widening and par accretion effects will take time to filter through the portfolio, we believe that our transactions are in a strong position to take advantage of current market conditions. Loan prepayments in the portfolio continued this month, facilitated by M&A activity and the application of asset/division sale proceeds to loan repayments. With secondary prices stabilizing at the end of August, we believe the primary market remains poised for a more restrained lending environment characterized by wider spreads and a lower tolerance for highly leveraged and “covenant-lite” transactions.
- ❖ **Net Assets:** Consolidated net assets were \$1.28 billion as of August 31, 2007. The issuance of additional shares pursuant to the Optional Stock Dividend Plan contributed approximately \$2.65 million of additional capital in August 2007.
- ❖ **Income:** Consolidated net income was \$13.5 million in August 2007. Net Investment Income continued to trend upwards to \$17.3 million.
- ❖ **Earnings per Share:** August 2007 EPS were approximately \$0.11 per share.
- ❖ **NAV per Share:** Net asset value (NAV) per share increased to \$10.17 in August 2007, up from \$10.07 per share in July 2007.
- ❖ **IRRs:** The weighted-average IRR on closed CDO transactions remained unchanged at 16.4%.
- ❖ **Life-to-Date Actual vs. Accrued Collateral Gains/(Losses):** Despite the obvious market disruptions, we continued to build excess loss reserves, which stood at \$80.2 million as of August 31, 2007.
- ❖ **New Deals:** Two new transactions closed in August 2007, totaling approximately \$56 million in investment value.

⁽¹⁾ TFG invests substantially all its capital through a master fund, Tetragon Financial Group Master Fund Limited (“TFGMF”), in which it holds a 93.6% share. Tetragon Financial Group LP (TFGLP), a U.S. “feeder fund”, holds the remaining 6.4% interest in TFGMF. TFG and TFGLP receive a pro-rata allocation of the performance of TFGMF.

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August 2007 results at a glance (continued):

- ❖ **Deal Pipeline:** Although we are fully invested, we are actively evaluating a variety of potential investment opportunities for the portfolio, continuing to focus on transactions with sustainable arbitrage and structural flexibility.
- ❖ **Leverage:** Month-end leverage as of August 31, 2007 was 1.13x compared to 1.10x at the end of July 2007.

Share Capital:

- ❖ **Shares in issue in TFG:** In August 2007, TFG distributed a dividend of \$0.15 per share and implemented an Optional Stock Dividend Plan allowing shareholders to elect to receive declared dividends in the form of additional shares. A number of investors opted to receive the dividend via additional shares, resulting in the issuance of 323,287 new shares. As a result of the issuance of such new shares and other conversions from investors in TFGLP, the number of total TFG shares in issue increased to 118,178,415. Total shares in the TFG Master Fund increased to 125,776,592.

Portfolio summary (please refer to page 4 for more details):

- ❖ **Portfolio size:** \$1.5 billion invested as of the end of August 2007 across 67 settled transactions.
- ❖ **Portfolio composition:** The portfolio remains focused on senior secured loans with approximately 97% of risk capital allocated to CDO vehicles providing exposure to senior secured loans as of the end of August 2007.

Market summary (please refer to page 4 & 5 for more details):

- ❖ **Defaults:** The loan market saw no new defaults in August 2007, consistent with stable credit conditions but in contrast with the secondary market correction and the pipeline of stalled primary transactions.
- ❖ **Credit environment:** Near-term fundamental credit conditions and outlook remain benign, in line with strong year-to-date earnings growth and the strategic asset management and de-leveraging undertaken by many bank loan issuers.
- ❖ **Prepayments:** Loan prepayment rates continued at close to average historic levels with \$9.6 billion of loans repaid during the month. M&A activity, division spin-offs and asset sales served as the main sources of repayment proceeds, despite the marked reduction in refinancing levels.

