TETRAGON

TETRAGON FINANCIAL GROUP

2012 ANNUAL REPORT

TETRAGON

CONTENTS

TFG SHAREHOLDER LETTER

DEAR SHAREHOLDERS,

The company had another successful year in 2012 with a return on equity ("RoE") of 20.8%. This return was considerably above both our average RoE of 14.1% since IPO and our over-the-cycle target of 10-15%. We also achieved a significant step forward with the acquisition of Polygon. This further diversifies the business and, we believe, makes our long-term RoE target more sustainable and less volatile through the addition of fund management capabilities, third-party assets under management ("AUM") and an asset management infrastructure.

There are two themes that continue to be uppermost in our minds as we review 2012 and plan for the years ahead. The first has been a key premise since TFG's inception – namely our belief that for certain financial assets we can create better ownership structures, which improve shareholders' risk-adjusted returns when compared to traditional banking models. We believe that TFG has accomplished this for corporate loans through its corporate structure and the use of collateralized loan obligations ("CLOs") with matched funding, which may provide a more efficient way for investors to access corporate loans at reduced costs and with lower risks compared to a traditional bank loan model. We believe that recent regulatory changes in the banking sector may provide new opportunities in the coming years. The second theme we have sought to exploit is, in our view, well understood within the asset management industry and it lies in the basic characteristics of investment return income and asset management fee income. As a general matter, in contrast to investment return income, asset management fee income is generally repeatable, and therefore less volatile. We propose that if an asset manager generates strong returns for its investors, returns to the asset manager itself may outpace the return on assets to investors on a RoE basis. Given this phenomenon and the high correlation between the performance of an asset manager and its funds, it is a potentially significant benefit for TFG to own all or a part of the asset managers with whom it invests.

In light of these themes, 2012 was an exciting year for the company in which it demonstrated the enduring benefits of the former theme and enhanced the prospects of the second theme through the acquisition of Polygon Management L.P. and certain of its affiliates (collectively, "Polygon") in October 2012 (the "Polygon Transaction"). We believe that the acquisition of Polygon provides the company with an important platform for future growth which may enable us to generate a higher and potentially more stable RoE over the long-term. We continue to seek to build a company that generates a meaningful and sustainable RoE for its shareholders.

The acquired Polygon investment fund managers and the purchase of the remaining interests in LCM Asset Management LLC ("LCM"), our loan manager, and a further interest in GreenOak Real Estate L.P. ("GreenOak"), all should provide strategic and financial benefits to TFG. Equally important, TFG also acquired Polygon's entire scalable global infrastructure upon which all of Polygon's and TFG's existing asset management businesses have been run. TFG now hosts and runs all of its asset management businesses on this platform and we believe new businesses can be seamlessly and efficiently added, providing further operational leverage.

Our plan is for TFG to continue to grow its existing asset management businesses, namely LCM, GreenOak and Polygon, and also seek to add new asset management businesses over time. In addition to providing new drivers for future growth, TFG's expanding asset management platform may also enable the company to better manage the capital allocation of its resources across more diverse asset classes and types, which may lead to better risk-adjusted returns.

We believe that the benefits of paying less fees to third-party managers, adding asset management fee income to TFG's investment portfolio returns, enhancing the ability to invest in products with preferential fee terms across a variety of asset classes and types, as well as adding new businesses with return and diversification benefits, should all contribute to generating a high and repeatable RoE for TFG shareholders.

TFG SHAREHOLDER LETTER

DIVIDENDS AND SHARE REPURCHASES

In line with our policy of delivering a sustainable progressive growth in dividends to shareholders, we are pleased to have declared dividends of $0.47 per share for the full year 2012, a 19.0% increase over 2011. In addition, $175.6 million was used to repurchase 18.7 million shares during 2012. $150.0 million of this share repurchase was executed successfully *via* a tender offer using a “modified Dutch” auction process conducted on the company’s behalf by Deutsche Bank AG.

2012 PERFORMANCE

Much of the value delivered in 2012 was a result of structures built and investments made in preceding years. Our philosophy has always been one of investing and building for the long term and we will continue to seek opportunities to do this.

The primary driver of 2012 results was the performance of U.S. CLO equity investments in transactions created prior to 2008 (we refer to these throughout this Annual Report as “U.S. Pre-Crisis CLOs”). These CLOs continue to benefit from many structural features that were included at their inception. They are also currently benefitting from having recycled their investments into wider spread loans over the last few years whilst maintaining their inexpensive financing. Their strong performance has also been supported by relatively low current loan default levels as benign credit conditions continue in the U.S. economy. In contrast, European economies have shown much slower recovery and, by extension, the 2012 performance of the company’s European CLO deals has not met our expectations. Since European CLOs share certain structural features with U.S. Pre-Crisis deals, such as their historically low financing costs, we continue to hope for improved returns if European economies can recover in the near-term.

During 2012, we continued to make new investments across a broad spectrum of asset classes: loans (primarily through CLOs), real estate (through GreenOak), equities (through Polygon) and convertible bonds (through Polygon). We increased the weighting to those investments *via* the three brands on the TFG platform, where we can capture the asset management fee income as well as more tax-efficient investment returns, to create a more diversified and stable earnings profile for the long-term.

We are pleased with the CLOs we participated in this year (both LCM and third-party deals). We have also seen GreenOak source high-quality deals and remain confident of the long-term potential of owning income-producing hard assets, such as real estate. Finally, we like the risk / reward profile offered in the various Polygon funds. Overall, we are excited about the prospects for all of these investments and are hopeful that diversifying our holdings across multiple asset classes and strategies may reduce the correlation across the company’s investments over the long-term.

In addition to its financial investments, the asset management business, which is an aggregation of all of the company’s streams of fee income, grew materially in 2012, generating EBITDA of approximately $15.0 million for the year, and ending the year with $7.7 billion of client AUM.(1) We are confident that all three brands currently on TFG’s asset management platform will continue to perform well and grow third-party assets under management in 2013.

OUTLOOK FOR 2013

The goals for the company in 2013 are:

1. To deliver 10-15% RoE *per annum* to shareholders.
2. To manage more of TFG’s shareholder funds on the TFG asset management platform.
3. To grow client AUM and fee income managed by TFG asset managers.
4. To add further asset management businesses to the TFG platform, broadening and diversifying the company’s ability to achieve our RoE targets over various credit, equity, interest rate, real estate and business cycles.

TFG SHAREHOLDER LETTER

Taking each of these in turn:

<u>RoE on Investments</u>: Since its IPO in 2007, TFG's average RoE has been 14.1%. As noted above, our long-term target is a 10-15% *per annum* increase in net value to shareholders. This long-term target must be understood in the context that our returns will most likely fluctuate with LIBOR. LIBOR directly flows through some of our investments and, as it can be seen as the risk-free short-term rate, it should affect all of our investments. In high-LIBOR environments we would expect to achieve higher sustainable returns, just as in low-LIBOR environments we would expect to achieve lower sustainable returns.

<u>Shareholder Funds Managed on the TFG Asset Management Platform</u>: Of TFG's non-cash NAV of approximately $1.4 billion at year-end, approximately 27.4% is currently managed by asset managers in which TFG has an ownership interest. We are seeking to increase that proportion year-on-year over the medium to long-term. In 2012, approximately 77.7% of new investments were made with managers in which TFG had an ownership interest. Over time, as the company moves a greater share of its investment portfolio into investments managed by TFG-owned asset managers (albeit remaining mindful of the benefits of asset manager diversification), we expect to see a reduction of fees paid away to third parties.

<u>Client AUM and Fee Income Growth</u>: In 2012, client AUM grew from approximately $5.0 billion to $7.7 billion. The company is committed to growing AUM to generate greater fee income, and in 2013 we will continue marketing to new clients and building brand awareness. Given TFG's approach of investing substantial amounts of its funds alongside the investors in such Funds, the institutional strength of its infrastructure and the strong historic performance of all of its funds, we are hopeful that 2013 will be a good year for raising client assets in these funds.

<u>New Businesses</u>: TFG's ability to provide exposure to various asset classes and investments more efficiently than may be provided by banks has become increasingly relevant over the past few years. Furthermore, we believe that certain capital and regulatory constraints currently being imposed on traditional banks are likely to provide new opportunities for financial companies with TFG's structure and expertise in the coming years. We expect to evaluate a number of such opportunities during 2013. We look forward to adding excellent managers with high risk-adjusted RoE businesses which are appropriately correlated to TFG's existing businesses.

In summary, in 2013 we expect to focus on consolidating the business changes executed during 2012, exploiting the synergies arising between TFG and the businesses and interests acquired in the Polygon Transaction and continuing to invest for growth over the long-term.

With regards,

The Board of Directors

1 March 2013

TFG KEY METRICS

KEY METRICS

Strong underlying business performance and the transformational acquisition of Polygon in Q4 2012 underscored a highly successful year for Tetragon.

We, the Investment Manager,(2) continue to focus on three important metrics when assessing how value is being created for, and delivered to, shareholders:

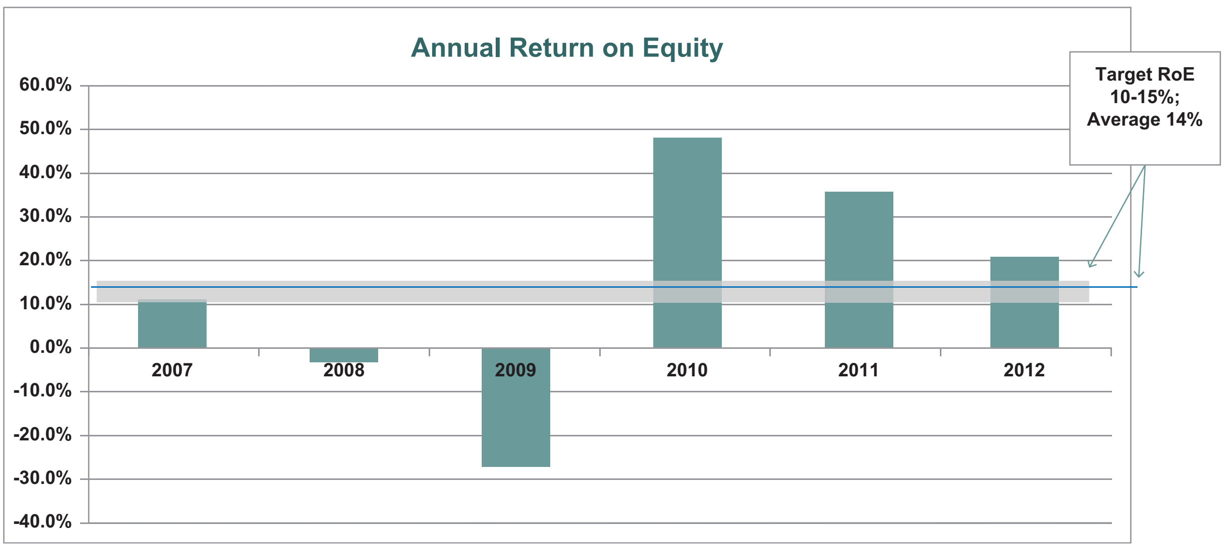
- **Earnings:** measured both as RoE and earnings per share ("EPS"), reflecting the operating performance of TFG.
- **Net Asset Value ("NAV") per Share:** reflecting how value is being accumulated within the business.
- **Dividends and other distributions:** reflecting how value has been returned to shareholders.

We look at each of these measures below.

EARNINGS – RETURN ON EQUITY

- The company targets a long-term RoE in the range of 10-15% per annum.
- 2012 RoE of 20.8% reflected a continuation of above-target returns for TFG, primarily driven by the ongoing strength of the U.S. Pre-Crisis CLO portfolio (please see the review of the Investment Portfolio on pages 8-12 of this Annual Report for further details).
- Although recent years have been volatile given the financial crisis and subsequent strong recovery, since TFG's April 2007 IPO, TFG has generated on average RoE of approximately 14.1% per annum.

Figure 1

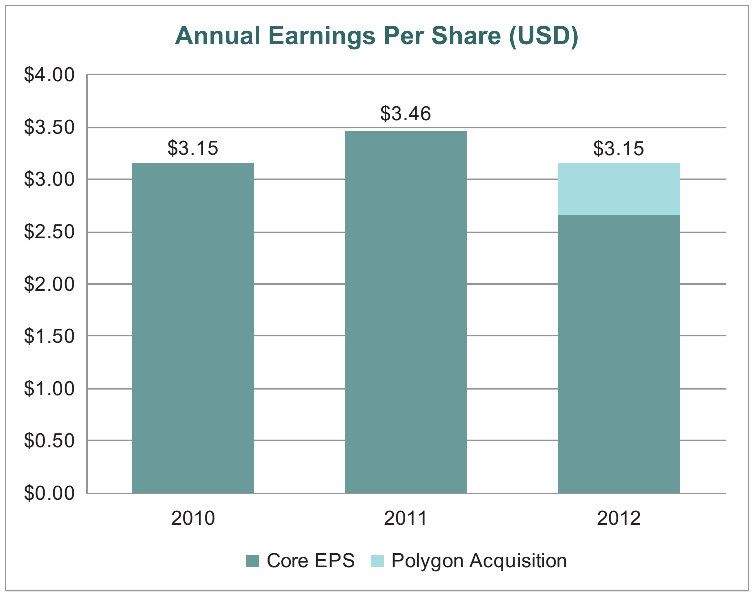


KEY METRICS

EARNINGS – EARNINGS PER SHARE

- TFG generated EPS of $1.38 during Q4 2012, giving a full year U.S. GAAP EPS of $3.15 (2011: $3.46) and Adjusted EPS[3] of $2.70 (see Figure 19 on page 24 of this Annual Report for a detailed review of EPS).
- EPS continues to be primarily driven by the strength of TFG's U.S. Pre-Crisis CLO portfolio, supported by the continuation of benign credit conditions in the United States. That said, the level of EPS generated in 2012 by the CLO portfolio was lower than in 2011 by over $1.00 as CLO performance moderated towards more normalized levels.
- In Q4 2012, we recalibrated certain of the inputs used in modeling the fair value of the CLO portfolio (including certain default and discount rate inputs) in response to, among other things, changes in observable data, which added approximately $0.50 of EPS after fees (see Appendix II for further detail).
- While the asset management business segment's contribution to EPS is currently small, we expect it to grow in 2013 as we begin to see the benefit of the Polygon Transaction alongside the ongoing profitability of LCM.
- The acquisition of Polygon using shares added $0.48 of U.S. GAAP EPS, which will unwind as the relevant assets are amortised over the coming years. We have deducted this gain when calculating both the RoE and the Adjusted EPS[4] of $2.70. We discuss the accounting for the Polygon Transaction in more detail in the 2012 Financial Review on page 21 of this Annual Report.
- The purchase of an additional 13.0% holding in GreenOak as part of the Polygon Transaction resulted in a write-up of the 10.0% share already held by TFG, with a $0.07 increase in EPS.

