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TETRAGON FINANCIAL GROUP LIMITED (TFG) RELEASE OF PERFORMANCE FOR FULL YEAR 2009

March 1, 2010

Tetragon Financial Group Limited (TFG) today announced its full year 2009 results and published its 2009 Annual Report, including audited financial statements for the year ending December 31, 2009.

In this monthly update, unless otherwise stated, we report on the consolidated business incorporating TFG and Tetragon Financial Group Master Fund Limited.⁽¹⁾

2009 PERFORMANCE AT A GLANCE

Investment Manager's 2009 Highlights:

In the context of a year that presented significant economic and financial market challenges, TFG achieved the following:

- ❖ **Cash Flow:** The Company continued to generate significant cash flows with \$153.0 million being generated during 2009, despite very difficult credit market conditions.
- ❖ **Portfolio Management:** The Company realized value from its majority (or significant) positions in 12 CLO investments during 2009, by positively affecting the outcome of certain corporate governance actions or management changes within those transactions, and by increasing our economics via upfront consent fees or long-term fee sharing arrangements.
- ❖ **CLO Investment Performance:** The Company's portfolio of CLO investments as a whole out-performed the market-wide average across several key performance metrics, including:
 - *Defaults:* TFG's 2009 corporate loan defaults were approximately 6.50%, an increase from the 2.81% default rate recorded during 2008, but approximately 30% below the 9.61% lagging 12-month institutional U.S. loan default rate, based on the total par amount outstanding, reported by S&P/LCD for the 12-months ending in December 2009.⁽¹⁾
 - *Collateral Coverage Test (O/C) Compliance:* As of 31 December 2009, approximately 68% of TFG's CLO investments were passing their most junior O/C tests,⁽²⁾ and comparing favorably with the U.S. market-wide average of approximately 62.0% of U.S. CLOs estimated to be in compliance with their junior O/C tests as of the end of 2009.⁽³⁾⁽⁴⁾
 - *Credit Quality:* The weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in our 61 CLO investments ended the year at 12.0% compared to an approximate 7.8% weighted-average maximum level permitted under the terms of our investments.⁽⁵⁾ This statistic was considerably lower than the market-wide median level of CCC-rated asset holdings among CLOs – estimated to be approximately 16.5% as of the end of 2009.⁽⁶⁾
- ❖ **Cash Reserves and Corporate-Level Borrowings:** The Company repaid all outstanding corporate-level borrowings in 2009 and increased its net cash position to \$151.6 million by year-end to, among other things, help navigate a demanding and changing market environment.
- ❖ **Counterparty and Financing Risk:** Building on its success in avoiding the Lehman Brothers bankruptcy, the Company continued to effectively address counterparty and financing risks.
- ❖ **Capital Distributions, Dividends and Share Repurchases:** The Company maintained dividends throughout 2009 and doubled its dividend for Q4 2009 to \$0.06 per share. The Company also updated its share repurchase program to allow for significantly greater daily purchases and overall in 2009 purchased 2,420,641 TFG shares at an average price of \$2.74 per share for a total value of over \$6.5 million.

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2009 PERFORMANCE AT A GLANCE (continued)

Investment Manager's 2009 Highlights (continued):

- ❖ **LCM Acquisition:** The Company agreed to purchase and now owns 75% of Lyon Capital Management LLC, since renamed LCM Asset Management LLC, at what it believes was a very attractive price in an accretive transaction for the Company. LCM has been one of our top-performing CLO managers to date and we are very pleased to have added the team onto the TFG platform. We believe that this acquisition may add a new, repeatable and high quality income stream to the Company and position TFG well to take advantage of further manager consolidation in loan or CLO management, the re-opening of the new issue CLO markets as well as other strategic asset management opportunities.

Financial Results:

- ❖ **Net Investment Income:** Net investment income decreased to \$121.7 million in 2009, down from \$163.5 million in 2008, primarily as a result of a reduction in the top-line investment income generated by the investment portfolio. This investment income reduction was partially offset by lower interest expense for 2009.
- ❖ **Realized/ Unrealized Losses from Investments:** Against a back drop of deteriorating credit conditions, the fair value of TFG's portfolio was written down by \$427.7 million of unrealized losses during 2009, of which \$208.0 million was an increase to the Accelerated Loss Reserve, mainly taken in Q1 2009 to reflect the increased uncertainty of future cash flows. Despite improvements in Q3 and Q4 2009, no amount of the Accelerated Loss Reserve was released back into the NAV in 2009.
- ❖ **Net Income:** A consolidated net loss of \$(315.1) million was recorded in 2009 against a loss of \$(46.6) million for 2008. Unrealized losses incurred in the first half of 2009 that were driven primarily by deterioration in the performance of certain CLO investments and resulted in an overall loss for the year in spite of some recovery in CLO investment performance in the second half of 2009.
- ❖ **Earnings per Share (EPS):** Consolidated EPS for 2009 was \$(2.50) compared to \$(0.37) for 2008. The 2009 EPS is comprised of an EPS loss of \$(3.50) in the first half of the year against a gain of approximately \$1.00 in the second half of the year.
- ❖ **Cash Flows from Operations:** Total cash receipts of approximately \$153.0 million (or \$1.21 per weighted average share) in 2009 compared to \$345.0 million in 2008 (\$2.74 per weighted average share) as certain CLO investments ceased to generate cash flow due to, among other things, underlying loan defaults or negative rating migration.⁽⁷⁾
- ❖ **Dividend:** Throughout 2009 TFG maintained the payment of a quarterly dividend with \$0.03 cents per share being paid with respect to the first three quarters and \$0.06 per share declared with respect to Q4 2009.
- ❖ **Leverage:** TFG continued the corporate level de-leveraging process which had begun in 2008 and had paid down all outstanding borrowings by the end of Q1 2009.
- ❖ **Net Asset Value (NAV) per Share:** NAV per share at the end of the year was \$6.47, down from \$9.06 at the end of 2008, reflecting overall performance and distributions to shareholders.

Portfolio Summary:

- ❖ **Portfolio Size:** As of the end of 2009, the fair value of the CLO investment portfolio totaled approximately \$655.2 million with exposure to approximately \$17.0 billion of leveraged loans.
- ❖ **Portfolio Composition:** As of the end of 2009, TFG's performing CLO portfolio consisted solely of 61 CLO investments managed by 32 CLO managers.
- ❖ **IRRs:** The weighted-average IRR as of 2009 year-end declined to approximately 11.9%, down from 13.8% at the end of 2008.

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2009 PERFORMANCE AT A GLANCE (continued)

Portfolio Summary (continued):

- ❖ **Life-to-date Net Loss Reserve:** Approximately \$215.0 million of net excess losses have been factored into our IRR calculations as of the end of December 2009, up from approximately \$115.0 million as of the end of Q4 2008.⁽⁸⁾
- ❖ **Accelerated Loss Reserve (ALR):** The ALR totaled \$349.0 million at the end of the year, up from \$141.0 million at the end of 2008.⁽⁹⁾
- ❖ **Performance Fee:** No performance fees were paid for Q1, Q2 or Q3 2009. A performance fee of \$29.8 million was accrued in Q4 2009 in accordance with TFG's investment management agreement and based on a "Reference NAV" of Q3 2009. The hurdle rate for Q1 2010 incentive fee has been reset at 2.9022% (Q4: 2.9329%) as per the process outlined in TFG's 2009 Audited Financial Statements and in accordance with TFG's investment management agreement.⁽¹⁰⁾

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TO OUR SHAREHOLDERS

2009 was a year of significant economic and financial market challenges and was, in many ways, a year of two contrasting halves. We believe that TFG's results of operations and share price performance for 2009 are reflective of that. In 2009 and throughout the recent financial crisis, the Investment Manager has sought to position the Company to withstand an array of significant challenges, including a macro-economic downturn, rating agency downgrades, a prolonged rise in leveraged loan defaults, suppressed loan default recoveries, loan price declines, counterparty and financing risks and general market volatility. By the middle of 2009, the economic and market environment began to show signs of improvement and we believe that TFG's performance both in the most difficult period and thereafter has demonstrated the value of the steps the Investment Manager and TFG had taken to address these challenges as well as the importance of the corporate structure of the Company. We note in particular that despite these challenges, TFG continued to return value to its shareholders in 2009 through its dividend and increased share repurchase program and in the fourth quarter took a step to diversify its income stream through the acquisition of LCM Asset Management LLC ("LCM"). Having come through a period of significant turbulence and despite a good measure of remaining market uncertainty, the Board believes that TFG is well positioned to respond to future challenges and opportunities.

We are pleased to report that an investment in TFG's shares on 31 December 2008 would have grown by approximately 50.5% during the year via capital appreciation and dividend income.⁽¹⁾ Furthermore, the Company has sought to continue to return value to its shareholders: in each of the first three quarters of 2009, TFG declared a dividend of \$0.03 per share and on 25 February 2010, the Company approved a doubling of the dividend to \$0.06 per share for Q4 2009, to be paid on 25 March 2010.⁽²⁾ In addition, on 23 October 2009, TFG updated its share repurchase program to allow for a significantly greater daily amount of purchases of the Company's shares. During 2009, the Company purchased 2,420,641 TFG shares at an average price of \$2.74 per share for a total value of over \$6.5 million.

This year of challenge and change was readily apparent in the leveraged loan market. 2009 began with loan prices near historical lows as a confluence of negative developments, including supply-demand imbalances, the deleveraging of market-value sensitive investors and a dramatic increase in defaults and ratings downgrades, exerted pressure on that market. In addition, weakness in the financial institution sector reduced capital markets activity and limited the ability of corporate borrowers to effectively manage their balance sheets and financing requirements. As the year progressed, however, loan fundamentals improved, as corporate borrowers began to reduce their financial leverage, enhance their operating flexibility and take advantage of the re-opening of the capital markets, leading to a decline in default volumes and ratings downgrades. In addition, loan prices rallied on a significant scale beginning in the second quarter of the year as billions of dollars in government spending under the Troubled Assets Relief Program ("TARP") and monetary easing by the U.S. Federal Reserve provided the financial markets with significant incremental liquidity resulting in an inflow of funds into various assets, including leveraged loans.