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Performance Metrics and Drivers				
Performance Metrics	Q1 2007	Q2 2007	Jul-07	Aug-07
Pre IPO return - Class C shares	3.7%	N/A	N/A	N/A
Return on average equity for the period	4.7%	3.5%	1.4%	1.1%
EPS (\$)	\$0.35	\$0.33	\$0.14	\$0.11
Dividend (\$M)	N/A	18.8 ⁽¹⁾	N/A	N/A
DPS (\$)	N/A	0.15	N/A	N/A
Operating cost - income ratio ⁽²⁾	31.4%	29.6%	38.2%	26.5%
Performance Drivers	Q1 2007	Q2 2007	Jul-07	Aug-07
Number of investments	56	65	66	67
Weighted Average IRR on completed transactions	16.3%	16.5%	16.4%	16.4%
Leverage at end of period	1.12	1.08	1.10	1.13
Net assets (\$M)	\$989	\$1,265	\$1,264	\$1,279
Number of shares in issue (million)	89.1	125.5	125.5	125.8
Life to date accrued collateral losses (\$M)	(37.0)	(60.6)	(76.2)	(86.2)
Life to date actual collateral gains/ (losses) (\$M)	0.8	0.4	0.6	(6.0)

⁽¹⁾ Dividend for Q2 was declared in July 2007 and the liability was recognised in Net Assets at that point.

⁽²⁾ "Operating cost-income ratio" replaces "cost-income ratio" as a more meaningful metric.

Operating cost includes operating expenses and performance fees but excludes hedging costs.

Expected Upcoming Events	Date
Q3 financial results reported (including dividend announcement)	October 18, 2007
October monthly results reported	November 20, 2007
November monthly results reported	December 18, 2007

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Portfolio and Market Commentary for August 2007

Portfolio Size and Composition

❖ **Portfolio size: \$1.5 billion invested across 67 settled transactions**

The investment portfolio increased to \$1.5 billion as of the end of August 2007, invested in 67 settled transactions managed by 37 portfolio managers. On a look-through basis, the portfolio's exposure to leveraged loans rose to approximately \$16.3 billion invested in over 1650 distinct corporate obligors.

❖ **Portfolio composition: Continued bias towards senior secured bank loans**

As of the end of August 2007, we invested 95.2% of our capital in transactions providing exposure to broadly syndicated and middle market senior secured loans across the U.S. and Europe. 3.6% has been invested in CDO² transactions and 1.2% in ABS and Structured Finance CDOs. Of the CDO² transactions, 52% is primarily exposed to senior secured bank loan risk.

Market Developments

❖ **Defaults: Default-free August highlights the technical nature of the recent market correction**

The loan market experienced no new defaults during August 2007, leaving the lagging 12-month default rate unchanged from July 2007's level at 0.42% by number of loans and 0.21% by principal amount. These levels are below 2006 year-end figures of 0.79% and 0.48%, by number of loans and principal amount respectively, and are well within the historical average of 3.45% (by principal amount). TFG's inception-to-date loan default rate remained unchanged at 0.04% as of the end of August 2007 (0.02% on an annualized basis), given no payment defaults or bankruptcy filings in the portfolio, as we continued to build reserves against future losses.

With stable credit conditions and defaults largely absent from the bank loan universe, the secondary market correction witnessed during July and August 2007 appears to have been largely technical in nature. The combination of a record supply of new issue loans, credit risk re-pricing by investors (including rejection of "covenant-lite" structures and historically low spreads), as well as reduced demand for loans on the heels of broader dislocations in the global financial markets, led to a significant pricing correction. The average price of S&P/LSTA Index loans ended July 2007 at 95.7% with an implied average discounted spread of L+385 bps (assuming a three-year average life). Secondary pricing levels appeared to find equilibrium in late August at a 95%-97% range, implying spreads of L+300-365 bps.

❖ **Credit environment and near-term fundamental outlook remain positive**

Although we anticipate that default levels and credit spreads will trend toward historical average levels and are monitoring the quality of our portfolio closely, a number of factors suggest that, barring any unexpected shocks to the economy, corporate balance sheets will remain resilient in the near-term with default rates increasing gradually.

First, few signs of far-reaching fundamental distress are visible. The share of loans in the S&P/LSTA Index trading at 70% or lower was only 0.72% in August 2007, despite the secondary market correction. Additionally, the share of first-lien loans that S&P rates "CCC+" or lower was 0.76% in August 2007, up slightly from 0.64% in July 2007, but lower than the lagging 12-month average of 0.97%.