Figure 2



NAV PER SHARE

Pro Forma Fully Diluted NAV per Share ended the year at $14.65, up 15% on the year.

As described in the Supplemental Information to the December 2012 monthly update, published on TFG's website on 31 January 2013, we have introduced a new measure of Pro Forma Fully Diluted NAV per Share, which seeks to reflect certain potential changes to the total number of non-voting shares outstanding over the next few years, which may be utilized in the calculation of NAV per Share. Specifically, in order to calculate Pro Forma Fully Diluted NAV per Share, the number of shares used to calculate U.S. GAAP NAV per Share has been adjusted to incorporate:

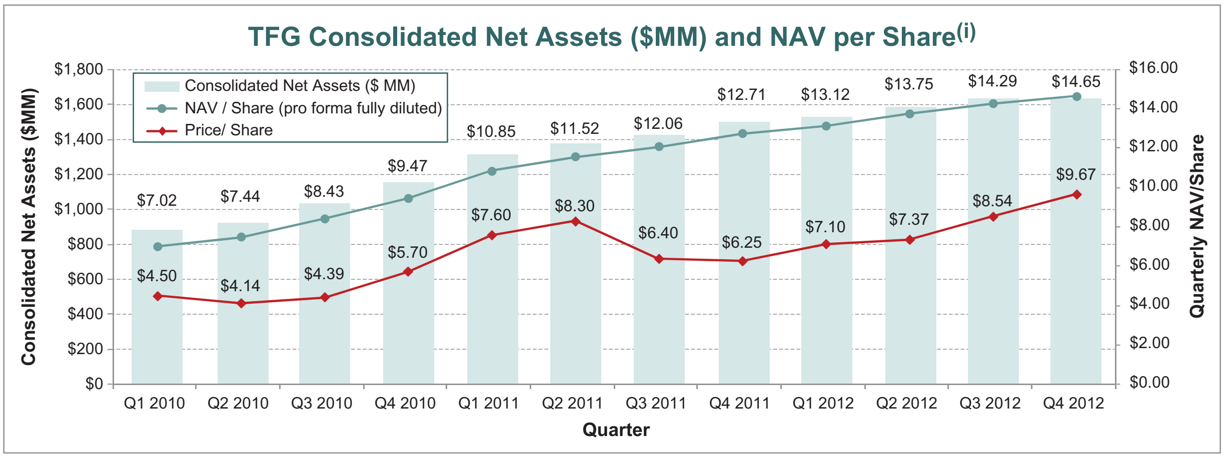
- Shares which have been used as consideration in the Polygon Transaction and applicable stock dividends relating thereto, and which are held in escrow and are expected to be released and incorporated into the U.S. GAAP NAV per Share over a five-year period.[5]
- The number of shares corresponding to the applicable intrinsic value of the options issued to the Investment Manager at the time of the company's IPO with a strike price of $10.00, to the extent such options are in the money at period end. As of 31 December 2012, the TFG share price was $9.67 and therefore such options were out of the money.[6]

In addition to the strong underlying performance of the company described above in the Earnings per Share section, the NAV per Share was significantly enhanced by TFG purchasing, in a modified Dutch tender offer (the "Offer") 15,384,615 TFG non-voting shares at a price of $9.75 for approximately $150.0 million.

KEY METRICS

As the purchase price of the Offer was significantly below the prevailing U.S. GAAP NAV per Share this had the effect of increasing U.S. GAAP NAV per Share by $0.85.[7]

Figure 3



(i) 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 Pro Forma Fully Diluted NAV per Share reported as of each quarter-end date excludes any shares held in treasury or in a subsidiary as of that date, but includes shares held in escrow which are expected to be released and incorporated into the U.S. GAAP NAV per Share over a five-year period and the number of shares corresponding to the applicable intrinsic value of the options issued to the Investment Manager at the time of the company's IPO.

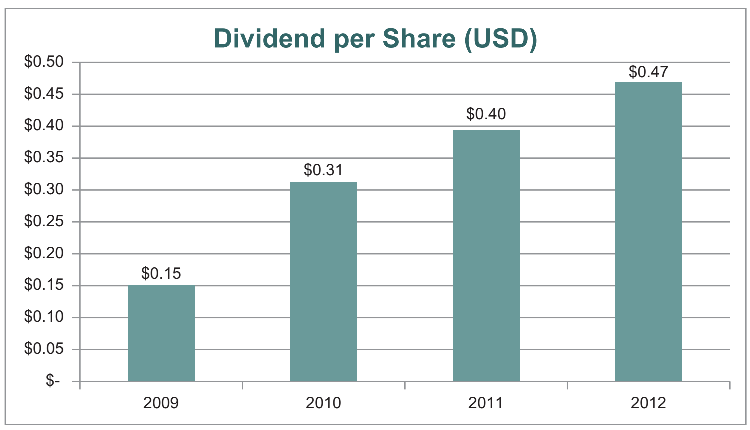
DIVIDENDS

Dividends per Share ("DPS"): TFG declared quarterly dividends for 2012 totalling $0.47 per Share, a 19% increase on 2011.

TFG continues to pursue a progressive dividend policy with a target payout ratio of 30-50% of normalized sustainable earnings, recognizing the long-term target RoE of 10-15%. The Q4 2012 dividend of $0.135 per share brings the cumulative DPS since TFG's IPO to $2.26 per share. Please see "Dividends and other Distributions" in Appendix V of this Annual Report.

- ❖ Of the $50.3 million of dividends paid in 2012, approximately 24.0% of shareholders elected to take shares rather than cash pursuant to the company's optional stock dividend program.

Figure 4



CASH FLOWS AND USES OF CASH

CASH FLOWS AND USES OF CASH

2012 was another strong year in terms of cash generation for TFG, with the CLO portfolio generating $127.6 million in Q4 2012, bringing the 2012 total to $459.3 million, up approximately 12.0% compared to 2011. As described in more detail in the Investment Portfolio section of this Annual Report, the main source of cash flows was the U.S. Pre-Crisis CLO portfolio, reflecting a combination of low defaults and elevated loan spreads relative to the low cost of liabilities on these deals.

With the new issue market for U.S. CLOs significantly more active in 2012 than in 2011, TFG invested $112.1 million into the equity tranches of new CLO issues, managed by LCM as well as by third-party managers. In line with the stated strategy of diversifying TFG's investment portfolio beyond CLOs, following the Polygon Transaction (described in more detail on page 21 of this Annual Report), in Q4 2012 TFG made initial allocations of capital totalling $55.0 million into various Polygon funds. TFG also invested $25.0 million into real estate opportunities managed by GreenOak.

Finally, TFG used approximately $175.6 million to repurchase shares at a discount to NAV, including $150.0 million via a tender offer in Q4 2012 (described more fully below), and $38.3 million to pay cash dividends during 2012.

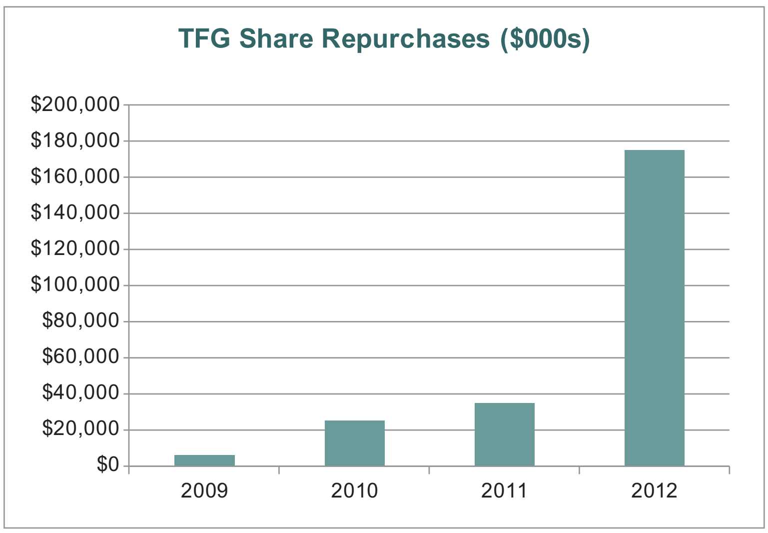
At the end of 2012, TFG's cash balance was $175.9 million or approximately 10.9% of net assets.

SHARE REPURCHASES

Share repurchases: During 2012, TFG used $175.6 million of cash to repurchase shares which added approximately $1.12 to the NAV per share.

- Life-to-date through the end of 2012 TFG's share repurchase program resulted in the repurchase of approximately 34.8 million shares at an aggregate cost of $257.5 million.
- During Q4 2012, TFG bought back $150.0 million of shares in a tender offer, bringing the total value bought back in 2012 to $175.6 million.
- The repurchase program, during periods where TFG's shares have been trading at a discount to NAV, has been one useful tool available to the manager to accrete value for TFG shareholders. The program was recently extended in January 2013.[8]

Figure 5



TFG's BUSINESS SEGMENTS:

Investment Portfolio

and

Asset Management Platform
(TFG Asset Management)

INVESTMENT PORTFOLIO

INVESTMENT PORTFOLIO OVERVIEW

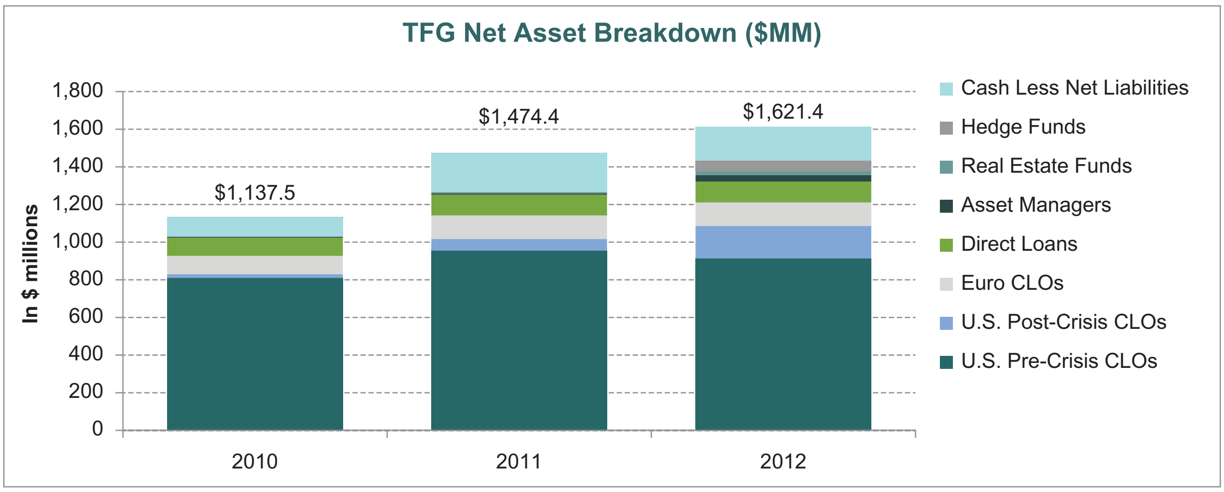
In 2012, we continued to increase the company's exposure to real estate and leveraged loans by making new investments in GreenOak-managed funds and equity tranches of CLOs managed by LCM as well as third-party managers. In addition, the acquisition of Polygon led to new investments in Polygon funds, which allowed the company to expand into new asset classes, including equities, credit and convertible bonds.

The U.S. corporate loan portfolio accessed *via* CLO equity, which comprises the majority of TFG's investment assets, drove investment returns in 2012 and performed strongly in the context of a benign U.S. loan default environment and favorable reinvestment conditions for U.S. Pre-Crisis CLOs. Other investments similarly performed well in 2012, and we continue to look to further increase our ownership of investment assets both within and beyond the loan asset class.

PORTFOLIO COMPOSITION AND OUTLOOK

The following chart shows the split of net assets by asset class for each of the prior three years. Total net assets at each year-end were $1,621.4 million (2012), $1,474.4 million (2011), and $1,137.5 million (2010).

Figure 6



TFG's net assets, which totalled $1,621.4 million at the end of 2012, currently consists mainly of:

- corporate loans, both directly owned and indirectly owned through CLO investments;
- equity, credit, and convertible bonds owned through Polygon fund investments;
- real estate (owned through GreenOak fund investments or similar arrangements); and
- cash.

