

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

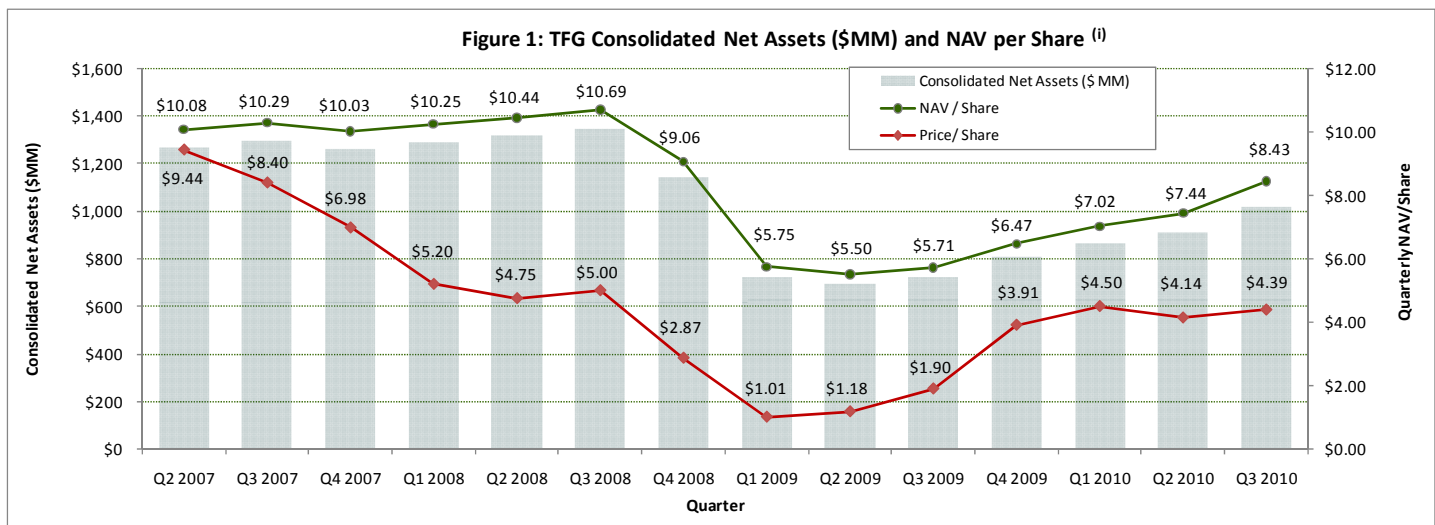
October 29, 2010

Tetragon Financial Group Limited (TFG) is a Guernsey closed-ended investment company traded on Euronext Amsterdam by NYSE Euronext under the ticker symbol "TFG." <sup>(1)</sup> In this report we provide an update on TFG's results of operations for the period ending September 30, 2010.<sup>(2)</sup>

### ❖ Executive Summary:

#### Corporate-Level Results

- **Operating Results:** TFG produced strong operating results during Q3 2010, with EPS of \$1.03 (Q2 2010: \$0.45 EPS), consolidated net income of \$125.0 million (Q2 2010: consolidated net income of \$55.6 million) and an increase in consolidated net assets to \$1,018.6 million or \$8.43 per share (Q2 2010: consolidated net assets of \$909.4 million or \$7.44 per share). Please refer to *Figure 1* below for a historical summary of TFG's Net Assets, NAV per share and share price.



(i) Source: NAV per share based on TFG's financial statements as of the relevant quarter-end date; TFG's closing share price data as per Bloomberg as of the last trading day of each quarter. Please note that the NAV per share reported as of each quarter-end date excludes any shares held in treasury as of that date.

- **Cash Receipts and Balances:** Cash flows from TFG's CLO investments continued to be robust during the quarter, totaling \$71.8 million (Q2 2010: \$60.9 million). The cash balance on September 30, 2010 was \$187.9 million, up from \$156.2 million as of the end of the prior quarter. Approximately \$63.5 million was earmarked to pay certain short-term liabilities. In addition, TFG held approximately \$72.7 million in market value of liquid U.S. leveraged loans as of the end of Q3 2010.
- **Capital Distributions:** On October 27, 2010, the Board approved a dividend of \$0.08 per share, with respect to Q3 2010, reflecting the Company's continued strong cash generation during the quarter and our growing confidence in its sustainability. In addition, TFG repurchased over 1.8 million shares during Q3 for approximately \$7.7 million representing an average buy-back price of \$4.27 per share. On October 1, 2010, the Board announced a continuation of TFG's share repurchase program, which will continue up to October 31, 2011, until 5% of the Company's shares have been repurchased under the updated program, or until terminated by the Board.<sup>(3)</sup>

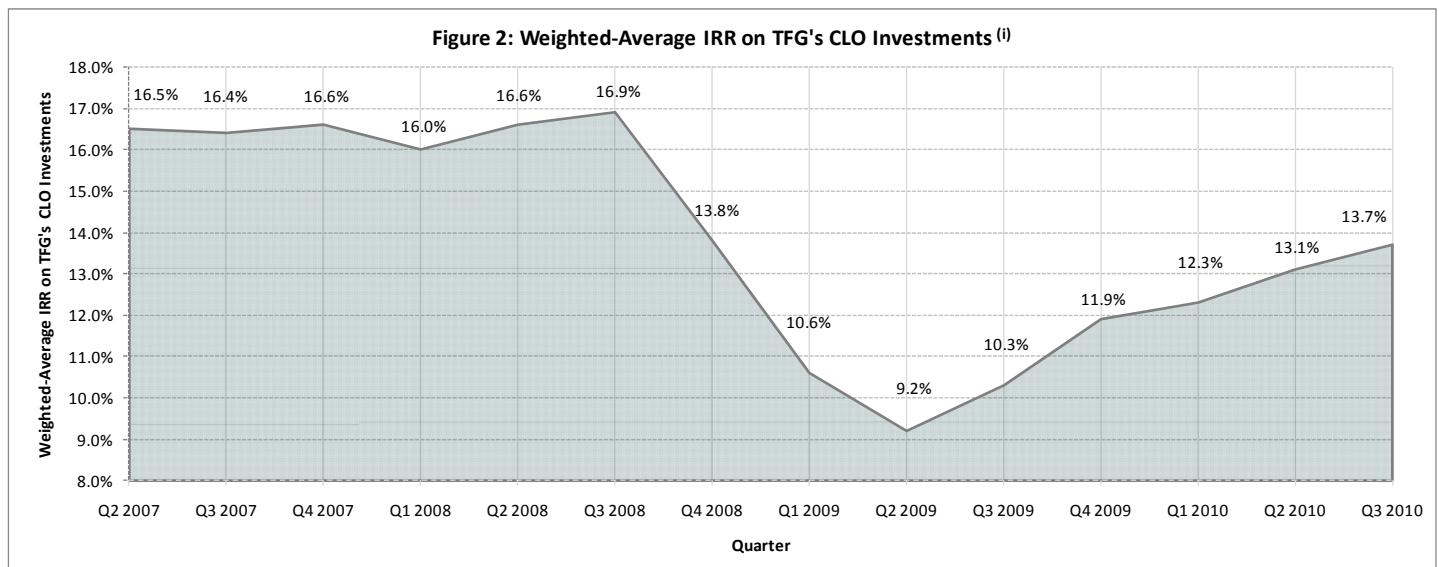
# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Executive Summary (continued):

#### Investment Portfolio Performance Highlights

- **CLO Collateral Performance:** TFG's CLO average portfolio statistics continued to outperform market-wide default and CCC-asset holding averages, as credit fundamentals improved during the quarter.
- **CLO IRRs:** The weighted-average IRR of TFG's CLO investments rose to 13.7% as of Q3 2010, up from 13.1% at the end of Q2 2010. This reflected, among other factors, continued gains in the credit quality of certain of our CLO's underlying investments as well as the impact of widening asset spreads and LIBOR floors, which increased the excess spread available for distribution to the equity tranches. Please refer to *Figure 2* below for a historical summary of the weighted-average IRR on TFG's CLO investments.



(i) Source: TFG as of the outlined quarter-end date.

- **Direct Loan Investments:** TFG's direct holdings of loans increased to a fair-market value of approximately \$72.7 million as of the end of Q3 2010, up from \$44.3 million in the prior quarter, as the Company made additional purchases. The direct loan portfolio performed well during this period, experiencing no defaults or downgrades and benefiting from certain corporate events and market value gains.

#### Asset Management Platform

- **LCM:** LCM continued to perform well during Q3 2010, with all of LCM Cash Flow CLOs <sup>(4)</sup> continuing to pay senior and subordinated management fees. As October 8, 2010, total loan assets under management rose to approximately \$2.7 billion. This increase reflects the transition of a CLO management contract from a third-party manager to LCM (please see "CLO Corporate Actions").