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Portfolio and Market Commentary for August 2007

❖ **Credit environment and near-term fundamental outlook remain positive (continued)**

Second, earnings growth for publicly-filing issuers in the S&P/LSTA Leveraged Loan Index remained strong through 2Q 2007, with these issuers reporting year-over-year EBITDA growth of 17.6% during 2Q 2007, up from 14.9% during 1Q 2007. The strong profitability of the first half of the year is expected to provide companies with a near-term liquidity cushion if earnings growth momentum slows from recent record levels. Finally, many borrowers are taking active steps to reduce their costs, manage asset inventories, and engage in defensive de-leveraging whenever possible.

❖ **Prepayments: Core loan prepayment rate supported by asset sales and M&A/division spin-offs**

Despite the volatile market conditions, \$9.6 billion of loans were repaid in August 2007. Whilst this level is down from \$12.5 billion in July 2007, it brings year-to-date volume to \$68 billion, up from \$61 billion over the same period in 2006. With refinancing activity slowing noticeably during this month, the continuation of repayment activity was made possible by M&A events, corporate balance sheet re-structuring (e.g. American Micro Devices' issuance of convertible bonds to repay the term loan), as well as asset sales and strategic division spin-offs. This pattern is consistent with the historical performance of loans which have maintained core prepayments speeds of approximately 25% p.a., even during the most difficult credit years. According to LCD data, the repayment rate remained at 25% in 2001, despite the peak in loan defaults during that year. As of the date of this letter, a number of additional repayments via asset sales have been announced (e.g. Boise Cascade, Solo Cup), suggesting that this dynamic will continue. These par loan repayments are particularly valuable to our transactions in the current environment, as they allow our managers to reinvest principal proceeds at significant OID discounts and wider spread levels, generating excess spread or par cushion that will mitigate the impact of any future losses.

About Tetragon

Tetragon Financial Group Limited (TFG) currently invests through long-term funding vehicles such as collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) in selected securitized asset classes and aims to provide stable returns to investors across various interest rate and credit cycles.

Investor and Press contact details

If you have questions on any aspect of the TFG business, please contact the Investor Relations team at ir@polygoninv.com. For press inquiries, please contact Simon Moyse at Finsbury on + 44 20 7251 3801.

Market data sources

S&P/LSTA August 2007 Review & Outlook
LCD Loan Stats Weekly, September 6, 2007
LCD News: "Dura: Distressed Postmortem," September 7, 2007
S&P/LCD Daily Loan Market Wrap-Up, September 10, 2007

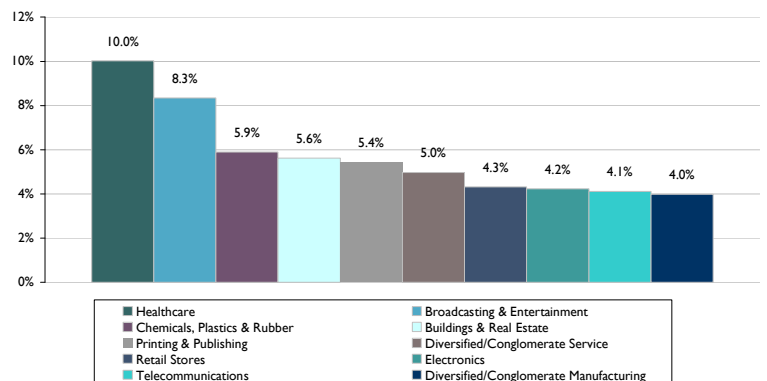
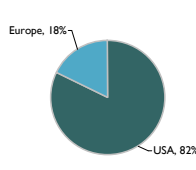
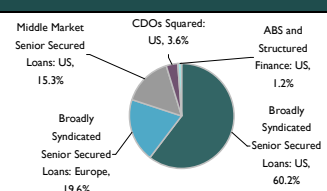
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Snapshot of Portfolio Held by TFG Master Fund Limited (unless otherwise stated)