The bulk of the investment portfolio consists of TFG's CLO investments, with a fair value of $1,214.4 million as of the end 2012, and the direct loan portfolio, with a fair value of $114.1 million at year-end. TFG's investments in Polygon funds and real estate funds totaled $56.5 million and $25.7 million, respectively, as of the end of 2012.

INVESTMENT PORTFOLIO

The following chart summarizes certain performance metrics for each asset class in TFG's investment portfolio.

Figure 7

Asset Type	Dec 2012 NAV (in $MM)	LTM Performance (ii)	LTD Performance (iii)
U.S. Pre-Crisis CLOs (i)	$914.8	38.8%	21.7%
U.S. Post-Crisis CLOs	$174.0	12.4%	12.4%
U.S. Direct Loans	$114.1	8.5%	6.6%
European CLOs	$125.6	19.4%	7.6%
Equities	$ 46.4	3.2%(iv)	N/A
Convertible Bonds and Credit	$ 10.1	0.7%(iv)	N/A
Real Estate	$ 25.7	N/A	N/A

(i) "U.S. Pre-Crisis CLO" and "U.S. Post-Crisis CLO" refers to U.S. CLOs issued before and after 2008, respectively. TFG owns $1.75 million notional in a CLO debt tranche. Such investment is excluded from these performance metrics.
(ii) For CLOs and direct loans, calculated as the total return. The total return is calculated as the sum of the aggregate ending period fair values and aggregate cash flows received during the year, divided by the aggregate beginning period fair values for all such investments. LTM performance for U.S. Post-Crisis CLO is weighted by the end of 2012 fair values. U.S. Post-Crisis CLO equity investments which were made during the year, and which therefore lack a full year of performance, are annualized. The LTM performance for European CLOs excludes the impact of any changes in the EUR-USD exchange rate on TFG's fair values and cash flows received for such investments.
(iii) For CLOs, the LTD performance metric used is the IRR, weighted by the amortized costs brought-forward of each investment. IRRs are calculated taking into account historical cost, cash flows received, and future projected cash flows. For direct loans, the LTD performance metric used is the annualized total rate of return.
(iv) Note that for Polygon-managed funds (Equities and Convertible Bonds) LTM returns are presented as the actual return for TFG's period of investment from 1 December to 31 December 2012. TFG invests in Polygon-managed funds on a preferred fee-basis.

CORPORATE LOANS

TFG's exposure to the corporate loan asset class (whether held directly or indirectly *via* CLO equity investments) totaled $1,328.5 million at the end of 2012 ($1,254.5 million at the end of 2011) and remained diversified, with 77.0% in U.S. broadly-syndicated senior secured loans, 13.5% in U.S. middle-market senior secured loans and 9.5% in European senior secured loans.[9]

TFG's CLO equity investments, which comprise the majority of its exposure to corporate loan assets, represented indirect exposure of approximately $18.4 billion par value of leveraged loans. TFG's total notional invested in the equity tranches of such deals was approximately $1.7 billion. We view the difference between the par value of indirect loan exposures and TFG's notional amount of equity as an approximation of TFG's portion of the non-recourse debt "borrowed" *via* CLOs to fund the purchase of such loan assets. At the end of 2012, this difference was $16.7 billion.

When reporting on our corporate loan exposures, we find it useful to further segment such investments into the following classes:

- U.S. Pre-Crisis CLOs
- U.S. Post-Crisis CLOs
- European CLOs
- Direct U.S. Loans

U.S. PRE-CRISIS CLOs

As of the end of 2012, TFG had equity investments in 53 U.S. Pre-Crisis CLOs and one investment in the debt tranche of a U.S. Pre-Crisis U.S. CLO.[10] The U.S. Pre-Crisis CLO equity investments had total fair value of $914.8 million as of 31 December 2012, compared with $958.6 million at the end of the prior year.

TFG's investments in U.S. Pre-Crisis CLO equity continued to perform well in 2012, as low credit losses combined with wider loan spreads and, in some cases, LIBOR floors to generate an attractive arbitrage funding gap between the underlying asset spread and the low debt costs typical of such U.S. Pre-Crisis CLOs (e.g., approximately 3-month LIBOR+50 bps), leading to strong cash flow generation for these investments. During 2012, TFG's U.S. Pre-Crisis CLO investments produced cash flows of $415.6 million ($3.67 per average outstanding share), compared with $379.7 million ($3.21 per average outstanding share) generated during 2011.[11]

INVESTMENT PORTFOLIO

We believe that these investments will continue to perform well in the near-term as loan default rates are expected to remain below their historical average. Significantly, the soundness of these CLO structures remains robust as at the end of 2012, all deals in this segment were passing their junior-most O/C tests.(12) Although we believe that cash flows from TFG's U.S. Pre-Crisis CLOs will remain strong throughout most of 2013, we are mindful of the fact that the majority of these deals will begin amortizing in 2013-2014, and as such, their cash flow generation capacity will naturally begin to diminish. Furthermore, we believe that the impact of a potential increase in near-term defaults may be magnified for certain deals that have exited their reinvestment periods and have no or limited ability to reinvest principal proceeds into new loans. Whilst we remain focused on the impact of deterioration in corporate credit conditions, we believe this risk remains low in the short-term as we currently expect a benign default environment to continue in 2013. We do anticipate, however, that strong credit fundamentals, whilst a positive for CLO performance, are likely to provide support for continued spread tightening on bank loans. This compression would reduce the excess spread available for distribution to the equity tranches of CLOs. Finally, rising LIBOR rates would similarly be expected to reduce excess interest availability by decreasing the benefit of existing loan LIBOR floors, although we do not anticipate this to become a meaningful driver of performance in 2013.

U.S. POST-CRISIS CLOs

As of the end of 2012, TFG had made equity investments in eight U.S. Post-Crisis CLOs. Such investments had total fair value of $174.0 million as of 31 December 2012.

TFG's U.S. Post-Crisis CLOs performed well during the year. Through year-end, none of these investments had experienced an asset default and all O/C tests remain in compliance within each deal.(13)

During the year, we made five investments in the equity tranches of new issue U.S. Post-Crisis CLOs, totalling $112.1 million at cost, including three deals managed by LCM. All such investments were majority equity stakes. In addition, two new issue CLOs, including one managed by LCM, were due to close in February 2013, but are not reflected in this Annual Report. In 2012, TFG's U.S. Post-Crisis CLO investments produced cash flows of $19.9 million ($0.18 per average outstanding share), compared with $5.1 million ($0.04 per average outstanding share) in the prior year.(14)

We believe that TFG's U.S. Post-Crisis CLO investments will continue to generate attractive risk-adjusted returns. Similar to U.S. Pre-Crisis CLOs, we expect that a benign loan default environment will prove beneficial to their performance. However, such investments are expected to be more negatively impacted by loan spread tightening than earlier vintages, given their higher funding costs (typically averaging 3-month LIBOR+200 bps or more) and longer remaining reinvestment periods. As CLO loan assets prepay and these proceeds are reinvested, a spread-tightening environment would see the arbitrage gap in such deals contract, perhaps dramatically, and returns to the equity tranches, such as those held by TFG, to decrease. Conversely, underlying loan spread tightening would be expected to increase the value of the equity call option as well as the likelihood that the CLO's liabilities can be refinanced to lower, then-applicable market levels. The ability to pursue these arbitrage management actions is a key factor behind our strategy of acquiring majority equity stakes.

As we proceed in 2013, we expect to consider the balance of these offsetting forces in the management of the company's U.S. Post-Crisis CLO portfolio. We expect to continue to make additional investments in new issue U.S. Post-Crisis CLOs as long as they offer attractive risk-adjusted returns and sufficient arbitrage management flexibility, whether managed by LCM or third-party CLO managers.

EUROPEAN CLOs

As of the end of 2012, TFG had made equity investments in 10 European CLOs. Such investments had total fair value of $125.6 million as of 31 December 2012.

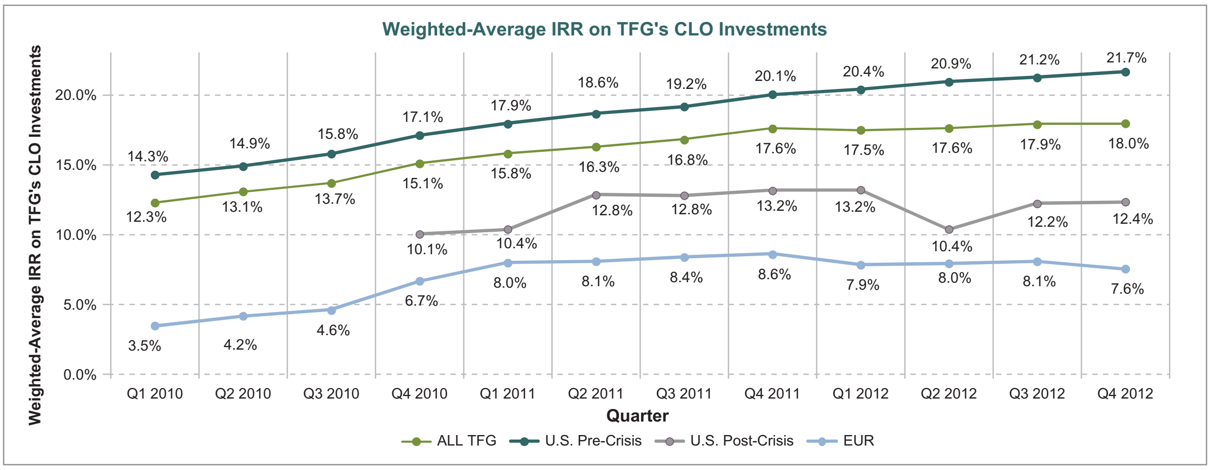
The performance of TFG's European CLO equity investments in 2012 has remained challenged, although certain deals continued to produce meaningful cash flows. During 2012, TFG's European CLO investments generated cash flow of €18.7 million or (€0.16 per average outstanding share), compared with €19.0 million (€0.16 per average outstanding share) in the prior year.(15) As of the end of 2012, 65% of all of TFG's European CLO investments were passing their junior-most O/C tests, weighted by fair value, and 60% were passing when weighted by number of deals.(16)

INVESTMENT PORTFOLIO

We continue to believe that the outlook for European economies, and by extension the outlook for European CLOs, remains subject to significant headwinds. We expect that weak economic growth, significant corporate leverage and volatile capital markets will continue to expose European CLOs to further default and downgrade risks with their negative impact exacerbated by the limited structural and collateral quality cushion of many European transactions. We, therefore, expect that cash flows from TFG's European CLO portfolio will remain subdued and volatile, both in the near and longer term.

The following graph shows the evolution of TFG's CLO equity investment IRRs over the past three years.

Figure 8



DIRECT LOANS

As of the end of 2012, TFG had U.S. direct loan investments with a total fair value of $114.1 million and par value of $114.3 million. The direct bank loan portfolio performed well during 2012, generating $0.2 million of net realized gains and earning $5.6 million of interest income and discount premium. In 2010, we believed that there was an attractive opportunity within the U.S. broadly syndicated loan asset class, and that owning loans directly on TFG's balance sheet would allow the company to benefit from a "pull-to-par" from then-current trading levels. We believe that this strategy has largely paid off, with the total return of TFG's direct loan portfolio since inception totaling approximately 19.8%, assuming bid-side marks as of the end of the 2012.

Although we believe that a well-selected portfolio of bank loans may still be attractive, allowing for income-earning potential and providing reasonable liquidity, the pace of spread compression has changed the risk-reward dynamics of owning bank loans outright. We have, therefore, significantly reduced our exposure to direct loans in early 2013.

EQUITIES

As of the end of 2012, TFG held $46.4 million of investments (at fair value) in Polygon-managed equity funds. Currently, these fund strategies are primarily focused on European event-driven equity and mining equities-related investments. Fund investments were made on 1 December 2012, and through the end of the year had returned 3.2% to TFG.

CONVERTIBLE BONDS AND CREDIT

As of the end of 2012, TFG held $10.1 million of investments (at fair value) in a Polygon-managed convertibles fund. The fund investment was made on 1 December 2012 and through the end of the year had returned 0.7% to TFG.

REAL ESTATE

As of the end of the year, TFG held $25.7 million of investments (at fair value) in GreenOak-managed real estate funds and vehicles. Such investments include numerous commercial and residential properties across Japan, the United States and Europe.

INVESTMENT PORTFOLIO

Through year-end, TFG has received distributions of over $2.0 million across two real estate investments. The first distribution for a Japanese investment vehicle resulted in a realized IRR of approximately 70.7% for TFG's investment. We expect a final distribution to be made on this vehicle in 2013. The second distribution was made with respect to an asset sale within a U.S.-focused real estate fund, and resulted in gross returns to the fund of over 35.7% (before fees paid to GreenOak). We expect further distributions in 2013. The company will continue to fund investment capital commitments into GreenOak projects in 2013 and we remain excited about the long-term potential of owning income-producing hard assets, such as real estate properties.

FINANCING SOURCES, HEDGING ACTIVITY AND OTHER MATTERS

As of the end of 2012, TFG had no outstanding debt and the net cash on its balance sheet stood at $175.9 million, compared to $211.5 million at the end of 2011.

TFG had no direct credit hedges in place at the end of 2012, but employed certain foreign exchange rate and "tail risk" interest rate hedges to seek to mitigate its exposure to Euro-USD foreign exchange risk and a potential significant increase in U.S. inflation and/or nominal interest rates, respectively. 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.