The dramatic increase and subsequent deceleration in the volume of defaults and ratings downgrades of loans were particularly illustrative of the volatility which characterized 2009. TFG's financial performance mirrored this rapidly changing credit environment, but TFG nonetheless outperformed the overall market, including in certain key metrics such as defaults, collateral coverage (O/C) compliance and credit quality. In addition, TFG's overall collateralized loan obligation ("CLO") investment portfolio continued to generate substantial cash in 2009, with approximately \$153.0 million received during the year.

Since its formation and public listing and throughout the recent economic crisis, the Investment Manager has sought to preserve TFG's investments and ensure the long-term prospects of the company. In 2008 and 2009, addressing counterparty and financing risks and maintaining liquidity have been key prongs to achieving this goal. Based on the Investment Manager's actions, TFG is pleased to have avoided the Lehman Brothers bankruptcy as TFG repaid its repurchase borrowings and cleared its repurchase account held at Lehman Brothers prior to that company's bankruptcy filing. TFG also transferred all of its un-financed securities from a prime brokerage account to a segregated custodial account with a U.S. financial institution to help ensure their accessibility. Finally, TFG aggressively repaid all of its corporate-level borrowings as financing lines generally looked increasingly uncertain. As of 31 December 2009, TFG had no outstanding borrowings and the net cash on balance sheet increased to \$151.6 million at the end of 2009.

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TO OUR SHAREHOLDERS (continued)

In addition to the steps TFG and the Investment Manager have taken with respect to corporate liquidity and counterparty risks, we believe the Company's buy-and-hold strategy, majority (or significant) investment positions and asset manager interaction have also helped TFG navigate the challenges of 2009. In particular, the Investment Manager's decision to eliminate all corporate level borrowings and utilize long-term funding provided by its CLO investments combined with its buy-and-hold strategy allowed TFG to take a long-term view on the expected cash flows from its CLO investments and to avoid any forced sales. Furthermore, we believe TFG's majority position strategy, allowing for "voting control" in certain corporate actions, has also demonstrated significant value. For example, on 12 separate occasions it has helped the Company positively affect the outcome of CLO management changes within its portfolio and to improve its investment economics either via upfront consent fees or long-term fee sharing arrangements, both of which increased the profitability of TFG's investments.

Finally, in Q4 2009 TFG entered into an agreement with Calyon New York Branch and certain of its affiliates to purchase Lyon Capital Management LLC, since renamed LCM Asset Management LLC, and certain CLOs with an aggregate face amount of \$39.0 million for a combined purchase price of \$10.0 million in an accretive transaction for the Company. As of 31 December 2009, LCM had approximately \$2.5 billion of loan assets under management. The purchase agreement provided that management fees earned by LCM and cash flows received from the CLO securities from (and including) 16 August 2009, less certain expenses of LCM, accrued for the benefit of TFG, significantly reducing the net purchase price of the acquisition. LCM served as a manager for two of TFG's CLOs prior to the acquisition and the Company has been particularly impressed with their ability to perform in a tough market environment. LCM is a profitable operating business that we believe may provide the Company with a high quality, repeatable income stream and a scalable business model which we expect should allow TFG to capitalize on growth and consolidation opportunities in loan and CLO management.

We believe that the Company's success in navigating a difficult economic environment and its resulting strong balance sheet places TFG in a good position to take advantage of meaningful opportunities where some of its peers may be more constrained. Our outlook for 2010 is generally positive. Although, compared to 2009, we anticipate lower credit losses potentially resulting in stronger cash flows on TFG's CLO investments, we believe that a sustained economic recovery will require job growth and an expansion in aggregate demand as government stimulus spending winds down. Accordingly, there remains a good measure of uncertainty surrounding the economic environment and the CLO and loan markets, which we believe demands caution and prudence. In 2010, we will continue to seek ways to return value to our shareholders and serve the Company's investment objective of generating distributable income and capital appreciation. We will also continue to explore a variety of opportunities in which to deploy our resources, including dividends and share repurchases, investments within the CLO and leveraged loan markets or in other assets, and further asset manager acquisitions. We believe that the strength of TFG's cash flow generation capacity, existing cash reserves and LCM's strong performance track record position TFG well to take advantage of not only these prospects, but also other strategic opportunities in asset management, both within and beyond the leveraged loan market.

With regards,

Board of Directors
25 February 2010

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INVESTMENT MANAGER'S REPORT

PORTFOLIO OVERVIEW

As of 31 December 2009, the fair value of the performing investment portfolio totaled approximately \$655.2 million and was 100% invested in CLO transactions. TFG's CLO portfolio continued to be diversified across underlying asset classes and geographies, with approximately 72.3% of risk capital invested in CLOs with primary exposure to U.S. broadly syndicated senior secured loans, 6.7% in CLOs with primary exposure to European broadly syndicated senior secured loans and 21.0% in CLOs with primary exposure to U.S. middle market senior secured loans.⁽¹⁾⁽²⁾

TFG's portfolio ended the challenging year of 2009 on a positive note with improvement in the condition of TFG's CLO investments versus the prior quarter and continued outperformance of the market-wide average in terms of, among other metrics, the percentage of transactions passing their junior-most O/C tests. As of 31 December 2009 approximately 68% of TFG's CLO investments were passing their most junior O/C tests, an increase from 60% at the end of Q3 2009, and comparing favorably with the U.S. market-wide average of approximately 62.0% of U.S. CLOs estimated to be in compliance with their junior O/C tests as of the end of 2009.⁽³⁾⁽⁴⁾⁽⁵⁾ Measures of general credit quality of TFG's underlying investments also improved during Q4 2009. For example, the weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in our 61 CLO investments ended the year at 12.0% versus 12.6% at Q3 2009, compared to an approximate 7.8% weighted-average maximum level permitted under the terms of our investments.⁽⁶⁾ Furthermore, this statistic was considerably lower than the market-wide median level of CCC-rated asset holdings among CLOs – estimated to be approximately 16.5% as of the end of 2009.⁽⁷⁾ Each of these foregoing TFG portfolio statistics represents a weighted-average summary of all of TFG's 61 investments; each individual investment's metrics will differ from this average and vary across the portfolio.⁽⁸⁾

The above mentioned improvements in the condition of TFG's CLO portfolio at year-end nonetheless followed a very difficult beginning to the year. In the first half of 2009, TFG's CLO portfolio was negatively impacted by a continuation of the pressures evident in 2008, including, negative economic growth in both the United States and Europe, stalled and weak credit markets, declining corporate earnings, rising leveraged loan defaults, declining loan recoveries and rating agency downgrades. The U.S. S&P/LSTA Leveraged Loan Index price hit a 2009 low of \$63.01 on 10 March 2009 as the annualized quarterly default rate reached 19.54% as of Q1 2009, its highest level on record since S&P/LCD has been collecting loan market data.⁽⁹⁾ In addition to increased default levels and low loan prices (particularly for distressed assets), the CLO market was also negatively impacted by underlying collateral rating downgrades to Caa1/CCC+ or below, as rating agencies took an increasingly negative view of the prospects of many leveraged loan issuers. Caa1/CCC+ or below rated asset exposure over pre-defined limits in CLO investments may temporarily or permanently cause cash diversion away from CLO equity tranches (TFG's investments) and at the extreme may cause senior O/C test breaches potentially leading to "Events of Default" in certain transactions and a complete liquidation of the investment's underlying collateral as well as a complete cessation of cash flows. The confluence of these pressures and the resulting realized and unrealized losses incurred by CLOs across the market generally led to a deterioration of U.S. and European CLO collateral coverage, or O/C, ratio levels. Numerous CLO transactions (including, those owned by the Company) failed to comply with certain O/C tests, and accordingly, ceased to generate cash flows to subordinated note holders, or equity tranche holders (such as the Company).

In the context of these detrimental developments, the condition of many of TFG's CLO investments deteriorated significantly in Q1 2009 and the majority of the ALR established at 2008 year-end (\$141.0 million) was utilized during the quarter. Consequently, given the potential for, and uncertainty surrounding, further deterioration in cash flows (including negative impacts stemming from, among other things, rating agency downgrades), TFG increased the ALR (with a corresponding reduction in the fair value of TFG's CLO investments) in March 2009 by \$290.0 million. As described elsewhere in this report, many of TFG's investments started to recover in the second half of 2009, during which time we have rebuilt the ALR to stand at \$ 349.0 million at the end of 2009.⁽¹⁰⁾

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The latter half of the year fortunately witnessed some stabilization and capital markets recovery. In the leveraged loan market, this recuperation process was the result of multiple endeavors. Firstly, potential defaults were averted via a variety of amendments and out-of-court restructurings. These took the form of covenant-relief amendments, maturity extensions, debt buy-backs, and distressed exchanges. To quantify the significance of this theme, covenant-relief amendments were implemented by a record \$122.1 billion of loans in the U.S. in 2009, up from \$54.3 billion in 2008, with “amend-to-extend” activity alone totaling \$58.9 billion in 2009 (up from \$0.0 in 2008).⁽¹¹⁾

Loan investors often received amendment fees, spread increases, and LIBOR floors, in exchange for their consent to these amendments, thereby re-pricing the affected loans at wider levels. During 2009, U.S. S&P/LSTA Leveraged Loan Index issuers received approximately 8.8 bps of fee income and increased the average spread of the index by approximately 27 bps.⁽¹²⁾ TFG’s CLO investments benefited from such spread re-sets since wider asset spreads facilitate the generation of greater excess interest income available for direct distribution to the equity tranches or the cure of O/C tests (given the CLOs’ locked-in liability spreads).