As of August 31, 2007

Report Date	TFG Share Price (\$)	TFG group Market Cap (\$MM) ⁽¹⁾	TFG group Net Assets (\$MM)	No. of Closed Transactions									
31 August 2007	\$8.40	\$1,056.5	\$1,279.4	67									
Capital Allocation by Asset Class													
	Risk Capital Allocation	Investment - Amortized Cost (\$MM) ⁽²⁾	Investment - Amortized Cost B/Fwd (\$MM) ⁽³⁾	Overall Leverage ⁽⁴⁾									
Broadly Syndicated Senior Secured Loans: US	60.2%	\$900.8	\$872.1										
Broadly Syndicated Senior Secured Loans: Europe	19.6%	\$293.9	\$282.5										
Middle Market Senior Secured Loans: US	15.3%	\$228.9	\$219.3										
CDOs Squared: US	3.6%	\$54.1	\$52.2										
ABS and Structured Finance: US	1.2%	\$18.2	\$17.9										
Total	100%	\$1,495.8	\$1,443.9	1.13									
Geographic Allocation by Asset Class													
	USA	Europe	Asia Pacific	Total									
Broadly Syndicated Senior Secured Loans	75%	25%	0%	100%									
Middle Market Senior Secured Loans	100%	0%	0%	100%									
CDOs Squared	100%	0%	0%	100%									
ABS and Structured Finance	100%	0%	0%	100%									
Total	82%	18%	0%	100%									
Top 15 Underlying Bank Loan Credits													
Bank Loan Exposure ⁽⁵⁾	Bank Loan Exposure (%)												
GEORGIA PACIFIC	0.83%												
HCA	0.76%												
IDEARC	0.68%												
INEOS	0.63%												
ARAMARK	0.60%												
FREESCALE SEMICONDUCTOR	0.59%												
OSHKOSH TRUCK	0.58%												
UNIVISION	0.56%												
VNU	0.55%												
INTELSAT	0.48%												
MGM GRAND	0.48%												
LAS VEGAS SANDS	0.47%												
CSC (CABLEVISION)	0.47%												
HEXION	0.47%												
SUNGARD	0.43%												
Top 10 Bank Loan Industry Exposures													
Industry	Exposure (%)												
Healthcare	10.0%												
Chemicals, Plastics & Rubber	8.3%												
Broadcasting & Entertainment	5.9%												
Buildings & Real Estate	5.6%												
Printing & Publishing	5.4%												
Retail Stores	5.0%												
Diversified/Conglomerate Service	4.3%												
Electronics	4.2%												
Telecommunications	4.1%												
Diversified/Conglomerate Manufacturing	4.0%												
Performance ⁽⁶⁾													
Illustrative Historical Hedge Fund Performance													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2005								0.41%	0.64%	0.94%	1.13%	1.16%	4.34
2006	1.34%	1.23%	1.44%	1.40%	1.22%	1.16%	1.13%	1.10%	1.00%	1.01%	1.21%	1.25%	15.48%
2007	1.32%	1.15%	1.14%										3.66%
Earnings per Share ⁽⁷⁾													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2007		EPS of \$0.35 for Q1 ⁽⁸⁾		\$0.10	\$0.11	\$0.12	\$0.14	\$0.11					\$0.92



EUR-USD Fx: 1.36

⁽¹⁾ Includes exchange rights held by Tetragon Financial Group LP investors as if they had been converted to TFG shares and valued at the closing share price.

⁽²⁾ Equivalent to Investment in Securities at Fair Value in the US GAAP Financial Statements.

⁽³⁾ Investments at Amortized Cost less interest accrued since last payment date. Internal Rate of Return (IRR) x Amortized Cost B/Fwd determines CDO income.

⁽⁴⁾ Equals CDO Amortized Cost B/Fwd / Book Value.

⁽⁵⁾ Calculated as a percentage of total Loan Assets that Tetragon has exposure to net of any single name CDS hedges held against that credit. The value of both the Loan Credit and the Total Loan exposure are calculated at cost of purchase.