TFG ASSET MANAGEMENT

OVERVIEW

We believe that the key metrics to measure the asset management business are the following:

- **Performance of the underlying funds:** this is the return the company will receive on its investments in the funds and is, of course, the most important of many criteria we monitor for delivering value to each manager's clients. We believe performance is a leading indicator for other key metrics below. All funds managed by TFG's asset management brands (currently Polygon, LCM and GreenOak) had positive returns in 2012.
- **Gross revenues:** composed primarily of management and performance fees from clients, and totalled $36.7 million in 2012.
- **"EBITDA equivalent":** totalled $15.1 million in 2012 (as shown below).
- **AUM:** totalled $7.7 billion at 31 December 2012, up from approximately $5.0 billion at 31 December 2011.

Figure 9

TETRAGON FINANCIAL GROUP
TFG Asset Management Statement of Operations 2012

	TFG AM $MM
Fee income (i)	36.7
Interest income	0.2
Total income	**36.9**
Operating, employee and administrative expenses (i)	(20.1)
Noncontrolling interest	(1.7)
Net income – "EBITDA equivalent" (ii)	**15.1**
Performance fee allocation to TFM	(2.3)
Amortisation expense on management contracts	(1.2)
Net income before taxes	**11.6**
Income taxes	(3.6)
Net economic income and U.S. GAAP net income	**8.0**

(i) Nets off cost recovery on "Other fee income" against this cost contained in "operating, employee and administrative expenses". Operating costs also removes amortisation from the U.S. GAAP segmental report.

(ii) "EBITDA equivalent" of $15.1 million reconciles to $15.6 million reported as segmental income in TFG Master Fund Audited Financial Statements 31 December 2012, by adding back Noncontrolling interest of $1.7 million and subtracting Amortisation expense of $1.2 million

POLYGON TRANSACTION

With its acquisition of Polygon in 2012, we believe that TFG has transformed and expanded its asset management business from two stakes in asset managers to an active, fully-operating asset management business with multiple funds, brands and business lines. TFG now has not just a broader range of investment talent and investment products, but as important, the infrastructure platform upon which all its asset management businesses are run. TFG will seek to continue to grow these businesses and intends to add new ones over time.

We believe the strategic benefits that the Polygon Transaction brings to TFG are:

- **Fee income**
  - A platform for TFG to generate higher RoE to its shareholders by adding asset management fee income to its investment portfolio returns.
  - Reduction of fees paid away to third-party managers in investments with its own asset managers, which should increase the RoE to TFG shareholders, all else being equal.

TFG ASSET MANAGEMENT

- Increased stability of RoE to TFG shareholders as asset management fee income, whilst correlated to the investment returns, may be less volatile than the portfolio investment income.

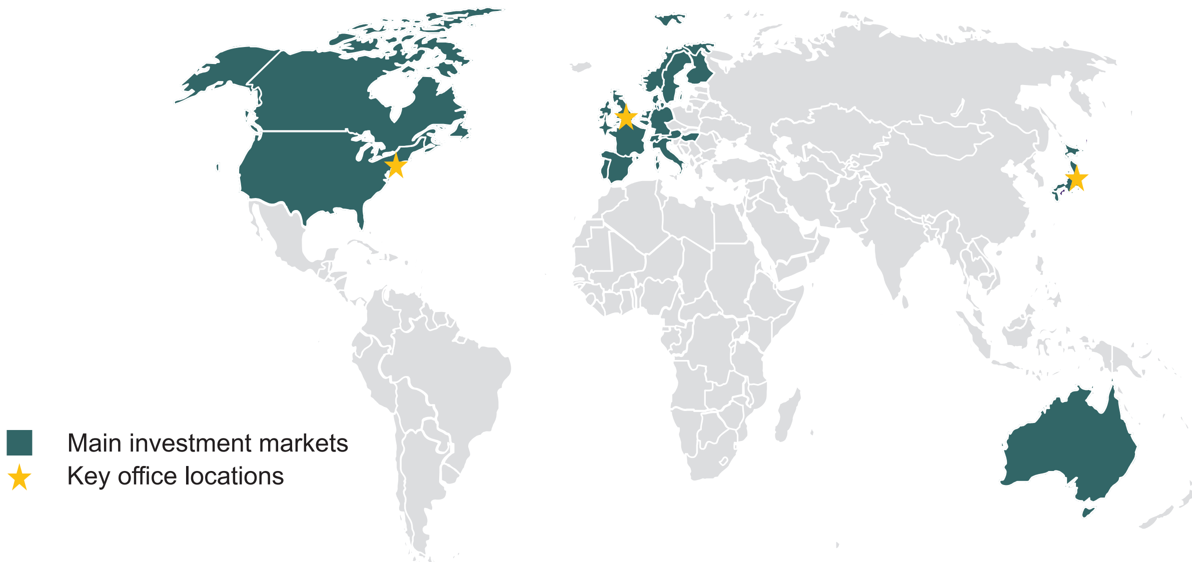
- **Diversification**
  - TFG shareholder RoE should become more stable through diversification of assets (currently loans, real estate and equities).
  - This diversification should be enhanced by TFG's ability to attract new asset management businesses onto its global platform.

The Polygon Transaction was carefully considered by the Board and relevant independent committees as the company sought to ensure that the transaction was in the best interests of TFG's shareholders.[17] Any new Polygon businesses will be grown within and for the benefit of TFG. Tetragon Financial Management LP ("TFM") will continue to act as the investment manager to TFG and Tetragon Financial Group Master Fund Limited (the "Master Fund") under the terms of the investment management agreement dated 26 April 2007.

Figure 10

Global Offices (including GreenOak)

Office	London	New York	Tokyo	Los Angeles	Munich	Hawaii
Staff	57	48	12	2	1	1



All of TFG Asset Management's brands performed well in 2012, with every fund returning positive performance for the year and all brands raising AUM from new and existing clients. TFG remains committed to investing in and growing its asset management business and sees this as a key way to negotiate and achieve the best returns on the company's investments. TFG's acquisition of Polygon, amongst other things, provides TFG Asset Management with the necessary global infrastructure to be able to continue the growth of the asset management platform across a broad range of asset classes and geographies.

For existing and new products, TFG Asset Management is focused on certain key principles for it and its clients' investments:

- **Focus:** Funds are generally dedicated to specific opportunities.
- **Liquidity:** Product liquidity is designed to match the liquidity of the underlying assets in each fund.
- **Capacity:** Capacity is carefully managed to seek to ensure that performance and liquidity are not compromised.
- **Performance:** Leading investment teams provide products that are very competitive and offer returns across various market cycles.

TFG ASSET MANAGEMENT

- **Transparency and client communication:** The managers work closely with clients to ensure that they understand each fund, its returns and risks.
- **Trust:** The goal is a strong alignment of interest between clients and investment managers.

ASSET MANAGEMENT BRANDS

TFG Asset Management currently has three key asset management brands: LCM, GreenOak Real Estate and Polygon.

Figure 11

Summary of Asset Management AUM ($ Billions)				
Brand	**31 December 2012**		**31 December 2011**	
LCM	$	4.3	$	3.3
GreenOak (i)	$	2.3	$	0.6
Polygon (ii)	$	1.1	$	1.1
Total	$	7.7	$	5.0

(i) Includes funds and advisory assets.
(ii) AUM for Polygon Recovery Fund LP, Polygon Convertible Opportunity Master Fund, Polygon European Equity Opportunity Master Fund, Polygon Mining Opportunity Master Fund, and Polygon Global Equity Master Fund, as calculated by GlobeOp Financial Services. Includes, where, relevant, investments by Tetragon Financial Group Master Fund Limited.

LCM

LCM is a specialist in below-investment grade U.S. broadly-syndicated leveraged loans that was established in 2001. Farboud Tavangar acts as senior portfolio manager.

At 31 December 2012, LCM's total CLO loan assets under management stood at $4.3 billion. During 2012, LCM issued three new CLOs:

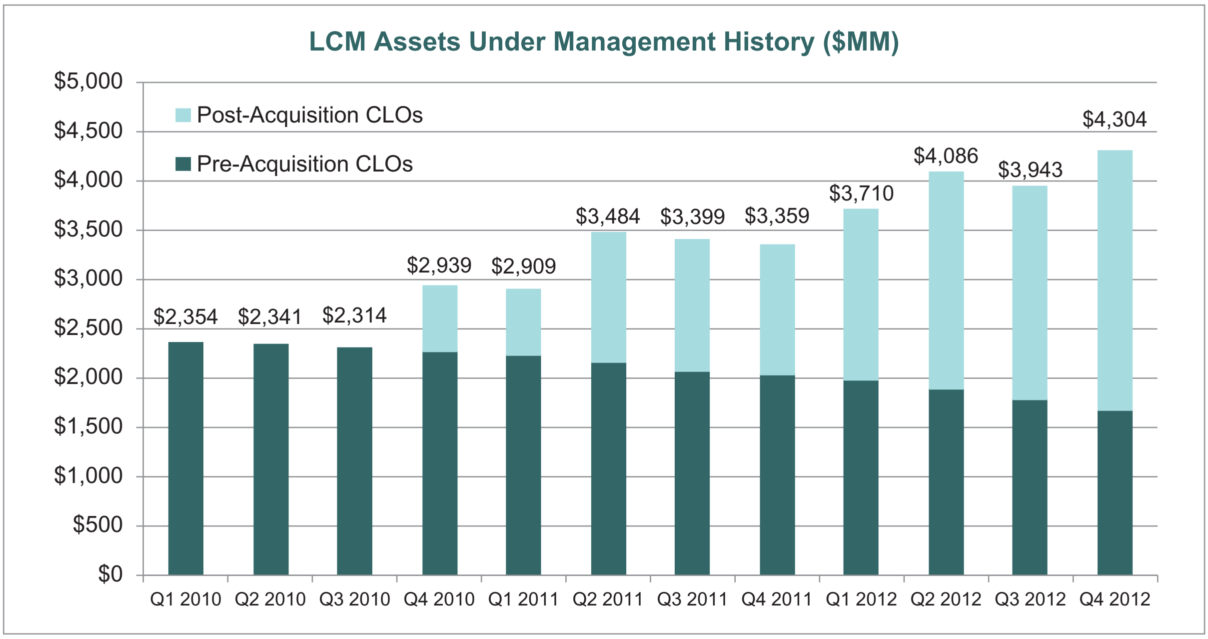
- LCM X - $410 million, 15 February 2012
- LCM XI - $485.5 million, 24 May 2012
- LCM XII - $518.3 million, 4 October 2012

In addition, LCM XIII, a $519 million CLO,[18] priced on 25 January 2013 and closed on 26 February 2013, bringing the total number of CLOs currently under management to twelve. LCM continued to perform well during 2012, with all LCM Cash Flow CLOs[19] remaining in compliance with their junior O/C tests and current on all senior and subordinated management fees.

Through the Polygon Transaction, TFG increased its ownership interest in LCM from 75% to 100%.

TFG ASSET MANAGEMENT

Figure 12



GREENOAK REAL ESTATE

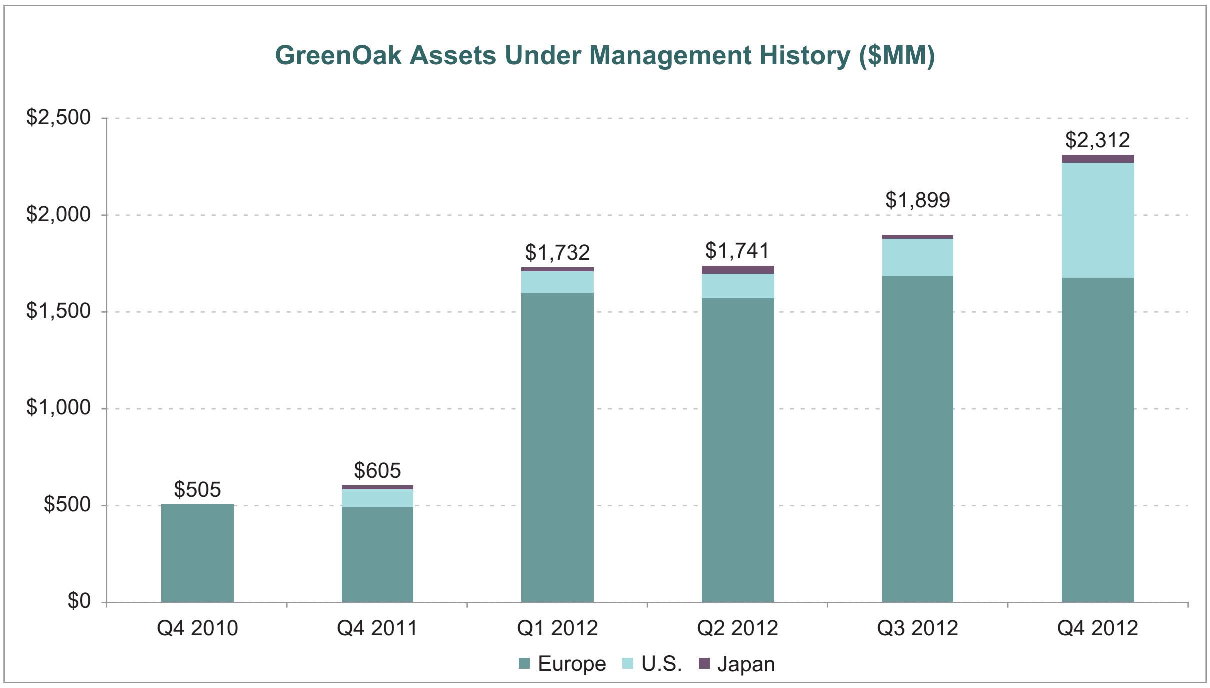
GreenOak is a real estate-focused principal investing and advisory firm established in 2010. GreenOak continued to execute on its business growth strategy, including increasing client commitments to its funds. At 31 December 2012, assets under management totalled approximately $2.3 billion. Through the Polygon Transaction, TFG now has increased its ownership interest in GreenOak from 10% to 23%. The Principals and Founders are John Carrafiell, Sonny Kalsi and Fred Schmidt.