# TETRAGON

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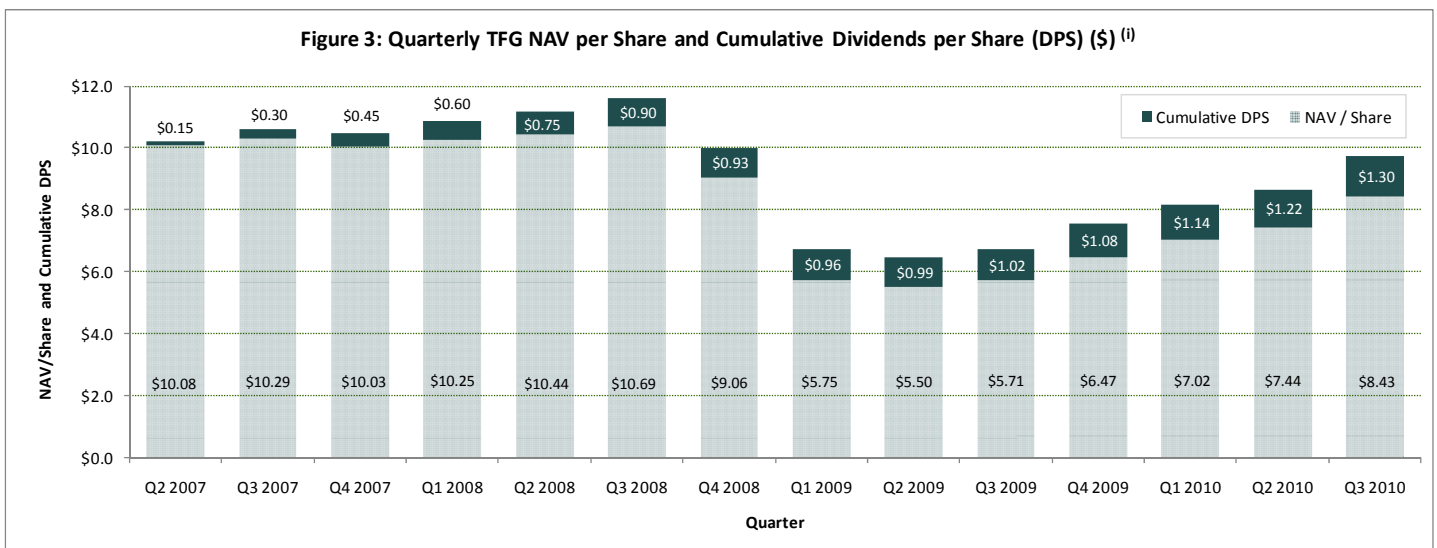
### ❖ Executive Summary (continued):

#### Asset Management Platform (continued)

- **GreenOak:** As reported earlier, TFG expanded its asset management platform early in Q3 2010 through the acquisition of a 10% interest in the GreenOak real estate venture.<sup>(5)</sup> GreenOak continues to build its team in-line with budgeted expectations; however, we currently do not expect to see operating income benefits from the venture in the immediate future as it is a medium-term investment for TFG.

### ❖ Corporate-Level Performance Details:

- **Capital Distributions:** TFG's Board approved a dividend of \$0.08 per share with respect to Q3 2010. Since its public listing, TFG has distributed approximately \$1.30 per share via quarterly dividends.<sup>(6)</sup> In addition, TFG's NAV per share, as reported each quarter, among other things, reflects value created for shareholders via the repurchase of shares below NAV. Please refer to *Figures 3 and 4* below for a historical summary of TFG's NAV per share, dividend distributions and share buy-back program details.



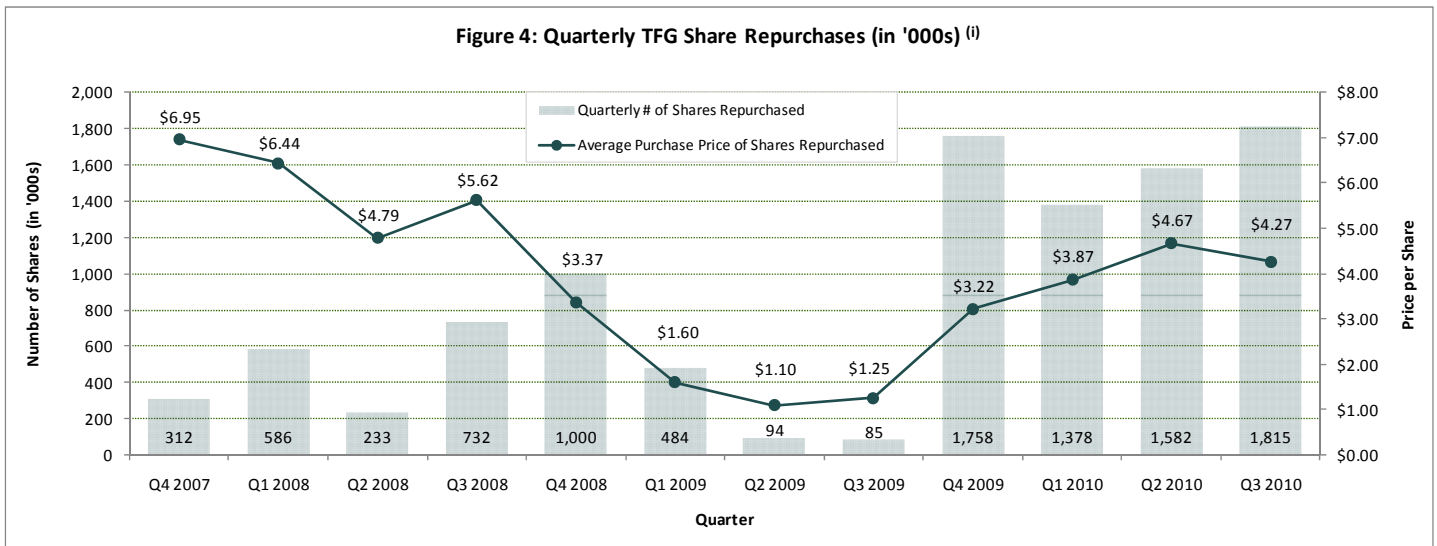
(i) Source: NAV per share and Cumulative DPS as per TFG's financial disclosures for each relevant quarter-end date. The cumulative dividends per share reflect dividends announced but not necessarily paid with respect to each relevant quarter (as well as prior quarters). Please note that the NAV per share reported as of each quarter-end date excludes any shares held in treasury as of that date.

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Corporate-Level Performance Details (continued):

#### ▪ Capital Distributions (continued):



(i) The Average Purchase Price of Shares Repurchased is a weighted-average using the number of shares repurchased each quarter and including commissions.

### ❖ Investment Portfolio Performance Details:

- **CLO Portfolio Size:** As of the end of Q3 2010, the estimated total fair value of TFG's CLO investment portfolio was approximately \$820.4 million, up from approximately \$720.2 million as of the end of the prior quarter. TFG's indirect exposure to leveraged loans through its CLO investments was approximately \$17.5 billion as of the end of Q3 2010.<sup>(7)</sup>
- **CLO Portfolio Composition:** During Q3 2010, the CLO portfolio remained stable with 68 investments managed by 31 external CLO managers.<sup>(8)</sup>
- **CLO Collateral Performance:** As of the end of Q3 2010, approximately 96% of TFG's CLO investments were passing their junior-most O/C tests, weighted by fair value, up from approximately 95% at the end of Q2 2010.<sup>(9)</sup> When measured on a number of transactions basis, 56, or approximately 88%, of the Company's CLO investments were passing their junior-most O/C tests, an increase from approximately 84% at the end of Q2 2010.

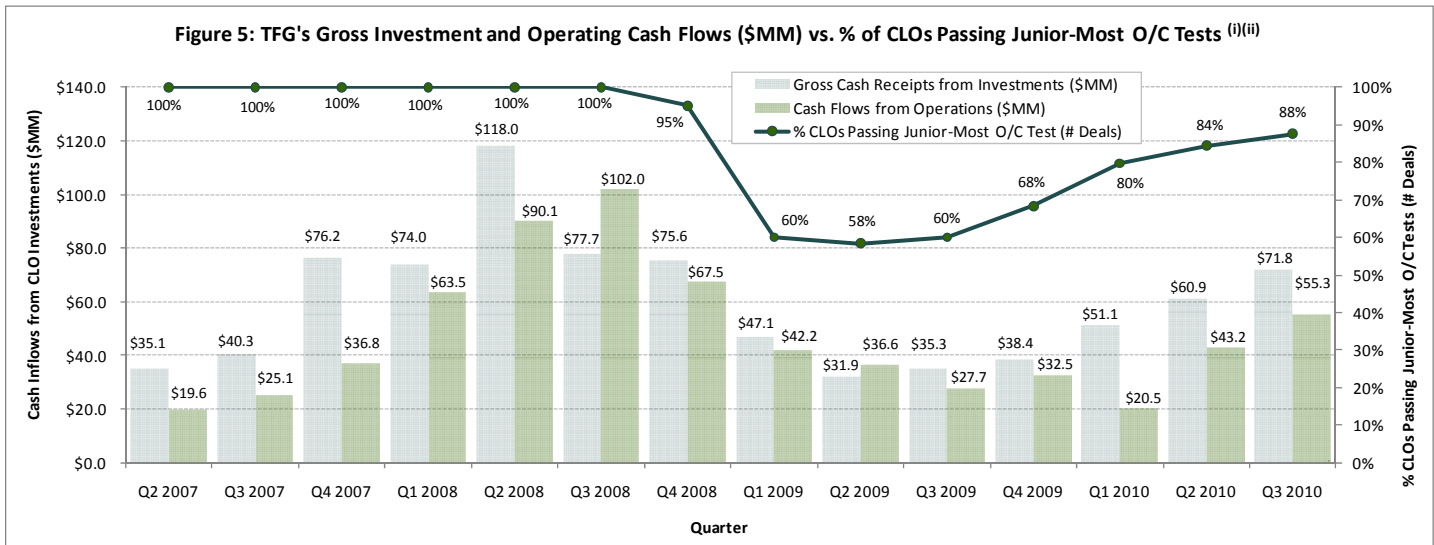
TFG's U.S. CLOs, representing approximately 90.9% of the fair value of TFG's investment portfolio as of the end of September 30, 2010, performed well during the quarter with approximately 99.7% of TFG's U.S. CLOs by fair value and 98.2% by number passing their junior-most O/C tests.<sup>(10)(11)</sup> In comparison, the market-wide average of U.S. CLOs estimated to be passing their junior O/C tests as of the end of Q3 2010 was approximately 89.5% (when measured on a percentage of transactions basis).<sup>(12)</sup> Please refer to Figure 5 below for a historical summary of TFG's investments' junior O/C test performance.