Secondly, various types of distressed exchanges, where lenders exchanged existing bonds for a lower notional of new bonds, equity, or a combination of both, materially reduced the realized default rate for the year.⁽¹³⁾ According to S&P/LSTA, 18 distressed exchanges were completed during 2009, which had they been included in the U.S. 12-month rolling default rate (by principal amount) would have raised this rate to 16.8% as of year-end, as opposed to the 9.61% actually realized.⁽¹⁴⁾ In addition to reducing the volume of monetary defaults and bankruptcy filings, such distressed exchanges improved the credit position of the senior secured bank loans affected, which comprise the vast majority of TFG’s underlying assets, by reducing the overall leverage and interest burden of the companies involved.

Finally, as the high yield capital markets opened up, approximately \$19.5 billion of loans in 2009 were repaid via bond-for-loan take outs, increasing the average loan prepayment rate to approximately 14.3% for 2009, up from 8.8% in 2008, and providing an important source of cash for reinvestment into the loan market.⁽¹⁵⁾ Greater prepayment inflows are also a positive development for TFG’s CLO investments in the current spread environment since prepayment proceeds can be reinvested by our CLO managers at wider spreads and/or lower purchase prices. All in all, by the end of the year, the U.S. S&P/LSTA Index posted a 44% gain⁽¹⁶⁾ and the European Leveraged Loan Index (“ELLI”) was up 35.8%.⁽¹⁷⁾

In the U.S. CLO market the improvement in loan prices, moderation of default rates and rating agency downgrades to Caa1/CCC+ or below, led to, among other things, improved O/C levels via the gradual restoration of previously incurred unrealized O/C losses and a corresponding improvement in CLO investment performance and cash distributions to subordinated note holders, such as TFG. While the initial stages of the loan market rally affected primarily highly-rated, “blue-chip” credits, the positive price momentum shifted to stressed credits during the second half of the year. For example, the return of CCC-rated U.S. S&P/LSTA Loan Index credits shifted from (-7.6%) as of Q1 2009 to 88.6% for all of 2009.⁽¹⁸⁾ In addition, the average price of defaulted S&P/LSTA Loan Index issuers rose from an all-time low of \$37.0 in Q1 2009 to \$66.0 as of the end of the fourth quarter.⁽¹⁹⁾ The pace of U.S. CLO market recovery, therefore, accelerated during the latter half of 2009, particularly for CLO investments that were primarily negatively affected by unrealized O/C losses as improving market values of Caa1/CCC+ assets, and other stressed assets required to be discounted for O/C test purposes and declining defaults led to increased O/C levels and the return of cash generation to equity tranche and other note holders.⁽²⁰⁾ Similarly, declining defaulted asset holdings led to improved O/C levels and the return of cash generation to equity tranche and other holders, such as TFG.⁽²¹⁾ Furthermore, a number of CLO managers were able to sell certain stressed holdings as their prices recovered, further improving investment performance. Finally, the triggering of CLO reinvestment and/or de-leveraging O/C tests earlier in the year, in and of themselves, also worked to correct O/C test breaches as, for example, diverted cash flows paid down a CLO’s debt thereby curing the O/C breach through deleveraging.

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It is important to note, however, that the European CLO market lagged the U.S. CLO market's recovery in 2009, as continuing downgrades, defaults, and lengthier restructurings, among other factors, contributed to a greater level of persistence of O/C test breaches as compared with U.S. CLOs. Furthermore, European CLOs' transaction-specific haircut requirements generally limited the deals' ability to immediately benefit from loan price increases, leaving them more dependent on actual upgrades, default recoveries, and/or asset sales. As a result, notwithstanding modest par value gains, the vast majority of European CLOs (including the vast majority of European CLOs owned by the Company) remain in breach of certain O/C tests as of the end of 2009 and continue to face an arduous path to recovery and a return to cash generation for equity tranche holders, such as TFG.

KEY BASE CASE MODELING ASSUMPTIONS

As has historically been the case, the IRR of each TFG CLO investment, which determines the rate at which income is recognized on such investment, is determined by applying certain modeling assumptions to derive its expected future cash flows. The weighted-average IRR of TFG's CLO investments ended the year at approximately 11.9%, a recovery of approximately 2.7% from the end of Q2 2009 but down approximately 1.9% from 13.8% at the end of 2008. This IRR level incorporates, among other things, the life-to-date performance of our investments as well as certain IRR modeling assumptions impacting future expected cash flows. These assumptions are intended to factor in historic, current, and potential market developments on the performance of TFG's CLO investments. These December 2009 assumptions are unchanged from December 2008 and are summarized below (listed in no particular order):⁽¹⁾

- **Constant Annual Default Rate:** The assumed constant annual default rate is approximately 6.4%, which is 3.0x the original base-case WARF-implied default rate, for the period to year-end 2011, followed by a return to 1.0x (the original base-case WARF-implied default rate) thereafter until maturity.
- **Recovery Rate:** We have modeled recovery rates to be approximately 55%, or approximately 0.8% of the original base-case assumed weighted-average recovery rate, until year-end 2011, followed by a return to 71% (the original base-case recovery rate) thereafter until maturity.⁽²⁾
- **Prepayment Rate:** Loan prepayments are assumed to be 7.5% p.a. until year-end 2011, followed by a return to 20% p.a. (the original base-case prepayment rate) thereafter until maturity; we have also assumed a 0% prepayment rate on bonds throughout the life of each transaction as in the original base-case assumptions.
- **Reinvestment Price and Spread:** The assumed reinvestment price is 87%, a level that generates an effective spread over LIBOR of approximately 724 bps on broadly syndicated U.S. loans, 739 bps on European loans, and 806 bps on U.S. middle market loans, until year-end 2011, followed by a return to a par reinvestment price (the original base case reinvestment price) thereafter until maturity.

Despite some improvements in the outlook for certain of the above modeling inputs going into 2010, including anticipated reductions in the levels of 2010 loan defaults reported by applicable ratings agencies, TFG has not modified or recalibrated its IRR modeling assumptions to reflect these expected improvements, pending further evidence of the sustainability of such improvements during the course of early 2010. The Investment Manager reviews, and adjusts in consultation with the Company's audit committee, the CLO investment portfolio's IRR modeling assumptions on a regular basis.

Based upon the IRR's of TFG's CLO investments, TFG recognized \$165.5 million of interest income from investments during 2009. TFG received \$153.0 million of cash from investments during the year.

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ACCELERATED LOSS RESERVE

In December 2008, in order to better reflect the deteriorating environment in the fair value of its CLO investment portfolio, TFG established a balance sheet reserve (the “Accelerated Loss Reserve” or “ALR”) calculated on a deal-by-deal basis.

The ALR was determined by applying a more pessimistic set of short-term assumptions to the CLO investment portfolio and sought to reflect, among other things, a near-term rating agency driven phenomenon of an increase in negative loan ratings migration that may persist for a period materially less than the expected life of a CLO investment as well as other potential losses, which in each case may not be appropriate for inclusion in TFG’s long-term base case IRR modeling assumptions, but which may have a significant impact on the fair value of TFG’s CLO investments. As at 31 December 2008, the ALR totaled approximately \$141.0 million. In Q1, 2009 the anticipated deterioration in performance of TFG’s deals was evident and the majority of the ALR was utilized.

In addition, as the outlook for its CLO investments’ underlying collateral performance and loan ratings migration deteriorated further in Q1 2009, following consultation with TFG’s audit committee, TFG deemed it appropriate to apply an even more pessimistic view in order to reflect further market deterioration in its fair value through an increased ALR, again calculated on a deal-by-deal basis, by \$290.0 million giving a gross amount of \$431.0 million.

The following table sets out the evolution of the ALR between December 2008 and December 2009.

| (All Amounts in \$MM) | Q4 2008 | Q1 2009 | Q2 2009 | Q3 2009 | Q4 2009 |
|---|------------|------------|------------|------------|------------|
| ALR Brought Forward | n/a | (141.0) | (315.0) | (254.1) | (333.8) |
| Addition of New ALR in Anticipation of Potential Investment Deterioration | (141.0) | (290.0) | n/a | n/a | n/a |
| Utilization of ALR as Investment Performance Deteriorated | n/a | 116.0 | 60.9 | n/a | n/a |
| Reinstatement of ALR as Investment Performance Improved | n/a | n/a | n/a | (79.7) | (15.2) |
| Cumulative Fair Value/ NAV Impact of ALR | (141.0) | (315.0) | (254.1) | (333.8) | (349.0) |
| Release of ALR in TFG’s NAV | n/a | n/a | n/a | n/a | n/a |

The second half of 2009 saw a general recovery in many of TFG’s CLO investments, which resulted in an increase in fair values and a reinstatement of \$94.9 million of ALR to \$349.0 million at year end. Neither the improvement in CLO investment performance, nor the positive earnings per share generated by TFG, in the second half of 2009 was caused by a restoration, or release, of the ALR or a change in the TFG modeling assumptions described above.

When assessing the reasonableness of the fair value of TFG’s CLO investment portfolio after taking into account the ALR, the Investment Manager may utilize several benchmarks, including:

- 1 The effective discount rate implied by the ALR:** Instead of re-modeling TFG’s CLO investments using more pessimistic assumptions to derive the ALR, an alternative but more generic method to reflect the increased risk or uncertainty around future cash flows would have been to apply a more pessimistic discount rate to the future cash flows used in TFG’s base case model. As at December 2009, TFG’s CLO investment portfolio fair value, which is the sum of the modeled fair value plus the ALR, was the equivalent of applying a discount rate to the base case cash flows based on current assumptions that was a significant spread above the then-current spread on the BB tranches of similar CLOs (which are typically the junior-most class of rated debt in a CLO directly senior to the equity tranche); and
- 2 The change in TFG’s CLO investments’ (equity tranches) fair value relative to more senior CLO tranches:** With very little observable secondary market activity in equity tranches of CLOs during 2009 and widely dispersed performance across deals, it would be inappropriate to use sparsely available

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market prices to value TFG's portfolio. However, there are more observable data points in the more senior debt tranches as reported by various financial institutions and these can help assess the reasonableness of the movement in TFG's CLO investments' fair value. TFG believes that the relatively sharp decline in value of more senior tranches in Q1 and Q2, 2009 and the corresponding more dramatic write up of more senior tranches in the second half of 2009 reflects, among other things, the influence of forced sellers on the value of such tranches.