During 2012, GreenOak made the following progress:

- GreenOak U.S. fund, which had its first close in February 2011, had its final close in August 2012 with $303.0 million, including co-investment capital. The U.S. fund is targeting primarily commercial assets in gateway cities such as New York, Los Angeles, Boston, Miami, and San Francisco.
- GreenOak Japan fund had its first close in January 2012 and has closed approximately $140 million of capital commitments as of December 2012. The final closing is anticipated in the summer of 2013, with a target of $240 million. Target investments here are primarily Tokyo-based office assets.
- GreenOak Europe had managed accounts of approximately $1.2 billion at the end of 2012. The team has been focusing on distressed assets and recapitalization opportunities, primarily in the United Kingdom.
- GreenOak continues to execute on advisory assignments on behalf of select strategic clients with mandates in Europe, Japan and the United States.

TFG ASSET MANAGEMENT

Figure 13



POLYGON FUNDS

Polygon was founded in 2002. At the time of the Polygon Transaction, its principals were Reade Griffith, Paddy Dear and Mike Humphries, who joined in 2009. There are currently three Polygon fund products which are open for external investment in the following strategies: convertibles, European event-driven equities and mining equities. In addition, Polygon manages a private equity fund. Total assets under management were $1.09 billion at the end of 2012.

Figure 14

Summary of Polygon Funds Assets Under Management ($ Millions)			
Fund	**31 December 2012**	**2012 Performance**	**Annualized Performance**
European Event-Driven Equity (i)	**$ 230.1**	**1.40%**	**13.07%**
Convertibles (ii)	**$ 259.3**	**11.46%**	**24.03%**
Mining Equities (iii)	**$ 24.3**	**4.05%**	**7.03%**
Private Equity Vehicle (iv)	**$ 559.6**	**13.20%**	**8.92%**
Other Equity (v)	**$ 15.1**	**8.94%**	**7.70%**
Polygon Funds Total AUM (vi)	***$1,088.4***		

(i) The fund began trading 8 July 2009 with Class B shares which carry no incentive fee. Class A shares commenced trading on 1 December 2009. Returns from inception through November 2009 for Class A shares have been pro forma adjusted to match the Fund's Class A share terms as set forth in the Offering Memorandum (1.5% management fee, 20% incentive fee and other items, in each case, as set forth in the offering Memorandum). From December 2009 to February 2011, the table reflects actual Class A share performance on the terms set forth in the Offering Memorandum. From March 2011, forward, the table reflects actual Class A1 share performance on the terms set forth in the Offering Memorandum. Class A1 share performance is equivalent to Class A share performance for prior periods.

(ii) The fund began trading with Class B shares, which carry no incentive fees, on 20 May 2009. Class A shares of the Fund were first issued on 1 April 2010 and returns from inception through March 2010, have been pro forma adjusted to match the Fund's Class A share terms as set forth in the Offering Memorandum (1.5% management fee, 20% incentive fee over a hurdle and other items, in each case, as set forth in the Offering Memorandum).

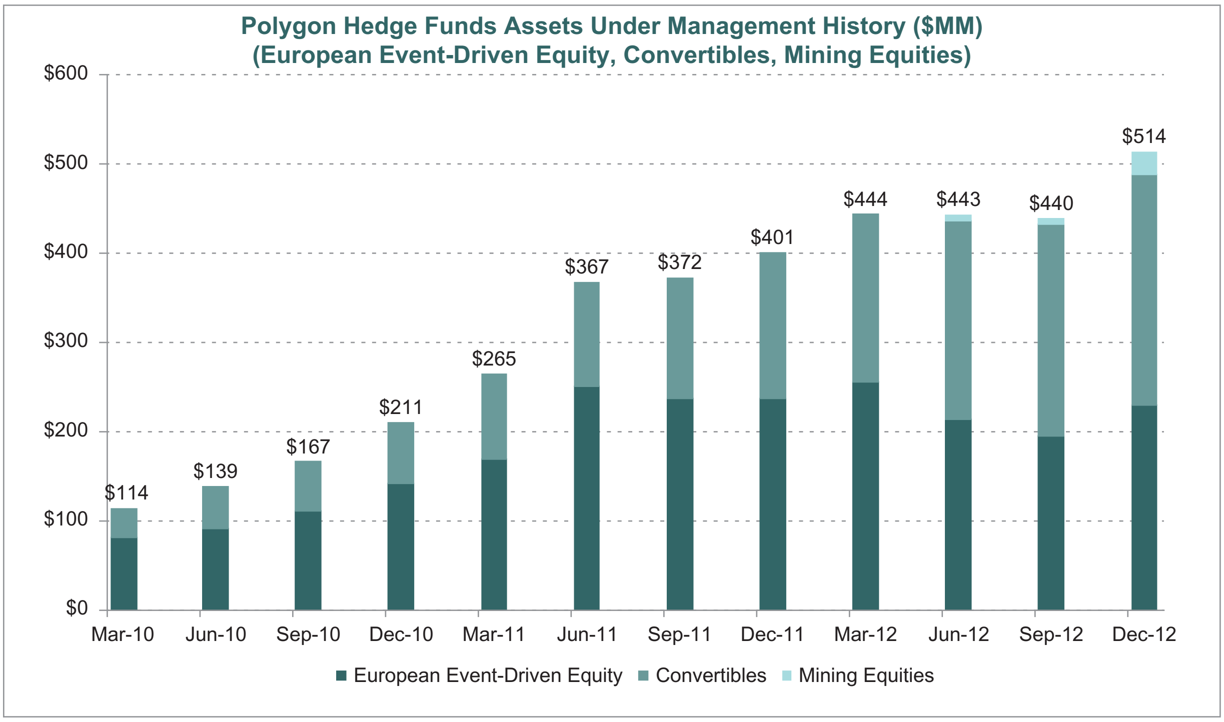
(iii) The fund began trading with Class B1 shares, which carry no incentive fees, on 1 June 2012. Returns shown here have been pro forma adjusted to account for a 2.0% management fee, a 20% incentive fee, and non trading expenses capped at 1%, in each case, as to be set forth in further definitive documents.

(iv) Inception 8 March 2011. Individual investor performance will vary based on their high water mark. Currently the majority of Class C share class investors have not reached their high water mark, so their performance is the same as their gross performance.

(v) The fund began trading with Class B/B1 shares, which carry no incentive fees, on 12 September 2011. Returns shown here have been pro forma adjusted to account for a 2.0% management fee and a 20% incentive fee, in each case, as to be set forth in further definitive documents.

(vi) The AUM noted above includes investments in the relevant strategies by TFG (other than in respect of the Private Equity Vehicle, which was at the time of the Polygon Transaction, and remains a closed investment strategy.

Figure 15



Convertibles: Polygon's convertible strategy started in May 2009, and invests primarily in convertible securities in Europe and North America. The strategy is led by CIO Mike Humphries. The team aims to capitalize on a favourable competitive landscape and a differentiated approach to investing in the asset class. The focus is on idiosyncratic, catalyst-driven ideas. A constrained portfolio size ensures that even smaller convertible issues can be included in the portfolio and allows the team to navigate a market where the broad "cheapness" of the asset class and sources of opportunities are cyclical. The approach has been successful, with the portfolio showing strong relative performance and low correlation to other funds and indices; annualized performance since inception is 24.0% and full-year performance was 11.5% for 2012.

Assets under management in this strategy were $259.3 million at 31 December 2012.

European Event-Driven Equities: This strategy started trading in July 2009. The team invests primarily in the major European equity markets, with an Event-Driven focus. Reade Griffith is the CIO. The portfolio intends to capitalize on the significant opportunity set that persists in Europe and aims to exploit: valuation dislocation in European equities, the recapitalisation and deleveraging of corporate balance sheets via new equity issuance, the improvement of credit and financing markets, and M&A deals which are expected to further increase over the next few years. Despite a particularly volatile year for European markets in 2012, the strategy returned 1.5% for the year, with positive returns for last six months. Annualized performance from inception is 13.1%.

Assets under management for the strategy were $230.1 million at 31 December 2012.

Mining Equities: This strategy launched in June 2012, and is currently building its portfolio. This strategy is led by Mike Humphries and Peter Bell and it focuses primarily in the equities of global mining companies, many of them based on gold. The team targets a broad range of companies across stages of mine development and deposit type. The mining sector presents a high dispersion between top and bottom quartile performers annually which provides an attractive universe for our long/short investment strategy.

Assets under management for the strategy at the end of December 2012 were approximately $24.3 million. Performance from inception through to the end of 2012 was 4.1%.

TFG ASSET MANAGEMENT

Private Equity: Polygon manages a portfolio of private and less-liquid public assets which are being sold down in a closed-ended investment vehicle with AUM of approximately $559.6 million at 2012 year-end. To date, the portfolio has returned $265.0 million of cash to its partners since inception in March 2011. The product is supported by range of Polygon investment teams on a position-by-position basis with customized exit plans for each asset. Performance in 2012 was 13.2%. TFG has not invested directly in this product; however, it is the beneficiary of certain contracted management fee income (the Fund's "carried interest" was not included in the Polygon Transaction).

THIRD-PARTY FEE INCOME

In addition to the fee income generated by the three asset management brands, TFG also currently receives asset management fee income derived from a number of one-off and long-term fee sharing arrangements with third-parties.

FINANCIAL REVIEW

FINANCIAL REVIEW

In this section we present consolidated financial data incorporating TFG and its 100% subsidiary, Tetragon Financial Group Master Fund Limited, and provide comparative data for 2011 and 2010.

FINANCIAL HIGHLIGHTS

Figure 16

TETRAGON FINANCIAL GROUP Annual Financial Highlights			
	2012	2011	2010
U.S. GAAP Net Income ($MM)	$357.2	$410.4	$385.2
Net Economic Income ($MM)	$306.2	$410.4	$385.2
U.S. GAAP EPS ($)	$3.15	$3.46	$3.15
Adjusted EPS ($)	$2.70	$3.46	$3.15
Return on Equity	20.8%	36.1%	47.7%
Net Assets ($MM)	$1,621.4	$1,474.4	$1,137.5
U.S. GAAP Shares Outstanding (MM)	98.8	116.0	120.1
U.S. GAAP Net Asset Value per Share ($)	$16.41	$12.71	$9.47
Pro Forma Fully Diluted Shares (MM)	110.6	116.0	120.1
Pro Forma Fully Diluted NAV per Share ($)	$14.65	$12.71	$9.47
Dividend per Share ($)	$0.470	$0.395	$0.310

In TFG's 2012 financial highlights, we introduce several new metrics which we believe may be helpful in understanding the progress and performance of the company going forward:

- **Return on Equity (20.8%):** Net Economic Income ($306.2 million) divided by Net Assets at the start of the year ($1,474.4 million).
- **Net Economic Income (+$306.2 million):** removes the initial U.S. GAAP impact of the Polygon Transaction (-$54.8 million) from, and adds back the associated accounting entry of share based employee compensation (+$3.8 million) to, the U.S. GAAP net income (+$357.2 million).
- **Pro Forma Fully Diluted Shares (110.6 million):** adjusts the U.S. GAAP shares outstanding (98.8 million) for the impact of Escrow Shares (as defined below) used as consideration in the Polygon Transaction and associated stock dividends (+11.8 million) (see also page 21 of this Annual Report) and for the potential impact of options issued to TFG's investment manager at the time of TFG's IPO (the "Investment Management Options"). The Investment Management Options were out of the money at the end of 2012, so had no impact at year end.
- **Adjusted EPS ($2.70):** calculated as Net Economic Income ($306.2 million) divided by weighted average U.S. GAAP shares outstanding (113.3 million).
- **Pro Forma Fully Diluted NAV per Share ($14.65):** calculated as Net Assets ($1,621.4 million) divided by Pro Forma Fully Diluted shares (110.6 million).

We also introduce a split of the Statement of Operations between the two segments of TFG's business – the Investment Portfolio and TFG Asset Management.

Figure 17 shows the overall Statement of Operations for TFG. Interest income has continued to increase year-on-year as the IRRs on the CLO portfolio have continued to increase. For further information, please see the review of the Investment Portfolio on pages 8-12 of this Annual Report. Fee income has also grown strongly, reflecting both the ongoing growth of LCM's income and the Q4 2012 impact of acquiring Polygon's investment fund and private equity businesses as well as Polygon's 25% of LCM. Other income represents cost recovered by TFG Asset Management for providing services to non-TFG businesses supported by the TFG platform, including TFM.

Administration and other expenses have grown following the addition of the Polygon operating businesses.

The ongoing strong performance shown in unrealized gains in 2012 reflects a continuation of the trend of the CLO portfolio generating returns materially above its weighted-average IRR. Under U.S. GAAP, we recognise the IRR through the interest income line and any other performance is reflected in the "net change in unrealised appreciation".