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Investment Portfolio Performance Details (continued):

#### ▪ CLO Collateral Performance (continued):



(i) The percentage of TFG's CLOs passing their junior-most O/C tests has been calculated as the ratio of the number of deals passing their junior O/C tests to the total number of CLO transactions held by TFG as of the applicable quarter-end date.

(ii) Gross Cash Receipts from Investments refer to the actual cash receipts collected during each quarter from TFG's CLO investments. Cash Flows from Operations refer to cash inflows from investments less expenses and net cash settlements on FX and credit hedges.

- **CLO Portfolio Credit Quality:** As of September 30, 2010, the weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in TFG's 68 CLO investments was 9.6% compared to an approximate 7.9% weighted-average maximum level permitted under the terms of our investments.<sup>(13)</sup> In comparison, the market-wide median CCC asset holdings of U.S. CLOs was estimated to be approximately 9.9% as of Q3 2010.<sup>(14)</sup> TFG's weighted-average WARF stood at approximately 2,658. Each of these foregoing statistics represents a weighted-average summary of all of our 68 investments.<sup>(15)</sup> Each individual investment's metrics will differ from this average and vary across the portfolio.

### TFG Investment Weighted-Average Summary

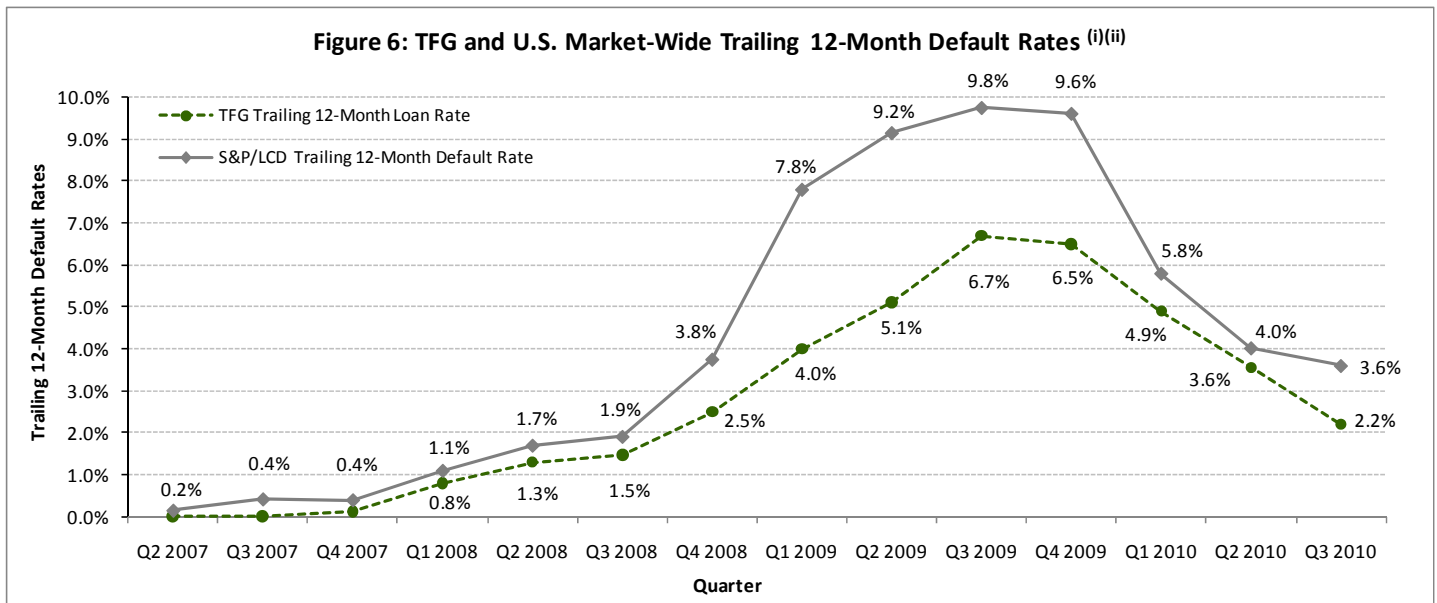
	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Caa1/CCC+ or Below Obligor:	2.8%	2.8%	3.0%	3.4%	4.4%	4.9%	7.6%	11.4%	11.6%	12.6%	12.0%	11.1%	10.5%	9.6%
WARF:	2,415	2,237	2,439	2,443	2,472	2,490	2,577	2,758	2,800	2,813	2,809	2,762	2,706	2,658

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Investment Portfolio Performance Details (continued):

- TFG and Market Default Rates:** TFG's lagging 12-month corporate loan default rate decreased to 2.2% during the third quarter.<sup>(16)</sup> The lagging 12-month U.S. institutional loan default rate, by comparison, fell to 3.6% by principal amount as of September 30, 2010, according to S&P/LCD, down from approximately 4.0% during the prior quarter.<sup>(17)</sup> Please refer to *Figure 6* below for a historical summary of TFG's CLO investments' default performance.



(i) Source: TFG as of the outlined quarter-end date. The calculation of TFG's lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a "Selective Default" rating by one or more of the applicable rating agencies. Such Selected Defaults are included in the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG's investment portfolio includes approximately 8.3% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG's corporate default rate.

(ii) Source: S&P/LCD Quarterly Review as of the outlined quarter-end date.

- CLO Corporate Actions:** TFG's current strategy, which includes the acquisition of majority or significant equity positions and playing an active role in the structuring of our investments, continued to prove valuable during the quarter by allowing us to achieve certain CLO corporate actions. Shortly after the end of Q3 2010, we were able to effectuate a management change in one of TFG's U.S. CLO investments by voting, along with certain debt investors in the transaction, to remove the collateral manager of the CLO and to replace it with LCM. We believe that this management change will have a positive effect on the performance of the transaction and will therefore enhance the value of our investment.

After reflecting the transition of this CLO onto its platform, LCM's loan assets under management rose to \$2.7 billion as of October 8, 2010. We expect that this transaction will contribute approximately \$1.0 to \$2.0 million to LCM's gross fee income per year during the deal's reinvestment period, which is scheduled to end in May 2012. We currently estimate that cumulative gross fee income earned over the expected life of the CLO may exceed \$6.0 million.

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Investment Portfolio Performance Details (continued):

- **CLO Corporate Actions (continued):** We believe that the assumption of third-party originated CLO management contracts by LCM can serve as an important value creator for TFG, especially as the Company seeks to capitalize on economies of scale within its asset management platform. We expect to continue to explore ways to leverage our ownership positions for the benefit of TFG's shareholders.
- **Direct Loan Investments:** As of September 30, 2010, TFG owned liquid U.S. bank loans with an aggregate par amount of \$77.7 million and total fair value of approximately \$72.7 million. This direct loan portfolio continued to perform well during the quarter, benefitting from early prepayments, amend-and-extend spread increases as well as an overall improvement in loan prices. No defaults or downgrades were registered in the portfolio. Since inception through the end of September 2010, the portfolio has realized approximately \$0.5 million of trading gains. In addition, the portfolio earned \$0.8 million of interest proceeds over the same period (inception to September 31, 2010). We expect to continue to opportunistically deploy TFG's capital into direct loan investments when appropriate.

### ❖ Asset Management Platform Details:

- **LCM Developments:** LCM's strong operating and financial performance continued during Q3 2010. As of September 30, 2010, all senior and subordinated CLO management fees on LCM Cash Flow CLOs<sup>(18)</sup> were current and taking into account all LCM-managed vehicles, the gross income year-to-date for LCM totaled \$9.2 million. Pre-tax profit for the entire LCM business, of which TFG owns 75%, reached approximately \$4.7 million as of the same period. On October 8, 2010, LCM assumed the management of a U.S. CLO with the consent of TFG (as a majority equity holder) and certain other debt investors (please see "CLO Corporate Actions" for additional information). We continue to explore the possibility of LCM serving as manager to a new arbitrage cash flow CLO as well as to existing CLO transactions that could be transitioned to the LCM platform.