⁽⁶⁾ Actual performance for Tetragon Credit Income Fund Limited Class C, calculated as a change in Net Asset Value per Share for the period July 06 - Mar 07. Illustrative results for the period from Aug 05 - Jun 06 as if Class C shares had been in place since the launch of the Company. Performance is net of (a) 1.5% management fee per annum, (b) incentive fees of 25% the increase in NAV over a hurdle rate of 8% per annum and (c) expenses, and reflect an investment in the company since inception without additions, withdrawals or redemptions.

⁽⁷⁾ Number of shares is illustrative for the pre IPO period as the structure of the share classes changed at IPO closing.

⁽⁸⁾ Q1 EPS is derived from the illustrative historical hedge fund performance during Q1 2007.

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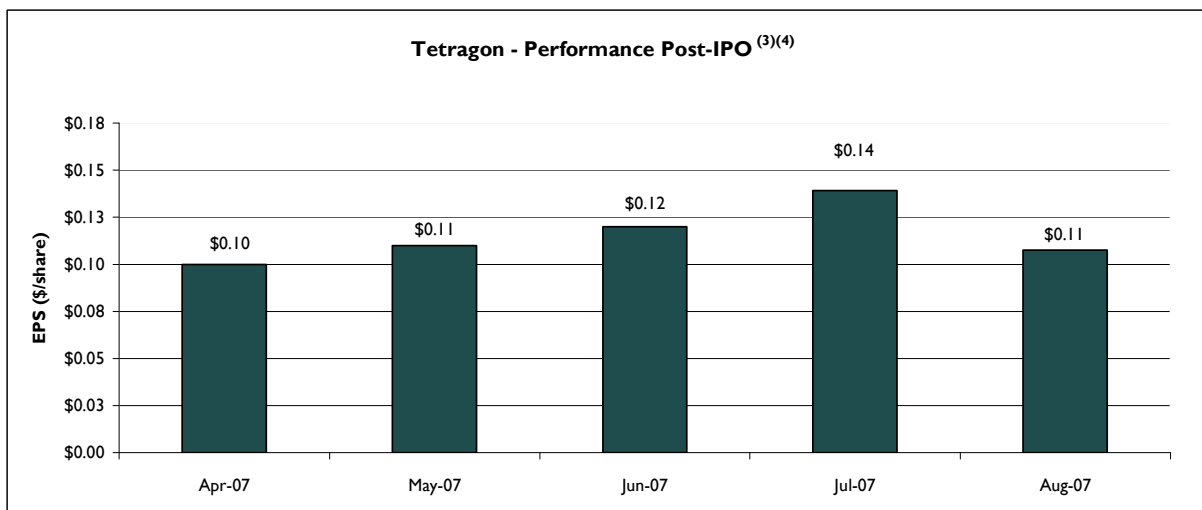
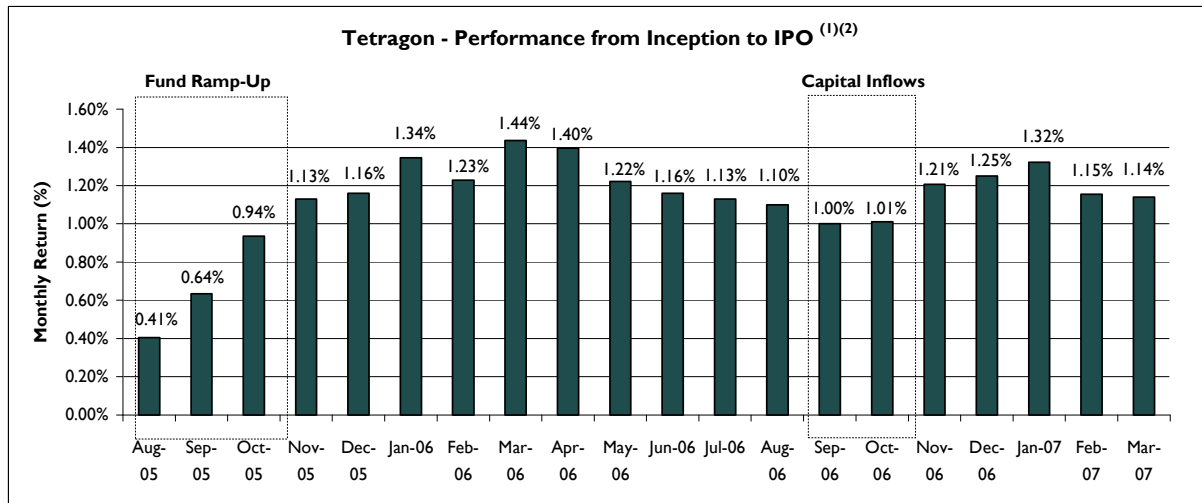
TETRAGON FINANCIAL GROUP LIMITED Performance Highlights for August 2007