As part of the ongoing review of reserves, at year end 2009 it was determined that, while the total amount of the ALR should remain unchanged, it was appropriate to re-allocate a larger proportion of the ALR to the euro-denominated deals, which have tended to lag behind the U.S. deals in terms of improved performance during the second half of 2009.

The outlook for CLO equity tranches (TFG's primary investment) remains uncertain and potentially volatile, as evidenced by, among other things, the broad range of default assumptions for the period 2010 to 2012 from applicable rating agencies and financial institutions. We are, therefore, likely to maintain an ALR for the remainder of 2010 and potentially beyond, although we will review the reasonableness of the overall ALR on an ongoing basis, including in consultation with TFG's audit committee. It is important to note, however, that if the underlying cash flows within the majority of TFG's CLO investments continue to improve it would be reasonable to assume that the fair value of those investments will increase, even in the absence of any release of the ALR or change in TFG's modeling assumptions. If at some stage it is determined, when looking at the CLO investment portfolio valuation against appropriate benchmarks, including those described above, that TFG's CLO investment positions are in total overly conservatively valued, the Investment Manager may consider recommending the release of some of the ALR. Such release of the ALR would be done in consultation with TFG's audit committee.

PORTFOLIO MANAGEMENT

We continue to utilize our strategy of majority (or significant) positions which allows us to engage in active dialogue and collaboration with TFG's 32 CLO collateral managers to evaluate the performance of TFG's CLO investments, monitor credit quality, analyze underlying obligor exposures, review credit "watch lists," and share insights on best practices. We have sought to assist our managers in addressing the year's challenges and taking advantage of the market dislocation evident during the first half of 2009.

We believe that this management strategy has served us well through the financial crisis, as it has allowed us to help TFG's managers respond more effectively to rapidly changing market conditions. In 2009, we consulted with a number of TFG's managers on a variety of matters, including various deal amendments. The amendments ranged from deal structure issues to collateral management agreement changes to allow more investment flexibility for CLO managers. We have also aimed to assist TFG's managers in efforts to improve O/C levels and cash generation of its CLO investments. Finally, we believe that TFG's acquisition of LCM may provide the Company with additional insight into the leveraged loan market and may allow us to more effectively manage TFG's CLO investments. Notwithstanding the acquisition of LCM, the Company expects to continue to seek and enjoy diversification asset managers.

We have found that TFG's majority (or significant) positions within the equity tranche of its CLO investments have also generated meaningful value for the Company, including in the context of asset manager consolidation. Most noteworthy, TFG's majority CLO equity tranche investments with LCM were a significant factor in influencing discussions leading to the successful acquisition of LCM. On several other occasions the Company was a key voting constituency for the approval of a collateral manager change-of-control or collateral management agreement assignment. In such instances, TFG was able to obtain significant and long running fee concessions, immediate cash payments or other consideration, including deal amendments. We will continue to seek opportunities to benefit from these majority positions.

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FINANCING SOURCES AND INITIATIVES

Our response to the challenging financing conditions of 2009 has been to preserve TFG's operating flexibility given a heightened level of uncertainty and the limited availability and impracticable nature of existing financing alternatives. To that end, we were focused on completely repaying outstanding corporate-level leverage of the Company, which was achieved during Q1 2009. As of 31 December 2009, TFG had no outstanding debt and the net cash on balance sheet increased to \$151.6 million, from \$60.0 million at the end of 2008. A significant balance sheet cash position can be found in many of the world's best run companies and we believe should serve the Company well going forward. We were also focused on ensuring that the Company maintained adequate liquidity to take advantage of certain deal protection terms which we built into our CLO investments. We continue to evaluate and improve our financing and custodial arrangements with prime brokers and counterparties building on our success in 2008 of avoiding the Lehman Brothers bankruptcy. As of year-end all of TFG's CLO investments were held in a segregated custodial account with a U.S. financial institution.

As of 31 December 2009, the Company had no credit hedges in place having unwound then-existing single name and index credit hedges based on the assessed cost-effectiveness of the hedges, potential counterparty risk and the desire to continue to improve the Company's liquidity position by monetizing such gains. Going forward, our hedging strategy may continue to include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges. We review our hedging strategy on an on-going basis as we seek to address identified risks to the extent practicable and in a cost-effective manner.

The Investment Manager continues to examine ways to improve liquidity for TFG shares through, for example, improved analyst and broker coverage, investor communication and "non-deal" road shows. In 2009, the average daily trading volume for TFG shares (of approximately 150,000) on Euronext Amsterdam by NYSE Euronext increased over five times from 2008. The Company currently expects to continue to publicly list its shares solely on Euronext Amsterdam by NYSE Euronext as it believes that exchange is favorably suited to address relevant legal, regulatory, liquidity and other commercial considerations.

CAPITAL DISTRIBUTIONS 2009: DIVIDENDS AND SHARE REPURCHASES

The Company has sought to continue to return value to its shareholders. Despite the challenging circumstances of 2009, TFG maintained a quarterly dividend throughout the year, doubled its dividend in Q4 2009 and updated its share repurchase program to significantly increase the amount of shares the Company may purchase on each trading day.

In each of the first three quarters of 2009, the Board of Directors of TFG declared a dividend of \$0.03 per share. The dividend for Q4 2009 of \$0.06 per share was approved on 25 February 2010 and will be paid on 25 March 2010. This will result in a total dividend of \$0.15 for the year.⁽¹⁾ During 2009, the Company purchased 2,420,641 shares at an average price of \$2.74 per share, which brought the total number of shares purchased under the share repurchase program to 5,283,043 at an average price of \$4.00 per share. On 23 October 2009, TFG extended its share repurchase through 31 October 2010 to allow for purchases of up to an additional 5% of the Company's outstanding shares.

We continue to be confident in the long-term prospects of TFG and believe that the purchase of shares in the market may, at appropriate price levels below Net Asset Value (NAV), represent an attractive use of TFG's free cash. TFG remains focused on exploring methods of returning capital to its shareholders in a manner consistent with preserving its CLO investments, protecting the prospects of the Company and pursuing other investment opportunities.

LCM ACQUISITION

In November 2009, TFG entered into an agreement to acquire LCM and certain CLO securities with an aggregate face amount of \$39 million for a combined purchase price of \$10.0 million in an accretive transaction for the

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Company. The purchase agreement provided that management fees earned by LCM and cash flows received from the CLO securities from (and including) 16 August 2009, which in aggregate were approximately \$9.4 million, less certain expenses of LCM, totaling approximately \$2.4 million, accrued for the benefit of TFG. Accordingly, the cash payment made by TFG for the LCM business and the CLO securities to consummate the transaction totaled approximately \$3.0 million.

LCM was established by Calyon, the Corporate and Investment Bank of Credit Agricole Group, as an asset manager in 2001 and as of 31 December 2009 had approximately \$2.5 billion of loan assets under management across six active CLOs – all of which were in compliance with applicable collateral coverage (O/C) tests and generating fee income as of the end of the year. The entire existing LCM management team is continuing in their roles.

Besides adding an attractive asset management fee income stream and CLO investments to the Company's investment portfolio, we believe that the purchase of LCM positions TFG well for continued consolidation in the CLO asset management market and potential recovery in CLO new issuance volumes.

We, therefore, will seek to grow LCM's business in a way that capitalizes on the available opportunities (including, manager consolidation, primary CLO issuance, strategic opportunities, and managed accounts) and leverages LCM's expertise, investment style, and exceptional performance track record.

After closing the transaction in January 2010, Lyon Capital Management LLC was renamed LCM Asset Management LLC and Polygon Management L.P. was sold a 25% equity position in the company at a price proportionate to TFG's overall cost for the purchase of the business. Certain Polygon Management L.P. affiliates also entered into an agreement with LCM to provide operating, infrastructure and administrative services to LCM, including services that have historically been provided to LCM by Calyon.

SUMMARY, OUTLOOK AND STRATEGY

The Investment Manager has sought to design and manage TFG as a long-term enterprise that would be able to withstand an array of economic and financial market challenges. 2008 and 2009 were years marked by the failure of many financial institutions. TFG, in contrast, has withstood the challenges of the past two years due to, among other things, the performance of the Investment Manager and the corporate structure and governance of TFG.

Beginning in late 2008 and continuing through the first half of 2009, the Company faced an extremely challenging and uncertain operating environment with significant risks posed to its CLO investments which represented the vast majority of the Company's revenue producing assets. Accordingly, it was appropriate to expect the Company's CLO investment portfolio to produce less cash flow than it had in prior periods. A combination of this prospect and the impracticality, if not impossibility, of reasonable external financing alternatives, we believe augured for a prudent approach focusing on the preservation of the Company's CLO investments, financial position and long-term prospects.

Completely deleveraging the Company through the financial crisis was a significant achievement and put the Company in a position to continue to (i) finance its corporate operations without seeking external financing sources, (ii) if required, take protective measures with respect to its CLO investments, such as injecting new equity or other strategies, and (iii) return value to its shareholders through capital distributions, including dividends and share repurchases.

With that success and, we believe, prudent perspective as background, by mid-2009 we began to look for opportunities to cautiously further utilize TFG's resources for the benefit of its shareholders. To that end, early in the second half of the year, the Company began negotiating the purchase of LCM and several CLO investments with an aggregate face amount of \$39 million. The LCM transaction closed in early 2010 as has a further secondary add-on CLO investment with a face amount of approximately \$10.0 million. In addition, the Investment Manager sought further transactions with managers with whom the Company had an existing and positive relationship, such as LCM.