LCM Asset Management Performance Snapshot			
	Q3 2010	Q2 2010	Q1 2010
Gross Fee Income (\$MM)	\$3.0	\$2.9	\$3.3
Pre-tax Income (\$MM)	\$1.4	\$1.4	\$1.9

### ❖ Loan and CLO Market Developments:

- **U.S. leveraged loan default rates decline:** The U.S. lagged 12-month loan default rate fell to 3.6% by principal amount as of September 30, 2010, down from 4.0% in the prior quarter and a high of 10.8% recorded in November 2009, as credit fundamentals continued to improve.<sup>(19)</sup>

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Loan and CLO Market Developments (continued):

- **U.S. CLO O/C ratios improve while European CLO O/C ratios remain broadly unchanged:** During Q3 2010, O/C ratios of U.S. CLOs strengthened on average. According to Morgan Stanley, the median junior O/C test cushion for U.S. CLOs increased to 2.55% as of September 30, 2010, up from 2.25% as of the end of Q2 2010.<sup>(20)(21)</sup> However, the percentage of European CLOs passing their junior-most O/C tests remained largely unchanged at approximately 50% as of the end of Q3 2010.<sup>(22)</sup>
- **Secondary loan market prices rise:** Secondary loan prices resumed their ascent in Q3 2010, after falling in the prior quarter. Through the first nine months of 2010, the U.S. S&P/LSTA Leveraged Loan Index returned 6.77%.<sup>(23)</sup>
- **U.S. loan prepayments slightly lower in Q3 2010:** During Q3 2010, the U.S. S&P/LSTA Leveraged Loan Index quarterly prepayment rate fell slightly to 5.3%, down from 6.8% in the prior quarter.<sup>(24)</sup> This rate, however, was significantly higher than last year's third quarter prepayment rate of 2.9%.<sup>(25)</sup> This robust level of prepayments has increased the amount of principal proceeds available for re-investment within a number of CLOs, which may have allowed certain CLO managers to increase the weighted-average spread of their transactions by investing those prepayments into generally wider-spread new issue loans.
- **Primary loan issuance volumes remain strong in the U.S. and Europe:** Institutional U.S. loan issuance during the third quarter totaled \$35.1 billion compared with approximately \$42.7 billion in Q2 2010, with September registering the largest monthly issuance since the bankruptcy of Lehman Brothers.<sup>(26)</sup> Year-to-date, institutional U.S. new issuance activity totaled \$108 billion, a significant increase from the \$21 billion brought to market during the same period in 2009.<sup>(27)</sup> European primary loan issuance also increased quarter-over-quarter, with €11.5 billion loans issued in Q3 2010, compared with €8.9 billion during Q2 2010.<sup>(28)</sup>
- **Corporate activity continues to pick-up:** Approximately \$28 billion of U.S. loans due through 2014 were either extended, repaid or defaulted during Q3 2010.<sup>(29)</sup> This reduced the amount of debt that issuers will need to repay by the end of 2014 to an estimated \$324 billion, down from approximately \$418 billion as of the end of 2009, diminishing the size the so called "maturity cliff".<sup>(30)</sup> In addition, high yield debt takeouts and deleveraging through equity offerings and other types of M&A activity have started to become more common, with companies such as Graham Packaging, NXP Semiconductor and Noranda Aluminum taking advantage of the recovery in the capital markets to improve their balance sheets during the third quarter.
- **CLO new issuance market recovery continues:** Global CLO issuance totaled approximately \$40.3 billion through the first three quarters of 2010 with the majority of this volume consisting of European balance sheet CLOs.<sup>(31)</sup> Nonetheless, a number of arbitrage-driven U.S. CLO transactions appear to be in the works, with six new transactions totaling approximately \$2.55 billion reported in the forward calendar by S&P/LCD.<sup>(32)</sup> Although the deals' issuance motivations and amount of equity raised are difficult to confirm at this point, we believe that a meaningful share of the cited transactions will involve a partial, third-party equity raise.



# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Loan and CLO Market Developments (continued):

- **CLO new issuance market recovery continues (continued):** As secondary CLO debt and equity prices continue to rise, we believe that new CLO transactions will continue to gain traction during the remainder of 2010, so long as, among other factors, fundamental economic and credit conditions remain stable. Although we believe the arbitrage cash flow CLO issuance levels of 2006-2007 are not likely to return in the near-term, we do expect that equity and debt financing will be available for top-tier CLO asset managers.

### ❖ Fair Value Determination for TFG's CLO Investments:

- In accordance with the Company's valuation policies as set forth on the Company's website, the values of TFG's CLO investments are determined using a third-party cash flow modeling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in historic, current and potential market developments on the performance of TFG's CLO investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.
- Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of TFG's portfolio, the Company seeks to derive a value at which market participants could transact in an orderly market and also seek to benchmark our inputs and resulting outputs to observable market data when available and appropriate. Fundamentally, the valuation process may be viewed as a two stage process: (1) projecting future cash flows and (2) adjusting them at an appropriate discount rate to reflect the perceived level of risk. Under this view, a modeling approach which involves two main steps is utilized. First, future cash flows for each deal in the CLO portfolio are modeled, using our base case assumptions. This generates both the investment IRRs, which are used to drive the recognition of income, and the associated amortized cost. Second, a discount rate is applied to those future cash flows to generate a fair value for each investment. Due to elevated market risk premiums over the last two years, among other factors, this effective discount rate has typically been higher than the deal's IRR and therefore, in such instances, has resulted in a fair value which is lower than the deal's amortized cost. The difference between these two figures, on an aggregate basis across the CLO portfolio, has been characterized as the "ALR Fair Value Adjustment" or "ALR".<sup>(33)</sup>

### ❖ Forward-looking cash flow modeling assumptions unchanged in Q3 2010

- When we recalibrated certain modeling assumptions at the end of Q1 2010, we noted that, despite significant improvements in several metrics relevant to TFG, there remained heightened risks in the mid-term around, among other things, the so-called "maturity cliff" between 2012 and 2014 and the possibility of a double-dip recession in the European and U.S. economies.
- We believe that such improvements have generally continued through Q3 2010, as reflected in TFG's strong third quarter results described earlier in this report. We are also pleased that the magnitude of the "maturity cliff" appears to have been reduced. However, with mixed economic and corporate results reported year-to-date and a continuing uncertain outlook, we have not recalibrated our forward looking assumptions at September 30, 2010 pending, among other things, further sustained evidence of ongoing improvements.

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Application of discount rate to projected cash flows / ALR

- Over the past few quarters, the effective discount rate applied to the portfolio has typically been in the 28%-30% range, which represented a significant spread over the prevailing BB-rated CLO tranche yields.
- During Q3 2010 we have observed two important developments:
  - Evidence of a significant decline in risk premium demanded by market participants across the entire rating spectrum of CLO tranches, including debt originally rated BB/Ba2. Furthermore, indicative evidence, such as “price runs” from large financial institutions active in the trading of CLO securities, of trading levels in certain CLO equity in transactions that TFG does not own, also lent support to the notion of a reduction in the risk premium or discount rate that a market participant would apply to value CLO equity tranches.
  - Improvements in the credit quality and structural strength of many of TFG’s CLO investments, as evidenced by reduced Caa1/CCC asset holdings and increased O/C ratio levels, among other measures, resulting in the generation of sufficient cushion to potentially reduce the variability of projected cash flows such investments.
- In order to reflect the aforementioned and other relevant developments our discount rates have been modified in the following way:
  - For the stronger portion of TFG’s CLO investment portfolio, the effective discount rate has been reduced to 23%, which represents a 5% haircut to the bottom of the range that has been applied in recent quarters, but which still includes a significant spread over observable yields on BB-rated tranches. These deals have generally been characterized by historically strong performance such as maintaining equity payments through the financial crisis, among other factors, and which currently enjoy the benefits of relatively high O/C cushions and excess spreads, which provide protection against further collateral losses resulting in O/C test breaches and the subsequent cessation of cash flow payments to equity holders, such as TFG.
  - For the remaining deals in the CLO investment portfolio, for which there is a perceived heightened variability of future cash flows, the effective discount rate has been maintained at 30%, or the higher end of the recent 28-30% band, which we believe to be an appropriate rate at this time. The appropriateness of this rate will continue to be assessed in the context of, among other considerations, the overall market risk premium and each deal’s structural strength and credit quality over the coming quarters.
- The direct result of this adjustment to the discount rates described above was to increase the carrying value of certain CLO investments and the aggregate portfolio Fair Value by approximately \$43.0 million.
- As of the end of Q3 2010, the ALR has been reduced to approximately \$274.7 million as compared to \$330.7 million at the end of Q2 2010.

# TETRAGON

## **TETRAGON FINANCIAL GROUP LIMITED (TFG)** **PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010**

### ❖ Outlook Summary:

We believe that the recovery of the global financial markets witnessed through Q3 2010 has led to improvements in the credit quality and structural strength of TFG's investments. We also believe that these improvements are likely to be sustainable, at least in the short to medium-term, and therefore take a positive view of both our investment portfolio and asset management platform. At the end of Q3 2010, nearly all of our U.S. CLO investments were passing their junior O/C tests, which significantly outperformed the general market average.<sup>(34)</sup> Perhaps equally importantly, the excess spread of these CLOs, namely the difference between the interest income generated by a CLO's assets and the cost of financing through the CLO's debt as well as certain fees (which are locked-in at closing), has increased substantially from original levels. We believe that this combination of improving O/C ratios and increasing excess spread availability should continue to lead to increased payments to TFG's CLO equity over the next few quarters. Furthermore, these cushions are expected to insulate TFG's CLO investments from potential future credit losses, implying that our performance should remain strong even in the absence of a significant improvement in macroeconomic conditions, so long as we avoid another dramatic fundamental downturn or financial market crisis.