TETRAGON FINANCIAL GROUP				
Consolidated Performance (US\$MM)				
Statement of Operations	Q1 2007 (\$MM)	Q2 2007 (\$MM)	Jul-07 (\$MM)	Aug-07 (\$MM)
Interest Income from Investments	38.0	48.4	19.2	20.3
Interest Income from Cash	2.9	3.5	1.1	1.1
Investment Income	40.9	51.8	20.3	21.4
Management Fees	(3.8)	(4.7)	(1.6)	(1.6)
Admin/ Custody and Other Fees	(0.3)	(0.3)	(0.2)	(0.3)
Interest Expense	(4.0)	(4.7)	(2.0)	(2.2)
Total Operating Expenses Excluding Performance Fee	(8.1)	(9.7)	(3.8)	(4.1)
Net Investment Income	32.8	42.1	16.5	17.3
Realised and Unrealised Gains/ (Losses) From Hedging	(1.0)	2.0	6.8	(2.6)
Net Increase/(Decrease) in Unrealised Appreciation/(Depreciation) in Investments	0.0	1.0	(3.0)	0.5
Net Realised Gain on Investments	0.8	0.0	0.0	0.0
Net Realised and Unrealised Gains (Losses) from Investments and FX	(0.2)	3.0	3.8	(2.1)
Net Increase in Net Assets From Operation Before Performance Fees	32.6	45.1	20.3	15.2
Performance Fees	(5.0)	(5.9)	(2.8)	(1.7)
Net Increase in Net Assets from Operations	27.6	39.1	17.5	13.5

Shareholdings at August 31, 2007	Number of shares (millions)	% Holding in Tetragon Financial Group Master Fund Limited
Tetragon Financial Group Limited ("TFG") - listed shares	118.178	94.0%
Tetragon Financial Group LP ("TFGLP") - conversion rights	7.60	6.0%
TOTAL SHARES AND CONVERSION RIGHTS	125.78	100.0%

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TETRAGON FINANCIAL GROUP LIMITED Performance Summary as of August 31, 2007



Notes:

- (1) August 2005 - June 2006 performance reflects illustrative performance using Class A share performance and adjusting to reflect Class C levels of management and incentive fees.
- (2) July 2006 - March 2007 performance reflects actual per share performance for Class C Shares (1.5% management fee, 25% incentive fee over a hurdle rate of 8%).
- (3) April 2007 reflects Earnings per Share (EPS) based on average shares in issue in the month, after translating pre-IPO shares into post-IPO equivalents.
- (4) May 2007 onwards reflects EPS based on post-IPO shares only.

This release includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements include all matters that are not historical facts, and include statements regarding the intentions, beliefs or current expectations of TFG concerning, among other things, the investment performance, results of operations, financial condition, liquidity and prospects of TFG. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. TFG's actual investment performance, results of operations, financial condition and liquidity may differ materially from the impression created by the forward-looking statements contained in this release. In addition, even if the investment performance, results of operations, financial condition and liquidity of TFG are consistent with the forward-looking statements contained in this release, those results or developments may not be indicative of results or developments in subsequent periods. TFG does not undertake to update any of these forward-looking statements.

This release does not contain or constitute an offer to sell or a solicitation of an offer to purchase securities in the United States. The securities of TFG have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act"), as amended, and may not be offered or sold in the United States or to US persons unless they are registered under applicable law or exempt from registration. TFG does not intend to register any portion of its securities in the United States or to conduct a public offer of securities in the United States. In addition, TFG has not been and will not be registered under the US Investment Company Act of 1940, and investors will not be entitled to the benefits of such Act.