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Despite this success, the Investment Manager remains mindful of the difficult and uncertain environment. For example, further collateral coverage, or O/C, test breaches could negatively impact the cash flows of the Company's CLO investment portfolio. Many of the Company's CLO investments remain in breach of their applicable O/C test or may otherwise breach such a test in the event of further economic or loan market decline or other significant market disruptions. In addition, external financing may remain difficult and TFG's CLO investments still may require equity contributions or other strategies to ensure continued cash flow generation.

Although much uncertainty remains regarding, among other things, the pace and scale of the global economic recovery, we believe 2010 will continue to see improvement in the leveraged loan and CLO markets with a corresponding restoration of the overall structural strength and cash-flow generation capacity of TFG's CLO investments.

This constructive view, though not without significant downside risks, reflects a number of positive fundamental and technical trends. Firstly, the financial performance of many leveraged loan borrowers has been on the mend as a result of successful cost-cutting measures and/or top-line revenue growth. Secondly, the wave of maturity extensions, covenant amendments, and deleveraging measures executed by leveraged borrowers during 2009, has reduced the pipeline of distressed businesses at risk of near-term default. Equally important, the recovery prospects on defaulted loans are expected to continue to improve as a result of greater availability of exit financing, increased risk appetite and recovery in capital markets activity in terms of both primary loan/high yield bond issuance as well as M&A/IPO activity. In addition, a continued deceleration in the pace of downgrades to Caa1/CCC+ or below and a return of loan repayments closer to average historical levels, would be expected to have a positive effect on the overall performance of TFG's CLO investments, allowing for the restoration of previously incurred O/C losses and the reinstatement of cash flows to equity tranches. We expect however that, in-line with 2009 trends, the performance of our European CLOs will continue to lag that of TFG's U.S. investments due to, among other things, less favorable legal and loan market characteristics of certain national European loan markets as well as certain structural features of European CLOs.

We believe our success in navigating a difficult economic environment and our resulting strong balance sheet, positions TFG well to take advantage of meaningful opportunities where some of its peers may be more constrained especially across what we believe may be a shrunken competitive landscape. The Company, we believe, may have significant potential to become more of a financial services firm that functions not only as an investment holding company but also as an operating company capable of pursuing attractive investment opportunities across multiple asset classes as a part of its investment objective and for the benefit of its shareholders.

In 2010, we expect to continue to evaluate a variety of uses of deploying TFG's resources in a manner consistent with the challenges presented and TFG's investment objective. Firstly, we believe that the LCM acquisition has been a good use of TFG's cash and we expect to continue to explore other potential acquisitions to grow our asset management platform both within and beyond the CLO and loan market. Secondly, during early Q1 2010 and potentially throughout the year, TFG expects to continue to see attractive secondary CLO investment opportunities. Thirdly, the end of 2009 offered evidence of the potential re-opening of the new issue CLO markets and the Company may be able to capitalize on new issue CLO prospects during 2010 in order to grow LCM's business and add to its existing CLO investment portfolio. In addition, we will continue to review opportunities to support TFG's existing CLO investments through capital contributions or other strategies and will explore investment opportunities in assets and asset classes within and beyond the leveraged loan market. Finally and importantly, we intend to continue to serve our aim of returning capital to TFG shareholders (including through dividends, the continuation of our updated and enhanced share repurchase program and other means).

Please refer to the section entitled "Risk Factors" herein and a more complete description of risks and uncertainties pertaining to an investment in TFG on the Company's website at: www.tetragoninv.com.

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FINANCIAL REVIEW 2009

OVERVIEW

As was expected, 2009 proved to be a challenging year for TFG, although from a performance perspective, both in terms of the CLO investment portfolio and the earnings of the Company, the year ended significantly more positively than it began. In Q1 2009, a sharp rise in defaults and a significant increase in CCC+ downgrades by ratings agencies allied to a steep decline in loan prices resulted in a deterioration in CLO investment performance and associated utilization of the ALR. Against a backdrop of the global economy in dramatic decline and an increasingly pessimistic view emanating from the ratings agencies and financial institutions, the ALR was increased to \$315.0 million at the end of the quarter.

Although the pace of decline slowed in Q2 2009, it was not until the second half of the year that investment performance and earnings turned the corner. A rally of loan prices aided by a declining default rate helped certain of the CLO investments in the portfolio to rebuild O/C cushion leading to increased expected cash flows and associated fair value. As a result, TFG was able to post positive earnings in Q3 and Q4 whilst also rebuilding the ALR, although earnings overall for the year were approximately \$(2.50) per share.

CONSOLIDATED INCOME COMPARISON 2009 vs. 2008

| | 2009 | 2008 |
|---|---------------------|---------------------|
| Statement of Operations | Consolidated (\$MM) | Consolidated (\$MM) |
| Interest Income from Investments | 165.5 | 217.1 |
| Interest Income from Cash | 0.1 | 4.3 |
| Other Income | 1.3 | 4.3 |
| Investment Income | 166.9 | 221.4 |
| Management and Performance Fees | (42.2) | (41.9) |
| Administrative / Custody and Other Fees | (2.4) | (2.9) |
| Interest Expense | (0.6) | (13.1) |
| Total Operating Expenses | (45.2) | (57.9) |
| Net Investment Income | 121.7 | 163.5 |
| Realized / Unrealized (Loss) / Gain From Hedging and FX | (9.1) | 13.9 |
| Net change in Unrealized (Depreciation) / Appreciation in Investments | (427.7) | (224.3) |
| Net Realized Gain on Investments | 0.0 | 0.3 |
| Realized / Unrealized Losses from Investments and FX | (436.8) | (210.1) |
| Net Income | (315.1) | (46.6) |

On a consolidated basis net investment income of \$121.7 million was approximately 26% lower compared to the \$163.5 million recorded in 2008. Primarily this reflected the reduction in the CLO investment portfolio weighted average IRR which drives the recognition of interest income and this figure fell approximately \$51.6 million to \$165.5 million in 2009. This was partially mitigated by a reduction in total operating expenses, in particular interest expense, which was down \$12.5 million. Unrealized depreciation on the CLO investment portfolio of approximately \$(427.7) million, of which \$(207.9) million was the result of net additions to the ALR, turned positive net investment income into an overall loss for the year. The hedging losses recorded in 2009 were incurred with respect to foreign exchange.

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CONSOLIDATED INCOME – 2009 QUARTER ON QUARTER COMPARISON

The quarter-on-quarter comparison of consolidated net income (see table below)⁽¹⁾ illustrates how the earnings picture progressed through the year from a significant loss in Q1 2009 through an improving earnings picture in the latter half of the year.

The key driver of the net loss in 2009 was the unrealized change in depreciation on the portfolio in Q1 2009, with a recovery in the CLO investment portfolio providing the stimulus for subsequent positive earnings later in the year, particularly in Q4 2009. This recovery in earnings was in spite of a \$94.9 million reinstatement of the ALR from approximately \$254.1 million at the end of Q2 2009 to \$349.0 million by the end of December 2009.

| TFG Quarterly Statement of Operations | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|----------------------|
| Statement of Operations | Q4 2009 (\$MM) | Q3 2009 (\$MM) | Q2 2009 (\$MM) | Q1 2009 (\$MM) | Total 2009 (\$MM) |
| Interest Income from Investments | 41.1 | 33.1 | 44.9 | 46.4 | 165.5 |
| Interest Income from Cash | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| Other Income | 0.3 | 0.3 | 0.2 | 0.5 | 1.3 |
| Investment Income | 41.4 | 33.4 | 45.1 | 47.0 | 169.9 |
| Management and Performance Fees | (32.7) | (2.6) | (2.7) | (4.2) | (42.2) |
| Administrative / Custody and Other Fees | (0.8) | (0.5) | (0.5) | (0.6) | (2.4) |
| Interest Expense | (0.0) | (0.0) | (0.0) | (0.6) | (0.6) |
| Total Operating Expenses | (33.5) | (3.1) | (3.2) | (5.4) | (45.2) |
| Net Investment Income | 7.9 | 30.3 | 41.9 | 41.6 | 121.7 |
| Realized / Unrealized Gains / (Losses) From Hedging and FX | (5.0) | (2.1) | (2.1) | 0.1 | (9.1) |
| Net change in Unrealized (Depreciation) / Appreciation in Investments | 91.8 | 3.0 | (66.5) | (456.0) | (427.7) |
| Net Realized Gain / (Loss) on Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Realized / Unrealized Gains / (Losses) from Investments and FX | 86.8 | 0.9 | (68.6) | (455.9) | (436.8) |
| Net Increase / (Decrease) in Net Assets from Operations | 94.7 | 31.2 | (26.7) | (414.3) | (315.1) |

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FINANCIAL HIGHLIGHTS TABLE

The table below illustrates a number of key metrics, certain of which have been the focus of previous parts of the Financial Review section. Cash generated by the CLO investment portfolio was negatively impacted as certain investments in response to failure of applicable collateral coverage, or O/C tests, either partially diverted cash to buy new collateral or completely cut off cash to equity tranche investors (such as TFG). However, taken in the context of the challenges presented to the CLO investment portfolio, aggregate cash flows were resilient. Cash receipts per share recovered from a low of \$0.25 per share in Q2 2009 to \$0.31 in Q4 2009, although this is still well down on the usual run rate in 2008 of approximately \$0.59-\$0.62 per share.