Despite our optimism, a number of hurdles for successful long-term performance remain. As we have highlighted before, the sizable amount of leveraged loan maturities coming due over the next three to four years will need to be further reduced. We expect that corporate borrowers will continue to seek to address this "maturity cliff", whether through amend-to-extend activity, corporate bond take-outs, or M&A activity. Furthermore, European CLOs continue to generally perform poorly, typically lagging the recovery of the U.S. CLO investments. We believe that these challenges may often make our majority position strategy ever more valuable, as it may allow us to improve the profitability of underperforming investments in certain situations. For example, as was described previously in TFG's Q2 2010 performance report, we were able to provide support for certain CLO management changes for three European investments in return for a long-term fee sharing arrangement.

We expect to continue evolving TFG's strategy to one of a broader financial services firm with ownership of operating business that is capable of pursuing attractive investment opportunities across multiple geographies and asset classes. With respect to our asset management platform, we will seek to focus on supporting the expansion of LCM's asset management business, whether by transitioning existing CLO management contracts to LCM or by exploring the issuance of a new arbitrage cash flow CLO. Finally and importantly, we intend to continue to serve our aim of returning capital to TFG shareholders (including through dividends, share repurchases and other means).

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

### ❖ Certain Company Information

A performance fee of \$39.3 million was accrued in Q3 2010 in accordance with TFG's investment management agreement and based on a "Reference NAV" of Q2 2010. The hurdle rate for Q4 2010 incentive fee has been reset at 2.9385% (Q3: 3.1812%) as per the process outlined in TFG's 2009 Audited Financial Statements and in accordance with TFG's investment management agreement.<sup>(35)</sup>

### ❖ Capital Distributions

The dividend of \$0.08 per share with respect to Q3 2010 will be payable on November 24, 2010. Please refer to the website ([www.tetragoninv.com](http://www.tetragoninv.com)) for additional information regarding the dividend, including the Optional Stock Dividend Plan.

### ❖ Quarterly Investor Call

We will host a conference call for investors on November 5, 2010 at 15:00 GMT/16:00 CET/11:00 EDST to discuss Q3 2010 results and to provide a company update. Please note there is only a four hour time difference between London and New York on this day.

The conference call may be accessed by dialing +44 (0)20 7162 0025 and +1 334 323 6201 (a passcode is not required). Participants may also register for the conference call in advance via the following link <https://eventregl.conferencing.com/webportal3/reg.html?Acc=697363&Conf=175320>.

A replay of the call will be available for 30 days by dialing +44 (0) 20 7031 4064 and +1 954 334 0342, access code 876111 and as an MP3 recording on the TFG website.

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Expected Upcoming Events	Date
Q3 Ex-Dividend Date	November 1, 2010
October 2010 Monthly Report	November 18, 2010 (approx.)
Q3 Dividend Payment Date	November 24, 2010
November 2010 Monthly Report	December 20, 2010 (approx.)

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

TETRAGON FINANCIAL GROUP								
Financial Highlights								
	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Net income (\$MM)	\$125.1	\$55.6	\$72.5	\$94.7	\$31.2	(\$26.7)	(\$414.3)	(\$187.1)
EPS (\$)	\$1.03	\$0.45	\$0.58	\$0.76	\$0.25	(\$0.21)	(\$3.29)	(\$1.48)
CLO Cash receipts (\$MM) <sup>(1)</sup>	\$71.8	\$60.9	\$51.1	\$38.4	\$35.3	\$31.9	\$47.1	\$75.3
CLO Cash receipts per share (\$)	\$0.59	\$0.50	\$0.41	\$0.31	\$0.28	\$0.25	\$0.37	\$0.60
Net cash balance (\$MM)	\$187.9	\$156.2	\$172.6	\$174.4	\$149.7	\$123.8	\$94.3	\$59.9
Net assets (\$MM)	\$1,019	\$909	\$867	\$807	\$721	\$693	\$723	\$1,142
Number of shares outstanding (million)	120.8	122.2	123.6	124.8	126.2	125.9	125.7	126.0
NAV per share (\$)	\$8.43	\$7.44	\$7.02	\$6.47	\$5.71	\$5.50	\$5.75	\$9.06
DPS (\$)	\$0.08	\$0.08	\$0.06	\$0.06	\$0.03	\$0.03	\$0.03	\$0.03
Weighted average IRR on completed transactions (%)	13.7%	13.1%	12.3%	11.9%	10.3%	9.2%	10.6%	13.8%
Number of CLO investments <sup>(2)</sup>	68	68	68	61	61	61	61	61
ALR Fair Value Adjustment (\$MM)	(\$274.7)	(\$330.7)	(\$339.5)	(\$349.0)	(\$333.8)	(\$254.1)	(\$315.0)	(\$141.0)

<sup>(1)</sup> Gross cash receipts from CLO portfolio.

<sup>(2)</sup> Excludes CDO-squared and ABS CDO transactions written off in October 2007. TFG continues to hold the economic rights to 3 of these written-off transactions.

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

TFG Quarterly Statement of Operations				
Statement of Operations	Q3 2010	Q2 2010	Q1 2010	Q4 2009
	(\$MM)	(\$MM)	(\$MM)	(\$MM)
Interest income	45.8	43.4	43.2	41.1
CLO management fee income	3.0	2.9	3.3	-
Other income	0.5	0.3	0.3	0.3
<b>Investment income</b>	<b>49.3</b>	<b>46.6</b>	<b>46.8</b>	<b>41.4</b>
Management and performance fees	(42.7)	(19.8)	(25.4)	(32.7)
Admin/ custody and other fees	(2.6)	(2.6)	(1.9)	(0.8)
<b>Total operating expenses</b>	<b>(45.3)</b>	<b>(22.4)</b>	<b>(27.3)</b>	<b>(33.5)</b>
<b>Net investment income</b>	<b>4.0</b>	<b>24.2</b>	<b>19.5</b>	<b>7.9</b>
Net change in in unrealised appreciation/(depreciation) in investments	121.3	31.4	54.5	91.8
Realised gain/(loss) on investments	0.3	0.3	-	-
Realised and unrealised gains/(losses) from hedging and fx	0.3	0.8	-	(5.0)
<b>Net realised and unrealised gains/(losses) from investments and fx</b>	<b>121.9</b>	<b>32.4</b>	<b>54.5</b>	<b>86.8</b>
Income taxes	(0.4)	(0.4)	(1.3)	-
Noncontrolling interest	(0.3)	(0.6)	(0.2)	-
<b>Net increase/(decrease) in net assets from operations</b>	<b>125.2</b>	<b>55.6</b>	<b>72.5</b>	<b>94.7</b>

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2010

<b>TETRAGON FINANCIAL GROUP</b>	
Balance Sheet as at 30 September 2010	
	<b>TFG Total (\$MM)</b>
<b>Assets</b>	
Investments in securities, at fair value	893.1
Intangible assets - CLO management contracts	0.2
Cash and cash equivalents	187.9
Amounts due from brokers	8.3
Accrued fee income	1.2
Other receivables	0.3
<b>Total Assets</b>	<b>1,091.0</b>
<b>Liabilities</b>	
Unrealised loss on forward contracts	4.8
Dividend Payable	0.0
Other payables and accrued expenses	42.5
Amounts payable on securities purchased	23.9
<b>Total Liabilities</b>	<b>71.2</b>
<b>Net Assets Before Noncontrolling Interest</b>	<b>1,019.9</b>
Noncontrolling Interest	1.1
<b>Total Equity Attributable to TFG</b>	<b>1,018.8</b>

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) PORTFOLIO COMPOSITION PORTFOLIO HELD BY TETRAGON FINANCIAL GROUP MASTER FUND LIMITED (UNLESS OTHERWISE STATED) AS OF SEPTEMBER 30, 2010

Report Date	TFG Share Price (\$)	TFG group Market Cap (\$MM) <sup>(1)</sup>	TFG group Net Assets (\$MM)	No. of Closed CLO Transactions		
30 September 2010	\$4.39	\$574.6	\$1,018.6	68 <sup>(2)</sup>		
Capital Allocation by Asset Class		Risk Capital Allocation	Investment - Fair Value (\$MM) <sup>(3)(4)</sup>	Asset Class Allocation		
Broadly Syndicated Senior Secured Loans: US		74.8%	\$667.8			
Broadly Syndicated Senior Secured Loans: Europe		8.3%	\$74.3			
Middle Market Senior Secured Loans: US		16.9%	\$151.0			
CDOs Squared: US		0.0%	\$0.0			
ABS and Structured Finance: US		0.0%	\$0.0			
<b>Total</b>		<b>100.0%</b>	<b>\$893.1</b>			
Geographic Allocation by Asset Class		USA	Europe	Asia Pacific	Total	Geographic Allocation
Broadly Syndicated Senior Secured Loans		90.0%	10.0%	0.0%	100.0%	
Middle Market Senior Secured Loans		100.0%	0.0%	0.0%	100.0%	
CDOs Squared		0.0%	0.0%	0.0%	0.0%	
ABS and Structured Finance		0.0%	0.0%	0.0%	0.0%	
		<b>91.7%</b>	<b>8.3%</b>	<b>0.0%</b>	<b>100.0%</b>	
Top 15 Underlying Bank Loan Credits	Bank Loan Exposure <sup>(5)</sup>	Top 10 Bank Loan Industry Exposures <sup>(5)</sup>				
Community Health	0.96%					
Charter Communications	0.95%					
Univision Communications	0.87%					
TXU Corp	0.86%					
Georgia Pacific Corp	0.76%					
HCA Inc	0.75%					
First Data Corp	0.71%					
Aramark Corp	0.69%					
Cablevision Systems Corp	0.66%					
SunGard Data Systems Inc	0.65%					
Sabre Holdings Corp	0.63%					
UPC Broadband	0.62%					
Celanese US Holdings LLC	0.61%					
Health Management Associates	0.58%					
Nielsen Company	0.58%					

EUR-USD FX: 1.36

<sup>(1)</sup> Calculated using TFG shares outstanding and month end exchange price.