As announced on 29 October 2012, TFG acquired Polygon's asset management businesses and infrastructure platform, along with Polygon's interests in LCM and GreenOak, for an aggregate of 11,685,940 TFG non-voting shares which will be held in escrow (together with related stock dividends, the "Escrow Shares"), the substantial majority of which will vest over three to five years. The accounting for the acquisition under U.S. GAAP results in us, among other things, showing:

- That certain assets (management contracts) were acquired for which there was no initial payment from a U.S. GAAP perspective; the value of the Escrow Shares is recognised through the Statement of Operations as "Employee share-based compensation" over the five-year deferral period. Consequently, we see (1) a day-one gain in the Statement of Operations reflecting the value acquired for the Polygon businesses and the minority interests acquired in GreenOak – this gain is sometimes described as a "bargain purchase" in U.S. GAAP parlance – and (2) a charge for employee share based compensation, representing the initial few months of the transaction consideration.
- An amortization charge for the management contracts with such amortization reflecting a three year period for private equity contracts and 10 years for hedge fund contracts.
- No value being acquired for the acquisition of Polygon's 25% share of LCM. Under U.S. GAAP this is treated as being a transaction with the Master Fund in its capacity as owners, so no separate asset or goodwill is recognized as a result.
- An unrealized gain on re-valuing the 10% of GreenOak that TFG already owned. Such unrealized gain is part of the total of $186.3 million.[20]

In order to reflect a more representative measure of operating performance, the U.S. GAAP net income number has been adjusted for the "bargain purchase" gain and the share based employee compensation charge described above in order to arrive at a Net Economic Income. Net Economic Income has also been used as TFG's return metric to derive the 2012 Return on Equity of 20.8%.

As disclosed in the October 2012 TFG monthly update, no incentive fees were earned or paid as a result of the Polygon Transaction, as it was treated as a capital adjustment for the applicable calculations. Overall in 2012, performance fees of $86.2 million were earned by the Investment Manager, of which $30.2 million were accrued in Q4 2012.

FINANCIAL REVIEW

STATEMENT OF OPERATIONS 2010-2012

Figure 17

TETRAGON FINANCIAL GROUP Annual Statement of Operations 2010-2012			
	2012 $MM	**2011 $MM**	**2010 $MM**
Interest Income	235.6	209.1	178.9
Fee Income	36.7	23.1	15.1
Other Income	6.8	-	-
Investment and Management Fee Income	**279.1**	**232.2**	**194.0**
Management and Performance Fees	(109.8)	(144.0)	(133.5)
Other Operating and Administrative Expenses	(46.4)	(26.4)	(10.7)
Total Operating Expenses	**(156.2)**	**(170.4)**	**(144.2)**
Net Investment Income	**122.9**	**61.8**	**49.8**
Net Change in Unrealised Appreciation in Investments	186.3	358.6	336.0
Goodwill Arising on Acquisition of Polygon	54.8	-	-
Realised Gain on Investments	5.3	0.9	1.1
Realised and Unrealised Losses from Hedging and FX	(6.8)	(5.1)	2.1
Net Realised and Unrealised Gains from Investments and FX	**239.6**	**354.4**	**339.2**
Income Taxes	(3.6)	(3.8)	(2.4)
Noncontrolling Interest	(1.7)	(2.0)	(1.4)
U.S. GAAP Net Income	**357.2**	**410.4**	**385.2**
Reverse Goodwill Arising on Acquisition of Polygon	(54.8)	-	-
Add Back Employee Share Based Compensation	3.8	-	-
Net Economic Income	**306.2**	**410.4**	**385.2**

FINANCIAL REVIEW

STATEMENT OF OPERATIONS BY BUSINESS SEGMENT

Figure 18

TETRAGON FINANCIAL GROUP Annual Statement of Operations by Segment 2012			
	Investment Portfolio $MM	**TFG AM $MM**	**Total 2012 $MM**
Interest Income	235.4	0.2	235.6
Fee Income	-	36.7	36.7
Other Income	-	6.8	6.8
Investment and Management Fee Income	**235.4**	**43.7**	**279.1**
Management and Performance Fees	(107.5)	(2.3)	(109.8)
Other Operating and Administrative Expenses	(14.5)	(28.1)	(42.6)
Total Operating Expenses	**(122.0)**	**(30.4)**	**(152.4)**
Net Investment Income	**113.4**	**13.3**	**126.7**
Net Change in Unrealised Appreciation in Investments	186.3	-	186.3
Realised Gain on Investments	5.3	-	5.3
Realised and Unrealised Losses from Hedging and FX	(6.8)	-	(6.8)
Net Realised and Unrealised Gains from Investments and FX	**184.8**	**-**	**184.8**
Income Taxes	-	(3.6)	(3.6)
Noncontrolling Interest	-	(1.7)	(1.7)
Net Economic Income	**298.2**	**8.0**	**306.2**
Reverse Goodwill Arising on Acquisition of Polygon	-	-	54.8
Add Back Employee Share Based Compensation	-	-	(3.8)
U.S. GAAP Net Income			**357.2**

FINANCIAL REVIEW

EPS ATTRIBUTION

Figure 19

TETRAGON FINANCIAL GROUP TFG Earnings per Share split 2010-2012			
Component	**2012**	**2011**	**2010**
CLOs	$3.65	$4.76	$4.18
Fee Income	$0.32	$0.20	$0.12
Direct Loans	$0.07	$0.03	$0.05
Other Income	$0.15	-	-
Goodwill arising on acquisition of Polygon	$0.48	-	-
Hedging Derivatives and Options	($0.10)	($0.04)	$0.01
Expenses and Taxes	($1.41)	($1.47)	($1.20)
Noncontrolling Interest	($0.01)	($0.02)	($0.01)
U.S. GAAP EPS	$3.15	$3.46	$3.15
Adjustments to get to Net Economic Income	($0.45)	-	-
Net Economic Income EPS	$2.70	$3.46	$3.15
Weighted Average Shares	113,346,744	118,444,858	122,165,663

CONSOLIDATED BALANCE SHEET

Figure 20

TETRAGON FINANCIAL GROUP Balance Sheet		
	2012 $MM	**2011 $MM**
Assets		
Investments, at Fair Value	1,440.4	1,264.4
Intangible Assets – Management Contracts	43.4	0.1
Cash and Cash Equivalents	175.9	211.5
Amounts Due from Brokers	13.1	15.8
Derivative Financial Assets – Interest Rate Swaptions	7.6	7.2
Derivative Financial Assets – Forward Contracts	-	6.7
Other Receivables	15.8	2.9
Total Assets	**1,696.2**	**1,508.6**
Liabilities		
Other Payables and Accrued Expenses	61.7	30.8
Amounts Payable on Share Options	6.6	1.6
Income and Deferred Tax Payable	4.3	1.8
Derivative Financial Assets – Forward Contracts	2.2	-
Total Liabilities	**74.8**	**34.2**
Total Equity Attributable to TFG	**1,621.4**	**1,474.4**

Please see Appendix II for information on the Fair Value determination of TFG's CLO equity investments.

CONSOLIDATED CASH FLOW FROM OPERATIONS

Figure 21

TETRAGON FINANCIAL GROUP Cash Flow from Operations - 2010-2012	2012 $MM	2011 $MM	2010 $MM
Operating Activities			
Operating Cash Flows Before Movements in Working Capital After Dividends Paid to Guernsey Feeder	368.2	251.3	151.6
Increase in Payables	12.5	2.6	2.3
Cash Flows from Operating Activities	**380.7**	**253.9**	**153.9**
Investment Activities			
Proceeds on Sales of Investments	89.6	122.3	71.0
Purchase of Investments	(292.8)	(217.3)	(205.7)
Cash Flows from Operating and Investing Activities	**177.5**	**158.9**	**19.2**
Amounts Due / (to) from Broker	2.7	(11.6)	1.6
Purchase of Shares	(176.1)	(34.8)	(25.5)
Net Dividends Paid to Shareholders	(38.3)	(38.3)	(29.0)
Distribution to Noncontrolling Interest	(1.8)	(3.2)	(0.1)
Cash Flows from Financing Activities	**(213.5)**	**(87.9)**	**(53.0)**
Net (Decrease) / Increase in Cash and Cash Equivalents	(36.0)	71.0	(33.8)
Cash and Cash Equivalents at Beginning of Period	211.5	140.6	174.4
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	0.4	(0.1)	-
Cash and Cash Equivalents at End of Period	**175.9**	**211.5**	**140.6**

SHARES RECONCILIATION

Figure 22

Shares Reconciliation	31 Dec 2012 Shares (millions)
Legal Shares Issued and Outstanding	**133.75**
Less: Shares Held in Subsidiary	16.60
Less: Shares Held in Treasury	6.50
Less: Escrow Shares	11.84
U.S. GAAP Shares Outstanding	**98.80**
Add: Manager (IPO) Share Options	-
Add: Escrow Shares	11.84
Pro Forma Fully Diluted Shares	**110.64**

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APPENDIX I

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 2012 and contains a fair review of that period and (ii) the 2012 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.

APPENDIX II

FAIR VALUE DETERMINATION OF TFG'S CLO EQUITY INVESTMENTS

In accordance with the valuation policies set forth on the company's website, the values of TFG's CLO equity 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 how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of TFG's CLO equity 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 seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate.

Forward-looking CLO Equity Cash Flow Modeling Assumptions Recalibrated in Q4 2012:

The Investment Manager reviews and, when appropriate, adjusts in consultation with TFG's audit committee, the CLO equity investment portfolio's modeling assumptions as described above. At the end of Q4 2012, certain key assumptions relating to defaults were recalibrated. Those relating to recoveries, prepayments and reinvestment prices were unchanged from the previous quarter.

U.S. CLOs – Default Assumptions Recalibrated

For the U.S. deals, near-term default assumptions were unchanged but medium-term default multiples were reduced to reflect, among other things, the perceived decline in concern over the so-called "maturity wall". These changes, which are detailed in the figure below, had a positive impact on the undiscounted future projected cash flows of the U.S. deals.

Figure 23

Variable	Year	Current Assumptions	Prior Assumptions
CADR			
	2013	1.0x WARF-implied default rate (2.2%)	1.0x WARF-implied default rate (2.2%)
	2014	1.0x WARF-implied default rate (2.2%)	1.5x WARF-implied default rate (3.3%)
	2015-2016	1.25x WARF-implied default rate (2.7%)	1.5x WARF-implied default rate (3.3%)
	2017	1.25x WARF-implied default rate (2.7%)	1.0x WARF-implied default rate (2.2%)
	Thereafter	1.0x WARF-implied default rate (2.2%)	1.0x WARF-implied default rate (2.2%)
Recovery Rate			
	Until deal maturity	73%	73%
Prepayment Rate			
	Until deal maturity	20.0% p.a. on loans; 0.0% on bonds	20.0% p.a. on loans; 0.0% on bonds
Reinvestment Price			
	Until deal maturity	100%	100%

European CLOs – Default Assumptions Recalibrated

For the European deals, an elevated default multiple was maintained in the near term, but the medium term multiple was recalibrated higher bringing it in line with the U.S. deals, and reflecting some of the enhanced risks during that period, including the percentage of loans maturing. For European deals, this change resulted in a reduction in future undiscounted projected cash flows.

Figure 24

Variable	Year	Current Assumptions	Prior Assumptions
CADR			
	2013-2014	1.5x WARF-implied default rate (3.1%)	1.5x WARF-implied default rate (3.1%)
	2015-2017	1.25x WARF-implied default rate (2.6%)	1.0x WARF-implied default rate (2.1%)
	Thereafter	1.0x WARF-implied default rate (2.1%)	1.0x WARF-implied default rate (2.1%)
Recovery Rate			
	Until deal maturity	68%	68%
Prepayment Rate			
	Until deal maturity	20.0% p.a. on loans; 0.0% on bonds	20.0% p.a. on loans; 0.0% on bonds
Reinvestment Price			
	Until deal maturity	100%	100%

These key average assumption variables include the modeling assumptions disclosed as a weighted average (by U.S. dollar amount) of the individual deal assumptions, aggregated by geography (*i.e.* U.S. and European). Such weighted averages may change from month to month due to movements in the amortized costs of the deals, even without changes to the underlying assumptions. Each individual deal's assumptions may differ from this geographical average and vary across the portfolio.

The reinvestment price, assumptions about reinvestment spread and reinvestment life are also input into the model to generate an effective spread over LIBOR. Newer vintage CLOs may have a higher weighted-average reinvestment spread over LIBOR or shorter reinvestment life assumptions than older deals. Across the entire CLO portfolio, the reinvestment price assumption of 100% for U.S. deals and European deals with their respective assumed weighted-average reinvestment spreads, generates an effective spread over LIBOR of approximately 284 bps on broadly syndicated U.S. loans, 272 bps on European loans, and 328 bps on middle market loans.

Application of Discount Rate to Projected CLO Equity Cash Flows: 2005 – 2007 Vintage Deals:

In determining the applicable rates to use to discount projected cash flows, an analysis of observable risk premium data is undertaken. Observable risk premia such as BB and BBB CLO tranche spreads decreased late in Q3 2012 and we noted in TFG's Q3 2012 performance report that we would continue to monitor closely over the course of Q4 2012 whether these reductions were sustained, before considering a reduction in applicable discount rates. In Q4 2012 observable data has confirmed the re-rating of CLO risk, albeit the trend has continued at a slower pace. For example, according to Citibank research, the spread on originally BB-rated U.S. CLO tranches decreased from approximately 11% at the end of Q2 2012 to 8% as of the end of September 2012 and further reduced to approximately 7% at the end of December.(21)

As a result of the observed continued tightening of these spreads and overall reduction in risk premia, the discount rates for the U.S. deals have been reduced to 17.5% for strong deals and to 22.5% for other deals.