| Financial Highlights | | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Q4 2009 | Q3 2009 | Q2 2009 | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 |
| Net income (\$MM) | \$94.7 | \$31.2 | \$(26.7) | \$(414.3) | \$(187.1) | \$48.8 | \$45.8 | \$45.9 |
| EPS (\$) | \$0.76 | \$0.25 | \$(0.21) | \$(3.29) | \$(1.48) | \$0.39 | \$0.36 | \$0.36 |
| Cash receipts (\$MM) | \$38.4 | \$35.3 | \$31.9 | \$47.1 | \$75.3 | \$77.7 | \$118.0 | \$74.0 |
| Cash receipts per share (\$) | \$0.31 | \$0.28 | \$0.25 | \$0.37 | \$0.60 | \$0.62 | \$0.94 | \$0.59 |
| Net cash balance (\$MM) | \$174.4 | \$149.7 | \$123.8 | \$94.3 | \$59.9 | \$13.4 | \$(69.4) | \$(152.9) |
| Net assets (\$MM) | \$807 | \$721 | \$693 | \$723 | \$1,142 | \$1,348 | \$1,319 | \$1,289 |
| Number of shares outstanding (million) | 124.8 | 126.2 | 125.9 | 125.7 | 126.0 | 126.2 | 126.3 | 125.7 |
| NAV per share (\$) | \$6.47 | \$5.71 | \$5.50 | \$5.75 | \$9.06 | \$10.69 | \$10.44 | \$10.25 |
| DPS (\$) | \$0.06 | \$0.03 | \$0.03 | \$0.03 | \$0.03 | \$0.15 | \$0.15 | \$0.15 |
| Weighted average IRR on completed transaction (%) | 11.9% | 10.3% | 9.2% | 10.6% | 13.8% | 16.9% | 16.6% | 16.0% |
| Number of investments | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 |
| Net excess life-to-date loss accruals (\$MM) | \$(215.0) | \$(95.0) | \$(39.0) | \$(50.0) | \$(115.0) | \$(158.0) | \$(137.0) | \$(116.0) |
| Accelerated loss reserve (\$MM) | \$(349.0) | \$(333.8) | \$(254.1) | \$(315.0) | \$(141.0) | \$0.0 | \$0.0 | \$0.0 |

CASH FLOW FROM OPERATIONS

As expected, cash generated by the CLO investment portfolio in 2009 was significantly lower than in 2008 as a result of factors described above. The use of the cash generated also differed in 2009. In 2008, \$490.2 million of cash flowed out of the Company in relation to “financing activities” of which \$379.0 million went directly to reducing leverage. By 2009, the task of deleveraging was largely completed and only a further \$9.1 million of cash flowed out in this respect. Dividends and share repurchases accounted for the balance of financing outflows.

| Cash Flow From Operations | 2009 | 2008 |
|---|--------|---------|
| | MM | MM |
| | \$ | \$ |
| Net cash inflow from operating activities | 139.0 | 345.3 |
| Net cash (outflows) from financing activities | (29.0) | (490.2) |
| Net increase / (decrease) in cash and short term deposits | 110.0 | (144.9) |
| Cash and cash equivalents at start of year | 63 | 209.2 |
| Exchange rate gain / (loss) | 1.4 | (1.3) |
| Cash and cash equivalents at end of year | 174.4 | 63 |

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NET ASSETS

The fall in Net Assets in 2009 was a result of the reduction in aggregated fair value of the CLO investment portfolio from \$1,082.5 million at 31 December 2008 to \$655.2 million at the end of 2009. As cash continued to flow from the CLO investment portfolio, albeit at a lower overall level than previously, debt was paid down to zero and the cash balance of the company increased significantly.

| Consolidated Balance Sheet Summary | | 2009 | 2008 |
|-------------------------------------|--|--------|---------|
| | | MM | MM |
| | | \$ | \$ |
| Cash and cash equivalents | | 174.4 | 63.0 |
| Investments in CLOs (at fair value) | | 655.2 | 1,082.5 |
| Debt | | - | (117.6) |
| Other Assets / Liabilities | | (22.8) | 114.1 |
| Equity | | 806.8 | 1,142 |

DESCRIPTION OF BUSINESS

TFG (company number 43321) is a Guernsey closed-ended investment company that currently invests primarily in selected securitized asset classes and aims to provide stable returns to investors across various credit and interest rate cycles. TFG is registered in the public register of the Netherlands Authority for the Financial Markets ("AFM") under section 1:107 of the Netherlands Financial Markets Supervision Act ("FMSA") as a collective investment scheme from a designated country.

As described above, the Company's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, Polygon Credit Management LP (the "Investment Manager") seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

From inception through 31 December 2009, the Tetragon Financial Group Master Fund Limited (company number 43322) has acquired CLO investments with an end-of-year fair value of approximately \$655.0 million.

Senior secured bank loans represent the substantial majority of assets underlying the CLO portfolio. The Company currently gains exposure to these assets primarily through investments in the residual tranches or equity tranches of CLO products ("Residual Tranches") and also has had exposure through previous investments in the Residual Tranches of collateralized debt obligation products, which are both securitized interests in underlying assets assembled by asset managers and divided into tranches based on their degree of credit risk ("Securitization Vehicles").

The Company currently invests in a broad range of CLO products, utilizing 32 asset managers, and its underlying assets are diversified on a geographic and industry sector basis. Interest rate and funding risk are sought to be mitigated through the long-term matched funding embedded in the CLO structure (i.e., the assets acquired bear interest by reference to a floating rate similar to the funding source for those assets).

Since January 2010, the Company also owns a 75% interest in LCM, an asset manager with approximately \$2.5 billion of loan assets under management as of year-end 2009 that yielded positive results for the Company's investment performance.

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CERTAIN CORPORATE BACKGROUND

Shares of TFG (the “Shares”) are publicly traded solely on the Euronext Amsterdam by NYSE Euronext under the ticker symbol “TFG”. The Shares do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The voting shares of TFG are owned by Polygon Credit Holdings II Limited, which is a non-U.S. affiliate of the Investment Manager and the Service Providers (as defined below). The voting shares are not entitled to receive dividends.

The current exchange listing, corporate structure and governance and investment management arrangements of TFG were established to help foster the achievement of the Company’s investment objective.⁽¹⁾ In particular, at the time of its initial public offering and in consultation with the Company’s underwriters and its legal and financial advisors, the Investment Manager concluded, and continues to believe, after analyzing various listing alternatives within the United States and Europe, that Euronext Amsterdam is favorably suited to facilitate the Company’s pursuit of its investment objective and to address relevant legal, regulatory, liquidity and other commercial considerations. Similarly, TFG’s corporate structure and governance were designed to seek to position the Company to best serve its investment objective as well as to address a variety of relevant considerations, including applicable legal requirements. For example, the TFG corporate structure and governance combined with the Investment Manager’s actions in addressing financing risk helped the Company effectively execute a buy-and-hold strategy, that yielded positive results for the Company’s investment performance.

INVESTMENT MANAGEMENT

Polygon Credit Management LP (the “Investment Manager”) has been appointed the investment manager of TFG and the Master Fund pursuant to an investment management agreement dated 26 April 2007 (the “Investment Management Agreement”). The management and control of the Investment Manager is vested in its general partner, Polygon Credit Management GP LLC (the “General Partner”), which is responsible for all actions of the Investment Manager. The General Partner and the Investment Manager are affiliated with Polygon Investment Partners LLP (together with its other affiliated management companies, other than the Investment Manager and the General Partner, “Polygon”). As the General Partner is responsible for all actions of the Investment Manager, any references to the Investment Manager in this Annual Report or in any of our disclosure shall be deemed to include a reference to the General Partner to the extent applicable.

The investment committee of the Investment Manager (the “Investment Committee”) currently consists of Jeffrey Herlyn, Michael Rosenberg, David Wishnow, Reade Griffith, Alexander Jackson and Paddy Dear (the “Principals”) and is responsible for the investment management of the portfolio and the business. The Investment Committee currently sets forth the investment strategy and approves each significant investment by the Master Fund.

The Risk Committee of the Investment Manager currently consists of the Principals. The Risk Committee is currently responsible for the risk management of the portfolio and the business and performs active and regular oversight and risk monitoring.

Polygon Investment Partners LLP and Polygon Investment Partners LP (together, the “Service Providers”) provide the Investment Manager with certain services in relation to Company pursuant to a Services Agreement dated 26 April 2007. The Service Providers also provide operating, infrastructure and administrative services to LCM pursuant to a Services Agreement dated as of 29 January 2010 and to various Polygon managers pursuant to applicable services agreements.

For more information on TFG’s investment manager, including a summary of key terms of the Investment Management Agreement, please refer to the Company’s website at www.tetragoninv.com.

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HISTORICAL APPROACH TO INVESTMENTS

The Investment Manager has sourced investment opportunities both within and beyond the leveraged loan market through a variety of channels, including the Investment Manager's network of direct relationships with major commercial and investment banks and asset managers.

The current performing CLO investment portfolio is composed solely of substantial positions in the Residual Tranches of a broad range of CLO products. Residual Tranches will in most cases be unrated and represent the "equity" or "first loss" position of a CLO.

The Investment Manager believes by taking majority or substantial positions in the Residual Tranches, the Company may influence various features within a CLO or its applicable collateral management terms that could improve the value of its investment.

CLO ASSET CLASS SELECTION

The Investment Manager has to date focused primarily on utilizing CLO Securitization Vehicles to achieve its investment objective and has sought to employ a multiple asset class investment strategy, including through such Securitization Vehicles.

The Investment Manager has sought to select the Company's target asset classes following an analysis of key factors affecting returns; including (i) credit spread risk premiums, (ii) economic and credit cycles, and (iii) rating agency analyses.

As previously described, the asset class primarily represented in the Company's current CLO portfolio consists of leveraged loans, comprised of (a) broadly syndicated senior secured loans of U.S. borrowers; (b) broadly syndicated senior secured loans of European borrowers; and (c) middle-market senior secured loans of U.S. borrowers. Notwithstanding the Investment Manager's focus to date on the leveraged loan asset class, the Investment Manager may seek to achieve its investment objective through investments in other opportunities, assets or asset classes, which may be unrelated to the leveraged loan asset class.

ASSET MANAGER SELECTION

In selecting asset managers, the Investment Manager has sought to take advantage of the significant experience of certain of the Company's principals in the securitization market. In conducting its assessment of an asset manager, the Investment Manager reviews certain aspects of such asset manager's business, such as the manager's reputation, personnel, research capabilities, financial strength, business infrastructure, asset manager ratings, and, generally, its ability to appropriately manage the underlying asset portfolio as well as its prior dealings with the Company or its principals.