<sup>(2)</sup> Excludes CDO-squared and ABS CDO transactions which were written off in October 2007. TFG continues to hold the economic rights to 3 of these written-off transactions.

<sup>(3)</sup> Excludes TFG's investment in LCM Asset Management LLC.

<sup>(4)</sup> Equivalent to Investment in Securities at Fair Value in the US GAAP Financial Statements.

<sup>(5)</sup> Includes par amount of loans held directly by TFG and also loan exposures via TFG's investments in CLOs. With respect to CLO investments, calculated as a percentage of total corporate loan assets that TFG has exposure to based on its equity-based pro-rata share of each CLO's total portfolio. All calculations are net of any single name CDS hedges held against that credit.

**An investment in TFG involves substantial risks. Please refer to the Company's website at [www.tetragoninv.com](http://www.tetragoninv.com) for a description of the risks and uncertainties pertaining to an investment in TFG.**

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 ("FMSA") as a collective investment scheme from a designated country. This release constitutes regulated information ("gereguleerde informatie") within the meaning of Section 1:1 of the FMSA.



# TETRAGON

## BOARD OF DIRECTORS

Paddy Dear  
Rupert Dorey\*

Reade Griffith  
David Jeffreys\*

Byron Knief\*  
Greville Ward\*

Alex Jackson

*\*Independent Director*

## SHAREHOLDER INFORMATION

### Registered Office of TFG and the Master Fund

Tetragon Financial Group Limited  
Tetragon Financial Group Master Fund Limited  
Tudor House  
Le Bordage  
St. Peter Port, Guernsey  
Channel Islands GYI 3PF

### Investment Manager

Tetragon Financial Management LP  
399 Park Avenue, 22<sup>nd</sup> Floor  
New York, NY 10022  
United States of America

### General Partner of Investment Manager

Tetragon Financial Management GP LLC  
399 Park Avenue, 22<sup>nd</sup> Floor  
New York, NY 10022  
United States of America

### Investor Relations

David Wishnow / Yuko Thomas  
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### Press Inquiries

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Michael Berkeley/Justin Griffiths/Clare Simonds  
tetragon@citigatedr.co.uk

### Auditors

KPMG Channel Islands Ltd  
20 New Street  
St. Peter Port, Guernsey  
Channel Islands GYI 4AN

### Sub-Registrar and Transfer Agent

The Bank of New York  
One Wall Street  
New York, NY 10286  
United States of America

### Issuing Agent, Dutch Paying and Transfer Agent

Kas Bank N.V.  
Spuistraat 172  
1012 VT Amsterdam, The Netherlands

### Legal Advisor (as to U.S. law)

Cravath, Swaine & Moore LLP  
One Ropemaker Street  
London EC2Y 9HR  
United Kingdom

### Legal Advisor (as to Guernsey law)

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Ogier House  
St. Julian's Avenue  
St. Peter Port, Guernsey  
Channel Islands GYI IWA

### Legal Advisor (as to Dutch law)

De Brauw Blackstone Westbroek N.V.  
Claude Debussylaan 80  
1082 MD Amsterdam, The Netherlands

### Stock Listing

Euronext Amsterdam by NYSE Euronext

### Administrator and Registrar

State Street Fund Services (Guernsey) Limited  
Tudor House  
Le Bordage  
St. Peter Port, Guernsey  
Channel Islands GYI 3PF

# TETRAGON

## ENDNOTES

- (1) TFG invests substantially all its capital through a master fund, Tetragon Financial Group Master Fund Limited (“TFGMF”), in which it holds 100% of the issued shares. In this report, unless otherwise stated, we report on the consolidated business incorporating TFG and TFGMF. References to “we” are to Tetragon Financial Management LP, TFG’s investment manager.
- (2) This Performance Report constitutes TFG’s interim management statement as required pursuant to Section 5:25e of the FMSA. Pursuant to Section 5:25e and 5:25m of the FMSA, this report is made public by means of a press release and has been filed with the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and also made available to the public by way of publication on the TFG website ([www.tetragoninv.com](http://www.tetragoninv.com)).
- (3) Please see the TFG press release from October 1, 2010, “Tetragon Financial Group Limited (“TFG”) Announces Continuation of its Share Repurchase Program.”
- (4) The LCM I, LCM II, LCM III, LCM IV, LCM V, and LCM VI CLOs are referred to as the “LCM Cash Flow CLOs.” The LCM VII CLO was a market value CLO previously managed by LCM, which was liquidated commencing in 2008, and is not included in the mentioned statistics. In addition, these statistics do not include the performance of certain transactions that were developed and previously managed by a third-party prior to being assigned to LCM, some of which continue to be managed by LCM.
- (5) Please see the TFG press release from August 2, 2010, “Tetragon Financial Group Limited (“TFG”) To Pursue Real Estate Venture.”
- (6) This figure includes the dividend of \$0.08 per share announced on October 27, 2010 with respect to Q3 2010.
- (7) Includes only look-through loan exposures through TFG’s CLO investments.
- (8) Excludes CDO-squared and ABS CDO transactions which were written off in October 2007. TFG continues to hold the economic rights to three of these written-off transactions.
- (9) Based on the most recent trustee reports available for both our U.S. and European CLO investments as of September 30, 2010.
- (10) As of September 30, 2010, European CLOs represented approximately 8.3% of TFG’s investment portfolio; approximately 54% of the fair value of TFG’s European CLOs and 30%, when measured on a percentage of European transactions basis, were passing their junior-most O/C tests.
- (11) As O/C tests are breached, CLO structures may divert excess interest cash flows away from the equity tranche holders, such as TFG, to pay down the CLO’s debt thereby curing the O/C breach via deleveraging. Accordingly, the affected investments ceased to generate cash flows to TFG or are expected to cease generating cash flows on the next applicable payment date. Once enough debt has been repaid to cure the O/C test breach, distributions of excess interest cash to equity holders may resume to the extent not precluded by the investments’ realized or unrealized losses.
- (12) Morgan Stanley CDO Market Tracker, October 8, 2010; based on a sample of 478 U.S. CLO transactions.
- (13) Excess Caa/CCC+ or below rated assets above transaction-specific permitted maximum holding levels are generally haircut in our transactions at market value in U.S. CLOs and recovery rate in European CLOs for purposes of the O/C or interest reinvestment test ratios.
- (14) Morgan Stanley CDO Market Tracker, October 8, 2010; based on the lower of Moody’s and S&P rating. Furthermore, TFG’s investment portfolio includes approximately 8.3% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s average CCC asset holdings.
- (15) Weighted by the original USD cost of each investment.
- (16) The calculation of TFG’s lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a “Selective Default” rating by one or more of the applicable rating agencies. Such Selected Defaults are included the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG’s investment portfolio includes approximately 8.3% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s corporate default rate.
- (17) S&P/LCD News, “Default rates edge lower in September; further declines likely in 4Q,” October 1, 2010.
- (18) The LCM I, LCM II, LCM III, LCM IV, LCM V, and LCM VI CLOs are referred to as the “LCM Cash Flow CLOs.” The LCM VII CLO was a market value CLO previously managed by LCM, which was liquidated commencing in 2008, and is not included in the mentioned statistics. In addition, these statistics do not include the performance of certain transactions that were developed and previously managed by a third-party prior to being assigned to LCM, some of which continue to be managed by LCM.
- (19) S&P/LCD News, “Default rates edge lower in September; further declines likely in 4Q,” October 1, 2010.
- (20) Morgan Stanley CDO Market Tracker, October 8, 2010; based on a sample of 478 U.S. CLO transactions.
- (21) Morgan Stanley CDO Market Tracker, April 1, 2010; based on a sample of 479 U.S. CLO transactions.
- (22) Morgan Stanley CDO Market Tracker, October 8, 2010; based on a sample of 197 European CLO transactions.
- (23) S&P/LCD News, “Index preview: loans return 1.41% in September, 6.77% YTD,” October 1, 2010.
- (24) S&P/LSTA Leveraged Lending Review 3Q 2010.
- (25) S&P/LSTA Leveraged Lending Review 3Q 2010.
- (26) S&P/LCD Quarterly Review, Third Quarter 2010.
- (27) S&P/LCD Quarterly Review, Third Quarter 2010.
- (28) S&P/LCD Quarterly Review, Third Quarter 2010.
- (29) S&P/LCD Quarterly Review, Third Quarter 2010.
- (30) S&P/LCD Quarterly Review, Third Quarter 2010.
- (31) Morgan Stanley CDO Market Tracker, October 8, 2010.
- (32) S&P/LCD News, “CLO calendar grows despite dearth of open-market equity,” October 18, 2010.
- (33) The Accelerated Loss Reserve is transaction specific. The Accelerated Loss Reserve is a direct adjustment to the fair value of an investment to account for the potential impact of certain potential losses and the cumulative value of such adjustments is evidenced in TFG’s financial statements.
- (34) Morgan Stanley CDO Market Tracker, October 8, 2010; based on a sample of 478 U.S. CLO transactions.
- (35) The hurdle rate is reset each quarter using 3M USD LIBOR plus a spread of 2.647858% accordance with TFG’s investment management agreement. Please see the TFG website, [www.tetragoninv.com](http://www.tetragoninv.com), for more details.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT**