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Per Citibank research, European originally BB-rated tranche yields have followed a similar trajectory to U.S. spreads over the last two quarters, reducing from 22% at the end of Q2 2012 to 16% at the end of Q3 2012 before a further reduction to 14% in Q4 2012. As a result of this reduction in risk premia, the discount rates for European deals have been reduced to 27.5%, which are still significantly above the U.S. deal discount rates, reflecting in part the ongoing uncertainty surrounding Europe.

Previously on average, the discount rate being applied to the future cash flows was greater than the weighted-average IRR on pre-crisis deals, so the aggregate fair value for both U.S. and European deals was lower than its amortized cost. The difference between these two figures was characterized as the "ALR Fair Value Adjustment" or "ALR". Post this recalibration this is no longer the case for U.S. deals so there is no ALR to report in respect of such deals. For European deals at the end of Q4 the ALR stands at $86.6 million compared to $97.9 million at the end of Q3.

2010 – 2012 Vintage Deals

The applicable discount rate for newer vintage deals is determined with reference to each deal's specific IRR, which, in the absence of other observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the end of Q4 2012, the weighted-average discount rate (and IRR) on these deals was 12.4%. Such deals represented approximately 14.3% of the CLO equity portfolio by fair value (up from 12.8% at the end of Q3 2012). We will continue to monitor observable data on these newer vintage transactions to determine whether the IRR remains the appropriate discount rate.

Effect on Fair Value and Net Income of Recalibration of Certain Inputs into the CLO Model

Overall, the net impact of the recalibration of certain forward-looking default assumptions and discount rates described above led to an overall increase in fair value of the total CLO equity portfolio of approximately $71.4 million, or $53.6 million in bottom line net income.

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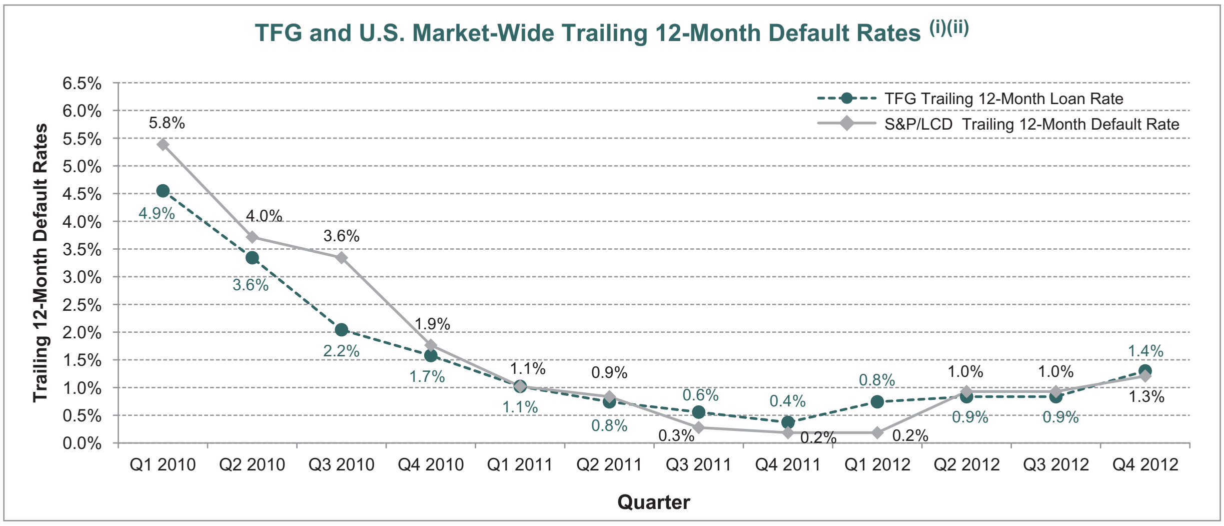
CLO MARKET COMMENTARY

- **2012 U.S. leveraged loan defaults remain low:** The U.S. lagged 12-month loan default rate rose slightly during Q4 2012 and stood at 1.27% by principal amount as of the 2012, up from 1.00% as of the end of Q3 2012.(22) In comparison, the same rate was 0.17% at the end of 2011.(23) According to S&P, the consensus among loan portfolio managers is for default rates to continue to increase in 2013 but remain below the historical average of 3.31%.(24)

  Similarly, TFG's lagging 12-month loan default rate rose to 1.4% by the end of 2012, up from 1.0% in the third quarter and 0.8% as of the end of 2011.(25) The graph below shows three-year history for both TFG and the U.S. market-wide loan default rates.

Figure 25



(i) 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 CLO equity and direct loan investment portfolio includes approximately 9.5% 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.

- **U.S. primary loan issuance surges while European volumes remain subdued:** Institutional U.S. loan issuance rose to $90.6 billion in Q4 2012, up from $84.3 billion in Q3 2012, bringing the 2012 total to a five-year high of $295.0 billion.(26) Despite a rebound in European primary loan issuance during Q4 2012, total European new issue loan volume fell to €28.5 billion in 2012, down 34% from 2011.(27) Importantly, a significant share of this year's issuance came from Yankee loans as European issuers took advantage of strong U.S. market conditions tapping the U.S. for €21.7 billion in paper in 2012, the highest annual total on record.(28) Given Europe's dormant post-crisis new issue CLO market and significant share of existing CLO vehicles reaching the end of their reinvestment periods (80% Euro CLOs will end their reinvestment periods in 2013), near-term European primary loan issuance is likely to continue to suffer from declining local demand.(29)

- **Opportunistic U.S. loan re-pricing activity remains robust:** U.S. loan issuers reduced spreads on $51.2 billion of loans in 2012 as compared with $69.9 million in 2011.(30) Strong re-pricing activity was paralleled by tightening new issue loans spreads, lower OIDs and LIBOR floors as well as a general shift toward more issuer-friendly terms, such as covenant-lite structures and higher leverage multiples.(31) Market participants anticipate that, absent an unforeseen macroeconomic or geopolitical shock, 2013 may see a continuation of this year's re-pricing wave as a significant share of existing issuers see the expiration of their soft-call periods in 2013.(32)

- **U.S. and European loan prices post significant gains:** U.S. secondary loan prices rose during Q4 2012, as the U.S. S&P/LSTA Leveraged Loan Index returned 1.42% for the quarter, bringing 2012 returns to 9.66%, a notable increase from the 1.52% return posted in 2011.(33) Similarly, the S&P European Leveraged Loan Index ("ELLI") returned 9.39% during 2012 (ex. currency effects).(34) We believe that strong technical market conditions, rising demand for loans via robust CLO issuance, benign credit conditions, as well as reduced macroeconomic uncertainty around the U.S. "fiscal cliff" and Euro-zone sovereign debt problems, all contributed to the strength of this rally.

- **U.S. repayments remain robust but decline in Europe:** The U.S. S&P/LSTA Leveraged Loan Index repayment rate rose to 15.3% during Q4 2012, up from 7.3% in Q3 2012, bringing the 2012 total to 38%, down slightly from 40% in 2011.[35] Repayments within the S&P European Leveraged Loan Index ("ELLI") declined to €17.8 billion during 2012, versus €38.9 billion in 2011.[36]

- **"Maturity wall" erosion continues:** At the end of 2012, the amount of S&P/LSTA Index loans maturing in 2013 declined to $4.7 billion, representing just 1.0% of all outstanding performing loans.[37] This is down significantly from the $29 billion which was due to mature in 2013 as of the end of 2011.[38] We believe this reduction in 2013 maturities may keep U.S. near-term loan default rates below the historical average, which would be beneficial for our CLO equity investments. Taking a slightly longer-term view, approximately 70.6% of USD-denominated loans are set to mature between 2016-2018, while the European market remains more exposed to near-term maturities with 73.6% of Euro-denominated loans set to mature over 2015-2017.[39]

- **U.S. CLO O/C ratios improve while European O/C levels decline year-over-year:** During 2012, average O/C ratios of U.S. CLOs steadily improved while European CLOs saw incremental O/C cushion erosion. According to Morgan Stanley, the median junior O/C test cushion for U.S. CLOs rose to 4.63% at the end of 2012[40] up from 3.88% as of the end of 2011.[41] Conversely, the median junior O/C test cushion for Euro CLOs declined to 0.26%at the end of 2012[42] vs. 1.76% at the end of 2011, reflecting a pick-up in defaults and continued weakness of credit fundamentals.[43] We anticipate that the divergence in U.S. and Euro CLO performance metrics is likely to continue in 2013.

- **U.S. and European CLO debt spreads tighten:** Average secondary U.S. CLO debt spreads tightened across the capital structure at the end of 2012 vs. 2011 reflecting increased investor appetite and the continued search for yield. Average secondary U.S. CLO prices rose from $4-$5 points at the AAA-level to $15-$25 points for mezzanine tranches on significant BWIC volumes.[44] U.S. new issue spreads saw similar spread tightening, with AAA spreads remaining "stickier" than mezzanine tranches. European secondary CLO prices also recorded significant gains although Euro CLO paper remains priced below U.S. comparables for a number of fundamental and technical reasons.[45]

- **U.S. new issue arbitrage CLO market expansion gains speed and depth:** U.S. arbitrage CLO issuance rose dramatically during 2012 as 116 deals totaling $53.5 billion were priced during the year, up from $12.4 billion and 27 vehicles in 2011.[46] This pick-up in issuance was accompanied by continued expansion of the CLO buyer base and growing diversification of CLO managers, as the number of managers issuing deals in 2012 rose to 55 from 24 in 2011, including 13 first-time CLO managers.[47]

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ADDITIONAL CLO PORTFOLIO STATISTICS

- **CLO Portfolio Credit Quality:** The weighted-average WARF across all of TFG's CLO equity investments stood at approximately 2,599 as of the end of Q4 2012. Each of these foregoing statistics represents a weighted-average summary (weighted by initial cost) of all of our deals. Each individual deal's metrics will differ from these averages and vary across the portfolio.

Figure 26

ALL CLOs	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Caa1/CCC+ or Below Obligors:	6.0%	6.4%	5.7%	6.2%	7.0%	7.0%	7.2%	7.6%	8.3%	9.6%	10.5%	11.1%
WARF:	2,599	2,605	2,578	2,588	2,624	2,614	2,642	2,664	2,671	2,658	2,706	2,762

U.S. CLOs	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Caa1/CCC+ or Below Obligors:	4.5%	4.9%	4.2%	4.8%	5.5%	5.5%	5.8%	6.5%	6.9%	7.9%	8.4%	9.4%
WARF:	2,524	2,528	2,491	2,504	2,533	2,522	2,542	2,591	2,622	2,610	2,648	2,719

EUR CLOs	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Caa1/CCC+ or Below Obligors:	11.7%	12.2%	11.6%	11.1%	12.3%	12.0%	12.3%	11.4%	13.1%	15.3%	17.4%	16.8%
WARF:	2,896	2,903	2,910	2,900	2,948	2,941	2,997	2,914	2,837	2,817	2,898	2,907

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CLO Equity Portfolio Details
As of 31 December 2012