The Investment Manager has sought to select asset managers (including, LCM) that it believes to be superior and has looked to select asset managers with a demonstrated strength in credit analysis and the management of credits on a long-term basis consistent with its buy-and-hold strategy. Notwithstanding the acquisition of LCM, the Company expects to continue to seek and enjoy diversification of asset managers.

The Company believes that, as a result of (among other things) the reduction in CLO issuance volumes in 2008 and 2009 and expected low levels of issuance in 2010, the CLO asset manager industry may continue to face some consolidation pressures as was evidenced in 2009 as several managers exited the market or otherwise reorganized, including certain of our CLO managers. The Company realized value on several of its CLO investments in connection with such activity in 2009, including, significantly, through its acquisition of LCM.

The Company continues to selectively explore strategic business opportunities in asset management, both within and beyond the leveraged loan market as such opportunities may offer, among other benefits, high quality, repeatable, income streams that diversify the Company's current income.

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ASSET DIVERSIFICATION

The Investment Manager has sought to diversify its exposures across underlying asset classes, industry sectors, geographies and asset managers. For risk management purposes, the Investment Manager analyzes risks and may where appropriate engage in hedging strategies on both a portfolio-wide basis as well as a single-name basis.

At any given time, certain geographic areas, asset types or industry sectors may provide more attractive investment opportunities than others and, as a result, the Company's investment portfolio may be concentrated in particular geographic areas, asset types or industry sectors. Please refer to the Company's monthly updates on the Company's website (www.tetragoninv.com) for a review of the Company's underlying investments' bank loan industry exposure for the relevant period. Due to the overlap of investments of different asset managers, there may be concentrations of individual credits from time to time.

As described above, other than its ownership interest in LCM all of the Company's currently performing investments are in CLOs. Notwithstanding the efforts of the Investment Manager to diversify across underlying assets, the Company's investments (including, LCM) could face significant downward pressure as Securitization Vehicles, such as CLOs, generally come under increased market pressure. For example, many of the Company's investments in Securitization Vehicles are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for the Company to sell such holdings. Similarly, the fee revenue earned by LCM, in its capacity as collateral manager to certain CLOs, may be negatively impacted by the performance of such CLOs underlying assets.

BUY-AND-HOLD STRATEGY

The emphasis of the Investment Manager's existing strategy for the Company has been on the selection and structuring of investment positions that are then intended to be held for returns based on cash flows and other revenues to provide a stable stream of income for the Company. The Investment Manager believes, for example, that its buy-and-hold strategy has allowed the Company to take a long-term view on the expected cash flows from a CLO or other Securitization Vehicle. Market developments, however, have and may continue to, impact the fair value of a Securitization Vehicle and/or its underlying assets. The Investment Manager may dispose of portfolio positions from time to time and may reallocate investments in the portfolio within and among asset classes on a discretionary basis. The Company believes the Investment Manager's asset liability management and its strategy of taking substantial (or majority) positions in its CLO investments has made a buy-and-hold strategy more attractive, as the Investment Manager may in certain cases influence the performance of a CLO investment through, among other things, the support of amendments to the CLO structure or the collateral management agreement.

VALUATION

State Street Fund Services (Guernsey) Limited serves as the Company's independent administrator and values the investments of the Master Fund on an ongoing basis. The NAV per Share is expected to fluctuate over time with the performance of TFG's investments. The NAV of TFG and the Master Fund and the NAV per Share are determined as at the close of business on the last business day of each fiscal quarter for purposes of calculating incentive fees. As TFG makes all of its investments through the Master Fund, TFG's NAV will equal the NAV of the Master Fund before incentive fees. The Company's valuation policies are set forth on the Company's website at www.tetragoninv.com. The information on the "Valuation" page of the website supersedes any other disclosure by the Company with respect to such information. Subject to the foregoing, additional information with respect to TFG's or the Master Fund's valuation policies may be found in each company's annual audited financial statements accompanying this Annual Report.

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CAPITAL DISTRIBUTIONS

The Company has sought to continue to return value to its shareholders, including through dividends and share repurchases.

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of TFG and adherence to applicable law, including the satisfaction of a solvency test as required pursuant to the Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Company's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Company, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Company's investments and financial position to other investment opportunities. TFG has and may continue to also pay scrip dividends currently conducted through an optional dividend reinvestment program. If the Board of Directors declares a cash dividend payable by TFG, they will also (in their capacity as directors of the Master Fund) declare an equal dividend per share payable concurrently by the Master Fund. TFG has and may also continue to engage in share repurchases in the market from time to time. Such purchases may at appropriate price levels below NAV represent an attractive use of TFG's excess cash and an efficient means to return cash to Shareholders. Any decision to engage in share repurchases will be made by the Investment Manager, upon consideration of relevant factors, and will be subject to, among other things, applicable law and profits at the time. The Company continues to explore other methods of returning capital to shareholders as well as improving liquidity for its shares.

Please refer to the section entitled "Risk Factors" herein and a more complete description of risks and uncertainties pertaining to an investment in TFG on the Company's website at: www.tetragoninv.com.

REPORTING

In accordance with applicable regulations under Dutch law, TFG publishes monthly statements on its website for the benefit of its investors containing the following information: the total value of the investments of the Master Fund; a general statement of the composition of the investments of the Master Fund; and the number of outstanding shares of TFG.

In addition, in accordance with the requirements of Euronext Amsterdam by NYSE Euronext and applicable regulations under Dutch law, TFG provides annual and semi-annual reports to its shareholders, including year-end financial statements, which in the case of the financial statements provided in its annual reports, will be reported in accordance with U.S. GAAP and audited in accordance with international auditing standards. TFG also provides interim management statements to investors in accordance with section 5:25e of the FMSA. The NAV of TFG is available to investors on a monthly basis on the Company's website at www.tetragoninv.com.

DIRECTORS STATEMENTS

The Directors of TFG confirm that (i) this Annual Report constitutes the TFG management review for the twelve month period ended 31 December 2009 and contains a fair review of that period and (ii) the 2009 audited financial statements accompanying this Annual Report for TFG have been prepared in accordance with applicable laws and in conformity with accounting principles generally accepted in the United States of America.

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RISK FACTORS

An investment in TFG involves substantial risks and uncertainties. Investors may review a more detailed description of these risks and uncertainties and others to which the Company is subject on the Company's website at www.tetragoninv.com. These risks and uncertainties include, among others, those listed below.

- Many of the Company's investments are in the form of highly subordinated securities, which are susceptible to losses of up to 100% of the initial investments, including losses resulting from changes in the financial rating ascribed to, or changes in the market value or fair value of, the underlying assets of an investment. CLO vehicles generally invest in fixed income securities rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality) and may be regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. Moreover, market developments (including, without limitation, deteriorating economic outlook, rising defaults and rating agency downgrades) may impact the fair value of an investment and/or its underlying assets, as we experienced during the period from the third quarter of 2008 through the first half of 2009.
- Defaults, their resulting losses and other losses on underlying assets (including bank loans) may have a negative impact on the value of the Company's portfolio and cash flows received. In addition, bank loans may require substantial workout negotiations or restructuring in the event of a default or liquidation which could result in a substantial reduction in the interest rate and/or principal.
- The modeled cash flow predictions and assumptions used to calculate the IRR and fair value of each CLO investment may prove to be inaccurate and require adjustment. Factors affecting the accuracy of such modeled cash flow predictions include: (1) uncertainty in predicting future market values of certain distressed asset types, (2) the inability to accurately model collateral manager behavior, and (3) the divergence of assumed variables from realized levels over the period covered by the model.
- Bank loans are generally subject to liquidity risks and, consequently, there may be limited liquidity if a Securitization Vehicle is required to sell or otherwise dispose of such bank loans.
- Many of the Company's investments in Securitization Vehicles are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for the Company to sell such holdings.
- The Company may be exposed to counterparty risk, which could make it difficult for the Company to collect on the obligations represented by investments and result in significant losses.
- The Company's organizational, ownership and investment structure may create significant conflicts of interest that may be resolved in a manner which is not always in the best interests of the Company or the shareholders of TFG.
- The Investment Manager may devote time and commitment to other activities.
- Shares of TFG (the "Shares") do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The holder of the voting shares of TFG will be able to control the composition of the Board of Directors and exercise extensive influence over TFG's and the Master Fund's business and affairs. Furthermore, no formal corporate governance code applies to TFG. Additional information on the organizational structure and corporate governance of TFG may be found on the Company's website at www.tetragoninv.com.
- The performance of many of the Company's investments may depend to a significant extent upon the performance of its asset managers.
- The Company is subject to concentration risk in its investment portfolio, which may increase the risk of an investment in TFG.
- The Company's CLO investments are subject to (i) interest rate risk, which could cause the Company's cash flow, fair value of its assets and operating results to decrease and (ii) currency risk, which could cause the value of the Company's CLO investments in U.S. Dollars to decrease regardless of the inherent value of the underlying investments.