**TETRAGON FINANCIAL GROUP LIMITED**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2010 AND FOR THE PERIOD  
ENDED 30 SEPTEMBER 2009**

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**TETRAGON FINANCIAL GROUP LIMITED**  
**UNAUDITED CONSOLIDATED QUARTERLY REPORT**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2010 AND FOR THE PERIOD**  
**ENDED 30 SEPTEMBER 2009**

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**CONTENTS**

	PAGE
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES	2
CONSOLIDATED STATEMENTS OF OPERATIONS	3
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6

**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
as at 30 September 2010 (unaudited)

	<b>30 Sep 2010</b>	<b>31 Dec 2009</b>
	<b>US\$</b>	<b>US\$</b>
<b>Assets</b>		
Investment in Master Fund	1,057,906,745	836,628,677
Amounts receivable from Master Fund	311,196	212,635
<b>Total assets</b>	<b>1,058,217,941</b>	<b>836,841,312</b>
<b>Liabilities</b>		
Accrued incentive fee	39,280,873	29,781,872
Amounts payable on Treasury Shares	311,196	212,635
<b>Total liabilities</b>	<b>39,592,069</b>	<b>29,994,507</b>
<b>Net assets</b>	<b>1,018,625,872</b>	<b>806,846,805</b>
<b>Equity</b>		
Share capital	120,824	124,769
Share premium	1,160,536,425	1,177,331,614
Capital reserve in respect of share options	11,789,336	11,789,336
Earnings	(153,820,713)	(382,398,914)
	<b>1,018,625,872</b>	<b>806,846,805</b>
<b>Shares outstanding</b>		
Shares	Number 120,824,363	Number 124,768,684
<b>Net asset value per Share</b>		
Shares	US\$8.43	US\$6.47

**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the period ended 30 September 2010 and for the period  
ended 30 September 2009 (unaudited)

	Quarter Ended 30 Sep 2010 US\$	Quarter Ended 30 Sep 2009 US\$	9 Months Ended 30 Sep 2010 US\$	9 Months Ended 30 Sep 2009 US\$
<b>Investment income allocated from the Master Fund</b>				
Interest income	45,808,353	39,660,355	132,473,343	136,955,255
CLO management fee income	3,064,101	-	9,242,906	-
Other income	537,232	281,815	1,116,590	963,552
<b>Investment income allocated from the Master Fund</b>	<b>49,409,686</b>	<b>39,942,170</b>	<b>142,832,839</b>	<b>137,918,807</b>
<b>Direct expenses</b>				
Incentive fee	(39,280,873)	-	(78,005,136)	-
<b>Total direct expenses</b>	<b>(39,280,873)</b>	<b>-</b>	<b>(78,005,136)</b>	<b>-</b>
<b>Operating expenses allocated from the Master Fund</b>				
Management fees	(3,508,998)	(2,607,033)	(10,016,961)	(9,473,344)
CLO loan manager operating expenses	(1,615,778)	-	(4,470,302)	-
Legal and professional fees	(443,667)	(44,653)	(1,142,382)	(113,099)
Administration and custodian fees	(185,737)	(148,738)	(573,951)	(499,965)
Audit fees	(60,350)	(90,292)	(181,050)	(228,456)
Directors' fees	(50,000)	(50,000)	(150,000)	(150,004)
Other operating expenses	(359,449)	(191,839)	(696,322)	(591,401)
Interest expense	-	-	-	(592,021)
<b>Total operating expenses allocated from the Master Fund</b>	<b>(6,223,979)</b>	<b>(3,132,555)</b>	<b>(17,230,968)</b>	<b>(11,648,290)</b>
<b>Total operating expenses</b>	<b>(45,504,852)</b>	<b>(3,132,555)</b>	<b>(95,236,104)</b>	<b>(11,648,290)</b>
<b>Net investment income</b>	<b>3,904,834</b>	<b>36,809,615</b>	<b>47,596,735</b>	<b>126,270,517</b>
<b>Net realized and unrealized gain/(loss) from investments and foreign currency allocated from the Master Fund</b>				
Net realized gain / (loss) from:				
Investments	259,322	-	520,626	-
Foreign currency transactions	3,305,021	(4,250,644)	7,656,715	6,158,675
	<b>3,564,343</b>	<b>(4,250,644)</b>	<b>8,177,341</b>	<b>6,158,675</b>

**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (continued)**  
For the period ended 30 September 2010 and for the period  
ended 30 September 2009 (unaudited)

	Quarter Ended 30 Sep 2010 US\$	Quarter Ended 30 Sep 2009 US\$	9 Months Ended 30 Sep 2010 US\$	9 Months Ended 30 Sep 2009 US\$
Net increase / (decrease) in unrealized appreciation/ (depreciation) on:				
Investments	124,489,521	(3,499,523)	207,170,572	(531,855,631)
Forward foreign exchange contracts	(10,122,026)	1,693,573	(6,350,576)	2,031,931
Foreign exchange options	-	(595,500)	-	(5,475,600)
Translation of assets and liabilities in foreign currencies	3,860,540	1,090,691	(309,436)	(6,841,244)
	<u>118,228,035</u>	<u>(1,310,759)</u>	<u>200,510,560</u>	<u>(542,140,544)</u>
<b>Net realized and unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund</b>	<u>121,792,378</u>	<u>(5,561,403)</u>	<u>208,687,901</u>	<u>(535,981,869)</u>
<b>Net increase / (decrease) in net assets resulting from operations before income tax</b>	<u>125,697,212</u>	<u>31,248,212</u>	<u>256,284,636</u>	<u>(409,711,352)</u>
Income and deferred tax	(347,770)	-	(2,029,530)	-
<b>Net income</b>	<u>125,349,442</u>	<u>31,248,212</u>	<u>254,255,106</u>	<u>(409,711,352)</u>
Less net income attributable to noncontrolling interest	(341,541)	-	(1,129,274)	-
<b>Net increase / (decrease) in net assets resulting from operations</b>	<u>125,007,901</u>	<u>31,248,212</u>	<u>253,125,832</u>	<u>(409,711,352)</u>
<b>Earnings per Share</b>				
Basic	US\$ 1.03	US\$ 0.25	US\$ 2.06	US\$ (3.26)
Diluted	US\$ 1.03	US\$ 0.25	US\$ 2.06	US\$ (3.26)
<b>Weighted average Shares outstanding</b>				
Basic	121,506,094	126,025,047	122,761,831	125,672,695
Diluted	121,506,094	126,025,047	122,761,831	125,672,695

**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
For the period ended 30 September 2010 and for the period  
ended 30 September 2009 (unaudited)

	<b>9 Months Ended 30 Sep 2010 US\$</b>	<b>9 Months Ended 30 Sep 2009 US\$</b>
Total investment income	142,832,839	137,918,807
Total operating expenses	(95,236,104)	(11,648,290)
Net realized gain from investments and foreign currencies allocated from the Master Fund	8,177,341	6,158,675
Net unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund	200,510,560	(542,140,544)
Income taxes	(2,029,530)	-
Income attributable to noncontrolling interest	(1,129,274)	-
Net increase / (decrease) in net assets resulting from operations	<u>253,125,832</u>	<u>(409,711,352)</u>
Dividends paid to shareholders	(24,547,631)	(11,317,728)
Issue of Shares	3,665,805	909,146
Treasury Shares	(20,464,939)	(983,852)
Decrease in net assets resulting from net Share transactions	<u>(16,799,134)</u>	<u>(74,706)</u>
<b>Total increase / (decrease) in net assets</b>	<b>211,779,067</b>	<b>(421,103,786)</b>
<b>Net assets at start of period</b>	<b>806,846,805</b>	<b>1,141,950,194</b>
<b>Net assets at end of period</b>	<u><b>1,018,625,872</b></u>	<u><b>720,846,408</b></u>



**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the period ended 30 September 2010 and for the period  
ended 30 September 2009 (unaudited)

	<b>9 Months Ended 30 Sep 2010 US\$</b>	<b>9 Months Ended 30 Sep 2009 US\$</b>
<b>Operating and investing activities</b>		
Net increase / (decrease) in net assets resulting from operations	253,125,832	(409,711,352)
Adjustments for:		
Net unrealized (appreciation) / depreciation on investments in Master Fund	(221,278,068)	421,103,786
Operating cash flows before movements in working capital	<u>31,847,764</u>	<u>11,392,434</u>
(Increase) / decrease in receivables	(98,561)	29,763
Increase / (decrease) in payables	9,597,562	(29,763)
Cash flows from operations	<u>41,346,765</u>	<u>11,392,434</u>
<b>Cash inflows from operating and investing activities</b>	<u>41,346,765</u>	<u>11,392,434</u>
<b>Financing activities</b>		
Issue of Shares	3,665,805	909,146
Treasury Shares	(20,464,939)	(983,852)
Dividends paid to Shareholders	(24,547,631)	(11,317,728)
<b>Cash outflows from financing activities</b>	<u>(41,346,765)</u>	<u>(11,392,434)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	-	-
Cash and cash equivalents at beginning of period	-	-
<b>Cash and cash equivalents at end of period</b>	<u>-</u>	<u>-</u>

**UNAUDITED CONSOLIDATED QUARTERLY REPORT**

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2010 AND FOR THE PERIOD  
ENDED 30 SEPTEMBER 2009**

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**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**UNAUDITED CONSOLIDATED QUARTERLY REPORT**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2010 AND FOR THE PERIOD**  
**ENDED 30 SEPTEMBER 2009**

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**CONTENTS**

	PAGE
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES	2
CONSOLIDATED STATEMENTS OF OPERATIONS	3
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
as at 30 September 2010 (unaudited)

	30 Sep 2010 US\$	31 Dec 2009 US\$
<b>Assets</b>		
Investments in securities, at fair value	893,123,492	655,234,320
Intangible assets – CLO Management Contracts	235,538	-
Cash and cash equivalents	187,863,614	174,352,827
Amounts due from brokers	8,282,247	5,870,597
Accrued fee income	1,153,362	-
Derivative financial assets – forward contracts	-	1,595,601
Other receivables	314,288	186,393
<b>Total assets</b>	<u>1,090,972,541</u>	<u>837,239,738</u>
<b>Liabilities</b>		
Amounts payable on purchase of investments	23,919,979	-
Derivative financial liabilities – forward contracts	4,754,975	-
Amounts payable to Guernsey Feeder	311,196	212,635
Other payables and accrued expenses	2,720,732	398,426
Income and deferred tax payable	249,430	-
<b>Total liabilities</b>	<u>31,956,312</u>	<u>611,061</u>
<b>Net assets</b>	<u>1,059,016,229</u>	<u>836,628,677</u>
<b>Equity</b>		
Share capital	120,824	124,769
Share premium	1,119,759,509	1,136,554,698
Earnings	(61,973,588)	(300,050,790)
Total equity attributable to TFG Master Fund Limited	<u>1,057,906,745</u>	<u>836,628,677</u>
Noncontrolling interest	1,109,484	-
<b>Total shareholders equity</b>	<u>1,059,016,229</u>	<u>836,628,677</u>
<b>Shares outstanding</b>		
Shares	Number 120,824,363	Number 124,768,684
<b>Net asset value per Share*</b>		
Shares	US\$8.76	US\$6.71

\* calculated by dividing Total equity attributable to TFG Master Fund Limited by Shares outstanding.

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the period ended 30 September 2010 and for the period  
ended 30 September 2009 (unaudited)

	Quarter Ended 30 Sep 2010 US\$	Quarter Ended 30 Sep 2009 US\$	9 Months Ended 30 Sep 2010 US\$	9 Months Ended 30 Sep 2009 US\$
Interest income	45,808,353	39,660,355	132,473,343	136,955,255
CLO management fee income	3,064,101	-	9,242,906	-
Other income	537,232	281,815	1,116,590	963,552
<b>Investment income</b>	<b>49,409,686</b>	<b>39,942,170</b>	<b>142,832,839</b>	<b>137,918,807</b>
Management fees	(3,508,998)	(2,607,033)	(10,016,961)	(9,473,344)
CLO loan manager operating expenses	(1,615,778)	-	(4,470,302)	-
Legal and professional fees	(443,667)	(44,653)	(1,142,382)	(113,099)
Administration and custodian fees	(185,737)	(148,738)	(573,951)	(499,965)
Audit fees	(60,350)	(90,292)	(181,050)	(228,456)
Directors' fees	(50,000)	(50,000)	(150,000)	(150,004)
Other operating expenses	(359,449)	(191,839)	(696,322)	(591,401)
Interest expense	-	-	-	(592,021)
<b>Operating expenses</b>	<b>(6,223,979)</b>	<b>(3,132,555)</b>	<b>(17,230,968)</b>	<b>(11,648,290)</b>
<b>Net investment income</b>	<b>43,185,707</b>	<b>36,809,615</b>	<b>125,601,871</b>	<b>126,270,517</b>
<b>Net realized and unrealized gain/(loss) from investments and foreign currency</b>				
Net realized gain/(loss) from:				
Investments	259,322	-	520,626	-
Foreign currency transactions	3,305,021	(4,250,644)	7,656,715	6,158,675
	<b>3,564,343</b>	<b>(4,250,644)</b>	<b>8,177,341</b>	<b>6,158,675</b>
Net increase/(decrease) in unrealized appreciation/ (depreciation) on:				
Investments	121,286,739	(3,499,523)	207,170,572	(531,855,631)
Forward foreign exchange contracts	(10,122,026)	1,693,573	(6,350,576)	2,031,931
Foreign exchange options	-	(595,500)	-	(5,475,600)
Translation of assets and liabilities in foreign currencies	7,063,322	1,090,691	(309,436)	(6,841,244)
	<b>118,228,035</b>	<b>(1,310,759)</b>	<b>200,510,560</b>	<b>(542,140,544)</b>
<b>Net realized and unrealized gain/(loss) from investments and foreign currency</b>	<b>121,792,378</b>	<b>(5,561,403)</b>	<b>208,687,901</b>	<b>(535,981,869)</b>

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**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (continued)**  
For the period ended 30 September 2010 and for the period  
ended 30 September 2009 (unaudited)

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	Quarter Ended 30 Sep 2010 US\$	Quarter Ended 30 Sep 2009 US\$	9 Months Ended 30 Sep 2010 US\$	9 Months Ended 30 Sep 2009 US\$
<b>Net increase/(decrease) in net assets resulting from operations before tax</b>	164,978,085	31,248,212	334,289,772	(409,711,352)
Income and deferred tax	(347,770)	-	(2,029,530)	-
<b>Net income</b>	164,630,315	31,248,212	332,260,242	(409,711,352)
Less net income attributable to noncontrolling interest	(341,541)	-	(1,129,274)	-
<b>Net increase/(decrease) in net assets resulting from operations</b>	164,288,774	31,248,212	331,130,968	(409,711,352)

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**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
For the period ended 30 September 2010 and for the period  
ended 30 September 2009 (unaudited)

	<b>9 Months Ended 30 Sep 2010 US\$</b>	<b>9 Months Ended 30 Sep 2009 US\$</b>
Investment income	142,832,839	137,918,807
Operating expenses	(17,230,968)	(11,648,290)
Net realized gain from investments and foreign currency	8,177,341	6,158,675
Net unrealized appreciation / (depreciation) on investments and translation of assets and liabilities in foreign currencies	200,510,560	(542,140,544)
Income and deferred tax	(2,029,530)	-
Income attributable to noncontrolling interest	(1,129,274)	-
Net increase / (decrease) in net assets resulting from operations	<u>331,130,968</u>	<u>(409,711,352)</u>
Dividends paid to Guernsey Feeder	(68,506,135)	-
Dividends paid to Shareholders	(24,547,631)	(11,317,728)
Decrease in net assets resulting from dividends	<u>(93,053,766)</u>	<u>(11,317,728)</u>
Issue of Shares	3,665,805	909,146
Treasury Shares	(20,464,939)	(983,852)
Decrease in net assets resulting from net Share transactions	<u>(16,799,134)</u>	<u>(74,706)</u>
<b>Total increase / (decrease) in net assets</b>	221,278,068	(421,103,786)
<b>Net assets at start of period</b>	836,628,677	1,141,950,194
<b>Net assets before noncontrolling interest</b>	<u>1,057,906,745</u>	<u>720,846,408</u>
Noncontrolling interest	1,109,484	-
<b>Net assets at end of period after noncontrolling interest</b>	<u><u>1,059,016,229</u></u>	<u><u>720,846,408</u></u>

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the period ended 30 September 2010 and for the period**  
**ended 30 September 2009 (unaudited)**

	Quarter ended 30 Sep 2010 US\$	Quarter ended 30 Sep 2009 US\$
<b>Operating and investing activities</b>		
Net increase / (decrease) in net assets resulting from operations	331,130,968	(409,711,352)
Adjustments for:		
Realized gain on investments	(520,626)	-
Non cash interest income on investments	54,806,606	(25,070,302)
Net income attributable to noncontrolling interest	1,129,274	-
Accumulated amortization on intangible assets	67,296	-
Unrealized (gains) / losses	(200,510,560)	542,140,544
Operating cash flows before movements in working capital	186,102,958	107,358,890
Increase in receivables	(1,281,257)	(49,545)
Increase / (decrease) in payables	2,420,867	(837,263)
Increase in income and deferred tax payable	249,430	-
Cash flows from operations	187,491,998	106,472,082
Proceeds from sale of investments	15,694,824	-
Purchase of investments	(77,222,920)	-
Purchase of asset manager	(302,834)	-
<b>Cash inflows from operating and investing activities</b>	<b>125,661,068</b>	<b>106,472,082</b>
<b>Financing activities</b>		
Amounts due from brokers	(2,411,650)	107,698,343
Proceeds from issue of Shares	3,665,805	909,146
Treasury Shares	(20,464,939)	(983,852)
Dividends paid to Shareholders	(24,547,631)	(11,317,728)
Dividends paid to Guernsey Feeder	(68,506,135)	-
Repayments on repurchase and swap agreements	-	(117,557,492)
<b>Cash outflows from financing activities</b>	<b>(112,264,550)</b>	<b>(21,251,583)</b>
<b>Net increase in cash and cash equivalents</b>	<b>13,396,518</b>	<b>85,220,499</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>174,352,827</b>	<b>63,042,822</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>114,269</b>	<b>1,436,116</b>
<b>Cash and cash equivalents at end of period</b>	<b>187,863,614</b>	<b>149,699,437</b>