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- TFG's principal source of cash will be the investments that it makes through the Master Fund. TFG's ability to pay dividends will depend on it receiving distributions from the Master Fund.
- The ability of Securitization Vehicles in which the Company invests to sell assets and reinvest the proceeds may be restricted, which may reduce the yield from the Company's investment in those Securitization Vehicles.
- The shares of TFG may continue to trade below NAV. The NAV per Share will change over time with the performance of the Company's investments and will be determined by the Company's valuation principles. The fees payable to the Investment Manager will be based on NAV and changes in NAV, which will not necessarily correlate to changes in the market value of the shares of TFG.
- TFG and the Master Fund have approved a very broad investment objective and the Investment Manager will have substantial discretion when making investment decisions. In addition, the Investment Manager's strategies may not achieve the Company's investment objective.
- Shareholders will not be able to terminate the Company's investment management agreement. None of the Investment Manager or the Service Providers owe fiduciary duties to the shareholders of TFG.
- The Company may become involved in litigation that adversely affects the Company's business, investments and results of operations.
- If the Company's relationship with the Investment Manager and its principals were to end or such principals or other key professionals were to depart, it could have a material adverse effect on the Company.
- The Investment Manager's compensation structure may encourage the Investment Manager to invest in high risk investments.
- The liability of the Investment Manager to the Company is limited and the Company's indemnity of the Investment Manager may lead the Investment Manager to assume greater risks when making investment related decisions than it otherwise would.
- The Shares are subject to legal and other restrictions on resale and the Euronext Amsterdam by NYSE Euronext trading market is less liquid than other major exchanges, which could affect the price of the Shares. TFG may decide in the future to list the Shares on a stock exchange other than Euronext Amsterdam by NYSE Euronext. There can be no assurance that an active trading market would develop on such an exchange.
- The performance of LCM and, in turn, the Company's operating results, may be negatively influenced by various factors, including the (i) performance of LCM-managed CLOs, which in general are subject to the same risks as the Company's CLO investments and are currently the primary source of LCM's revenues and (ii) ability of LCM to retain key personnel, the loss of whom may negatively affect LCM's ability to provide asset and collateral management services in a fashion, and of a quality, consistent with its prior practice. Furthermore, the Company's ownership of LCM may negatively impact certain aspects of the Company's CLO investment strategy and as a result the Company's performance as well as the Company's ability to diversify its investments across multiple asset managers.

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company is subject.

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END NOTES

CORPORATE PROFILE

(1) TFG invests substantially all its capital through the Master Fund, in which it holds a 100% share.

LETTER TO SHAREHOLDERS

(1) Such return is based on the following assumptions: TFG shares were purchased at a price of \$2.87 per share on 31 December 2008, quarterly dividends of \$0.12 per share for the year were reinvested into the shares of TFG on each dividend ex-date during the year (27 February 2009 at \$1.05 per share, 27 April 2009 at \$1.03 per share, 31 July 2009 at \$0.98 per share, and 23 October 2009 at \$2.39 per share) and all shares were sold at the closing price of \$3.91 per share on 31 December 2009.

(2) For additional information please refer to the Company's website at www.tetragoninv.com.

2009 PERFORMANCE AT A GLANCE

(1) S&P/LCD U.S. Leveraged Lending Review 4Q 2009. Please note that TFG's investment portfolio includes approximately 6.7% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's corporate loan default rate.

(2) Based on the most recent trustee reports available for our investments as of 31 December 2009.

(3) Morgan Stanley CDO Market Tracker, 8 January 2010; based on a sample of 480 U.S. CLO transactions.

(4) Please note that as of 31 December 2009, TFG's investment portfolio included approximately 6.7% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's % of CLOs failing junior par coverage tests and % of Caa1/CCC+ or below rated assets. Since the market-level statistics cited above are limited to U.S. CLOs they may not be perfectly comparable to TFG's portfolio.

(5) Excess Caa/CCC+ or below rated assets above the transaction specific permitted maximum holding levels are generally haircut in our transactions at market value for purposes of the over-collateralization and/or interest reinvestment test ratios.

(6) Morgan Stanley CDO Market Tracker, 8 January 2010.

(7) Based on a weighted average share count, excluding treasury shares, of 125.8 million for 2009 and 126.0 million for 2008.

(8) The life-to-date net loss reserve is investment-specific. It is calculated by subtracting the actual collateral loss for each investment from the expected collateral loss, where the expected loss is a function of expected collateral size, TFG's loss assumptions and the length of time the investment has been held. The net excess loss amount reflects the overall O/C loss performance of TFG's portfolio; it reflects the cumulative effect of loss under-performance and over-performance of our individual investments on an aggregate portfolio basis. Please refer to footnote 15 of this Annual Report for a discussion regarding the distinction between life-to-date net loss reserve and the Accelerated Loss Reserve.

(9) The Accelerated Loss Reserve like the life-to-date net loss reserve is transaction specific. The life-to-date net loss reserve is calculated by subtracting the actual collateral loss for each investment from its expected collateral loss, where the expected collateral loss is a function of the expected collateral size, TFG's loss assumptions and the length of time the investment has been held. Whereas the life-to-date net loss reserve is an adjustment embedded in TFG's modeling assumptions, the Accelerated Loss Reserve is a direct adjustment to the fair value of an investment and the cumulative value of such adjustments will be and is evidenced in the accompanying financial statements.

(10) The hurdle rate is reset each quarter using 3M USD LIBOR plus a spread of 2.647858% in accordance with TFG's investment management agreement. Please see the TFG website, www.tetragoninv.com, for more details.

INVESTMENT MANAGER'S REPORT

PORTFOLIO OVERVIEW

(1) The CLO asset characterizations referenced above reflect the primary asset focus of the vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, or structured finance securities.

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- (2) As of 31 December 2009 TFG continued to hold three non-performing CDO investments, all of which were in the form of securitization vehicles other than CLOs. We do not expect to collect any additional cash flows from these investments.
- (3) Based on the most recent trustee reports available for our investments as of 31 December 2009 (for Q4 2009 and 30 September 2009 (for Q3 2009).
- (4) Morgan Stanley CDO Market Tracker, 8 January 2010; based on a sample of 480 U.S. CLO transactions.
- (5) Please note that as of 31 December 2009, TFG's investment portfolio included approximately 6.7% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's % of CLOs failing junior par coverage tests and % of Caa1/CCC+ or below rated assets. Since the market-level statistics cited above are limited to U.S. CLOs they may not be perfectly comparable to TFG's portfolio.
- (6) Excess Caa/CCC+ or below rated assets above the transaction specific permitted maximum holding levels are generally haircut in our transactions at market value for purposes of the over-collateralization and/or interest reinvestment test ratios.
- (7) Morgan Stanley CDO Market Tracker, 8 January 2010.
- (8) Weighted by the original USD cost of each investment.
- (9) S&P/LCD Quarterly Review, Q4 2009.
- (10) As of 31 December 2009, the Accelerated Loss Reserve totaled approximately \$349.0 million, compared to an initial reserve amount of \$141.0MM as of 31 December 2008. The Accelerated Loss Reserve like the life-to-date net loss reserve is transaction specific. Whereas the life-to-date net loss reserve is an adjustment embedded in TFG's modeling assumptions, the Accelerated Loss Reserve is a direct adjustment to the fair value of an investment to account for the potential impact of certain losses and the cumulative value of such adjustments will be and is evidenced in TFG's financial statements.
- (11) S&P/LCD Quarterly Review, Q4 2009.
- (12) S&P/LCD News, Leveraged Commentary and Data, "Despite activity, cov-relief amendment trend remains friendly," 7 January 2010.
- (13) S&P/LCD News, Leveraged Commentary and Data, "Distressed exchanges roll on; more loan issuers skirt default," 13 October 2010. Many 2009 distressed exchanges resulted in temporary "Selective Default" downgrades from the rating agencies, however, these were typically temporary and were removed once the exchanged were successfully completed.
- (14) S&P/LCD Quarterly Review, Q4 2009.
- (15) S&P/LCD Quarterly Review, Q4 2009.
- (16) S&P/LCD Quarterly Review, Q4 2009; excludes interest.
- (17) S&P/LCD European Leveraged Lending Review, Q4 2009; market value gain only.
- (18) S&P/LCD Quarterly Review, Q4 2009.
- (19) S&P/LCD Quarterly Review, Q4 2009.
- (20) U.S. CLOs generally require that Caa1/CCC+ or below rated asset holdings above permitted holding levels are held at market value for O/C purposes, while defaulted assets are held at the lower of market value and assigned rating agency assigned recovery rate. European CLOs are generally required to hold both excess Caa1/CCC+ or below rated assets and defaulted securities at the lower of market value and rating agency assigned recovery rate.
- (21) S&P/LCD Quarterly Review, Q4 2009.

KEY BASE CASE MODELLING ASSUMPTIONS

- (1) Please note that TFG undertakes no obligation to update public disclosure with respect to these or other modeling assumptions, except as required by law.
- (2) The base-case weighted-average recovery rate represents the weighted average of expected recoveries for each transaction based on our assumed recoveries on each asset class and each transactions' targeted asset mix, assuming 75% recovery on first-lien U.S. loans, 70% on first-lien European loans, 50% recovery on U.S. second-lien loans and mezzanine loans, and 30% recovery on high yield bonds.

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CAPITAL DISTRIBUTIONS 2009: DIVIDENDS AND SHARE REPURCHASES

(1) For additional information please refer to the Company's website at www.tetragoninv.com.

CONSOLIDATED INCOME – 2009 QUARTER ON QUARTER COMPARISON

(1) The quarterly breakout of interest income from Investments and Net change in Unrealized (Depreciation) / Appreciation in Investments reflects a correcting adjustment relating to the numbers previously reported in Q1, Q2 and Q3. This is a reclassification between these two line items and the Net Increase / (Decrease) in Net Assets from Operations is unchanged.

CERTAIN CORPORATE BACKGROUND

1) The quarterly breakout of interest income from Investments and Net change in Unrealized (Depreciation) / Appreciation in Investments reflects a correcting adjustment relating to the numbers previously reported in Q1, Q2 and Q3. This is a reclassification between these two line items and the Net Increase / (Decrease) in Net Assets from Operations is unchanged.

2009 Annual Report and Audited Financial Statements:

Our full 2009 annual report and audited financial statements for the year ending December 31, 2009, can be found at our website, <http://www.tetragoninv.com>.

About Tetragon:

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

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

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This release does not contain or constitute an offer to sell or a solicitation of an offer to purchase securities in the United States or any other jurisdiction. 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. TFG is registered in the public register of the Netherlands Authority for the Financial Markets under Section 1:107 of the Financial Markets Supervision Act as a collective investment scheme from a designated country.