Figure 27

Transaction	Deal Type	Original Invest. Cost ($MM USD)[i]	Deal Closing Date	Year of Maturity	End of Reinv Period	Wtd Avg Spread (bps)[ii]	Original Cost of Funds (bps)[iii]	Current Cost of Funds (bps)[iv]	Current Jr-Most O/C Cushion[v]	Jr-Most O/C Cushion at Close[vi]	Annualized (Loss) Gain of Cushion[vii]	IRR[viii]	ITD Cash Received as % of Cost[ix]
Transaction 1	EUR CLO	37.5	2007	2024	2014	358	55	59	(2.49%)	3.86%	(1.15%)	—	29.6%
Transaction 2	EUR CLO	29.7	2006	2023	2013	391	52	53	0.15%	3.60%	(0.56%)	8.3%	65.1%
Transaction 3	EUR CLO	22.2	2006	2022	2012	391	58	67	1.92%	5.14%	(0.46%)	11.9%	103.1%
Transaction 4	EUR CLO	33.0	2007	2023	2013	407	48	47	3.96%	5.76%	(0.31%)	14.1%	86.4%
Transaction 5	EUR CLO	36.9	2007	2022	2014	400	60	60	2.24%	5.74%	(0.65%)	9.3%	62.8%
Transaction 6	EUR CLO	33.3	2006	2022	2012	362	51	60	(0.92%)	4.70%	(0.85%)	6.5%	49.7%
Transaction 7	EUR CLO	38.5	2007	2023	2013	377	46	45	0.82%	3.64%	(0.49%)	5.1%	31.9%
Transaction 8	EUR CLO	26.9	2005	2021	2011	368	53	53	0.04%	4.98%	(0.67%)	10.2%	87.1%
Transaction 9	EUR CLO	41.3	2007	2023	2013	399	50	46	(0.30%)	6.27%	(1.15%)	7.4%	43.4%
Transaction 10	EUR CLO	27.0	2006	2022	2012	373	50	52	(1.00%)	4.54%	(0.86%)	4.8%	32.7%
EUR CLO Subtotal:		**326.3**				**383**	**52**	**54**	**0.40%**	**4.84%**	**(0.74%)**		**56.4%**
Transaction 11	US CLO	20.5	2006	2018	2012	359	45	45	5.30%	4.55%	0.12%	20.7%	158.1%
Transaction 12	US CLO	22.8	2006	2019	2013	374	46	46	5.30%	4.45%	0.14%	20.9%	154.0%
Transaction 13	US CLO	15.2	2006	2018	2012	399	47	47	4.66%	4.82%	(0.02%)	20.5%	167.6%
Transaction 14	US CLO	26.0	2007	2021	2014	408	49	50	3.85%	5.63%	(0.30%)	19.2%	133.8%
Transaction 15	US CLO	28.1	2007	2021	2014	470	52	48	3.62%	4.21%	(0.11%)	29.4%	181.2%
Transaction 16	US CLO	23.5	2006	2020	2013	440	46	45	3.31%	4.44%	(0.17%)	21.3%	163.3%
Transaction 17	US CLO	26.0	2007	2021	2014	363	40	40	4.63%	4.24%	0.07%	23.4%	156.0%
Transaction 18	US CLO	16.7	2005	2017	2011	350	45	50	9.89%	4.77%	0.72%	20.0%	172.9%
Transaction 19	US CLO	1.2	2005	2017	2011	350	45	50	9.89%	4.77%	0.72%	23.8%	167.1%
Transaction 20	US CLO	26.6	2006	2020	2012	458	52	52	3.74%	5.28%	(0.25%)	22.6%	170.7%
Transaction 21	US CLO	20.7	2006	2020	2012	458	53	52	3.23%	4.76%	(0.24%)	19.3%	148.3%
Transaction 22	US CLO	37.4	2007	2021	2014	474	53	53	3.29%	5.00%	(0.30%)	21.9%	141.0%
Transaction 23	US CLO	19.9	2007	2021	2013	369	66	66	3.19%	4.98%	(0.32%)	20.7%	150.2%
Transaction 24	US CLO	16.9	2006	2018	2012	425	46	47	5.21%	4.17%	0.16%	17.8%	129.5%
Transaction 25	US CLO	20.9	2006	2018	2013	441	46	46	6.23%	4.13%	0.35%	22.7%	158.1%
Transaction 26	US CLO	27.9	2007	2019	2013	444	43	44	4.45%	4.05%	0.07%	19.7%	131.3%
Transaction 27	US CLO	23.9	2007	2021	2014	570	51	51	11.61%	6.11%	0.92%	32.6%	198.6%
Transaction 28	US CLO	7.6	2007	2021	2014	570	51	51	11.61%	6.11%	0.92%	43.6%	119.6%
Transaction 29	US CLO	19.1	2005	2018	2011	445	66	109	7.33%	4.82%	0.35%	18.7%	161.5%
Transaction 30	US CLO	12.4	2006	2018	2012	472	67	71	3.04%	5.16%	(0.33%)	19.3%	138.4%
Transaction 31	US CLO	9.3	2005	2017	2012	338	52	57	3.19%	5.02%	(0.24%)	16.3%	168.0%
Transaction 32	US CLO	24.0	2007	2021	2014	354	59	59	4.07%	5.57%	(0.28%)	21.3%	135.7%
Transaction 33	US CLO	16.2	2006	2020	2012	375	56	81	4.76%	6.99%	(0.33%)	14.3%	137.7%
Transaction 34	US CLO	22.2	2006	2020	2012	382	50	50	4.49%	6.66%	(0.36%)	19.0%	143.8%
Transaction 35	US CLO	23.6	2006	2018	2012	437	52	53	1.65%	5.00%	(0.51%)	20.7%	164.7%
Transaction 36	US CLO	28.4	2007	2021	2013	472	46	56	2.31%	5.18%	(0.49%)	20.6%	137.8%
Transaction 37	US CLO	9.3	2005	2017	2011	351	50	67	6.16%	4.34%	0.25%	15.7%	150.9%
Transaction 38	US CLO	23.7	2007	2021	2013	359	42	42	4.04%	5.07%	(0.18%)	27.9%	175.2%
Transaction 39	US CLO	7.8	2005	2017	2011	339	70	100	7.26%	3.15%	0.57%	9.9%	87.2%
Transaction 40	US CLO	13.0	2006	2020	2011	419	39	42	N/A	N/A	N/A	22.2%	166.9%
Transaction 41	US CLO	22.5	2006	2020	2013	375	48	49	4.30%	4.71%	(0.07%)	21.6%	160.6%
Transaction 42	US CLO	22.4	2007	2021	2014	400	47	48	5.19%	3.92%	0.22%	21.7%	141.1%
Transaction 44	US CLO	22.3	2006	2018	2012	336	54	67	2.35%	4.16%	(0.27%)	12.2%	115.2%
Transaction 45	US CLO	23.0	2006	2018	2012	317	46	46	2.07%	4.46%	(0.40%)	10.6%	95.4%
Transaction 46	US CLO	21.3	2007	2019	2013	335	51	51	2.49%	4.33%	(0.33%)	9.9%	83.4%
Transaction 47	US CLO	28.3	2006	2021	2013	347	47	43	2.91%	4.34%	(0.23%)	21.3%	159.7%
Transaction 48	US CLO	23.0	2006	2019	2013	366	46	46	2.37%	5.71%	(0.54%)	16.8%	118.2%
Transaction 49	US CLO	12.6	2005	2017	2011	370	40	43	3.79%	3.94%	(0.02%)	12.8%	111.4%
Transaction 50	US CLO	12.3	2006	2018	2012	368	40	40	3.16%	4.25%	(0.17%)	13.8%	110.7%
Transaction 51	US CLO	18.0	2007	2020	2013	407	53	53	4.22%	4.47%	(0.05%)	21.5%	145.7%
Transaction 53	US CLO	0.6	2004	2016	2011	354	61	95	17.71%	4.00%	1.68%	49.4%	303.2%
Transaction 54	US CLO	0.5	2005	2017	2012	354	56	66	6.99%	3.69%	0.43%	58.4%	812.6%
Transaction 55	US CLO	0.3	2005	2017	2011	358	39	45	6.49%	3.59%	0.39%	61.9%	758.2%
Transaction 56	US CLO	23.0	2007	2019	2014	393	42	42	4.77%	4.53%	0.04%	23.2%	156.4%
Transaction 57	US CLO	0.6	2007	2019	2014	393	42	42	4.77%	4.53%	0.04%	50.0%	803.2%
Transaction 58	US CLO	21.8	2007	2019	2014	390	49	49	3.74%	4.04%	(0.05%)	25.5%	161.5%
Transaction 59	US CLO	0.4	2007	2019	2014	390	49	49	3.74%	4.04%	(0.05%)	53.6%	1107.1%
Transaction 60	US CLO	18.8	2010	2021	2014	433	198	198	4.48%	4.50%	-0.01%	11.3%	27.7%

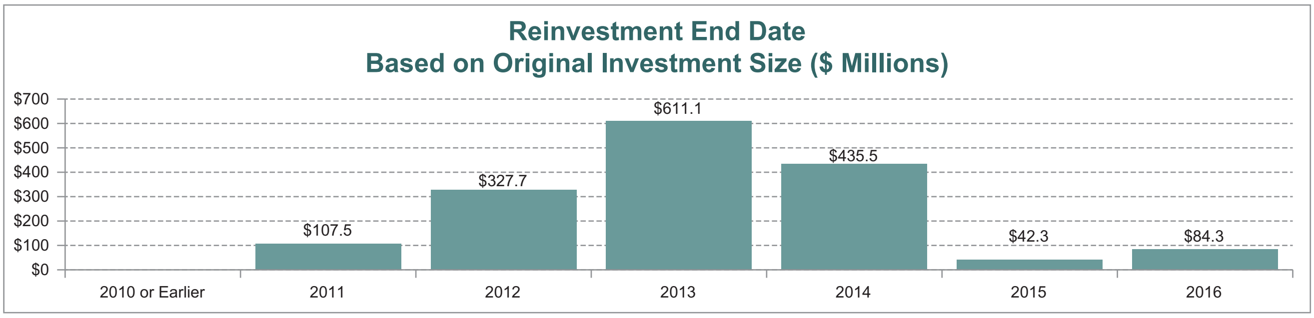
CLO Equity Portfolio Details (continued)
As of 31 December 2012

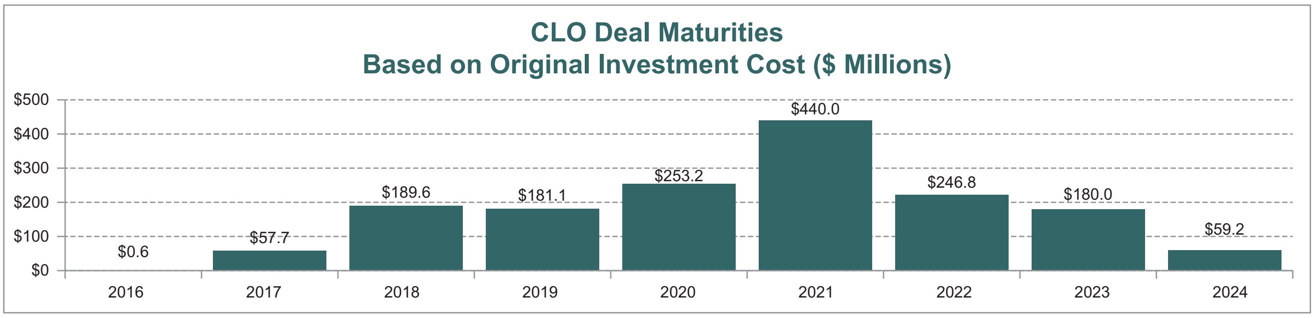
Figure 27 (continued)

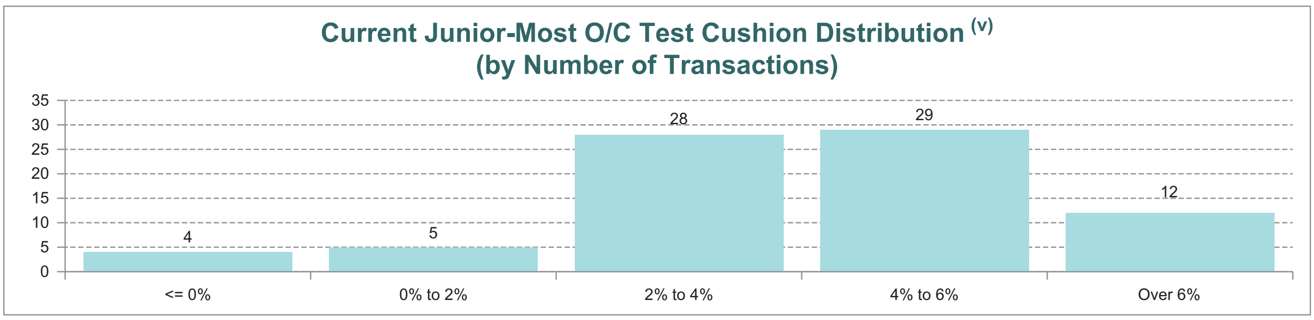
Transaction	Deal Type	Original Invest. Cost ($MM USD)(i)	Deal Closing Date	Year of Maturity	End of Reinv Period	Wtd Avg Spread (bps)(ii)	Original Cost of Funds (bps)(iii)	Current Cost of Funds (bps)(iv)	Current Jr-Most O/C Cushion(v)	Jr-Most O/C Cushion at Close(vi)	Annualized (Loss) Gain of Cushion(vii)	IRR(viii)	ITD Cash Received as % of Cost(ix)
Transaction 61	US CLO	29.1	2007	2021	2014	354	45	45	3.49%	4.04%	(0.10%)	18.1%	113.8%
Transaction 62	US CLO	25.3	2007	2020	2013	384	42	42	4.69%	5.20%	(0.09%)	21.9%	157.6%
Transaction 63	US CLO	27.3	2007	2021	2013	405	53	53	3.02%	4.78%	(0.32%)	19.7%	130.8%
Transaction 64	US CLO	15.4	2007	2021	2013	455	38	38	N/A	N/A	N/A	22.9%	132.4%
Transaction 65	US CLO	26.9	2006	2021	2013	382	47	48	3.09%	4.96%	(0.31%)	14.6%	102.2%
Transaction 66	US CLO	21.3	2006	2020	2013	357	49	49	3.68%	4.05%	(0.06%)	22.3%	162.5%
Transaction 67	US CLO	27.3	2007	2022	2014	354	46	45	4.03%	4.38%	(0.06%)	20.4%	136.5%
Transaction 68	US CLO	19.3	2006	2020	2013	415	48	48	5.74%	4.41%	0.22%	27.2%	194.1%
Transaction 69	US CLO	28.2	2007	2019	2013	399	44	44	7.20%	5.61%	0.28%	26.0%	177.5%
Transaction 70	US CLO	24.6	2006	2020	2013	328	52	52	5.32%	6.21%	(0.15%)	19.0%	136.3%
Transaction 71	US CLO	1.7	2006	2018	2012	368	40	40	3.16%	4.25%	(0.17%)	28.4%	70.1%
Transaction 72	US CLO	4.8	2007	2019	2014	393	42	42	4.77%	4.53%	0.04%	22.1%	59.3%
Transaction 73	US CLO	1.9	2007	2019	2014	393	42	42	4.77%	4.53%	0.04%	22.1%	59.3%
Transaction 74	US CLO	5.5	2007	2019	2014	390	49	49	3.74%	4.04%	(0.05%)	24.0%	62.0%
Transaction 75	US CLO	32.7	2011	2022	2014	429	168	168	4.49%	4.05%	0.29%	13.4%	30.0%
Transaction 76	US CLO	1.9	2006	2018	2012	317	46	46	2.07%	2.43%	(0.06%)	46.7%	63.2%
Transaction 77	US CLO	14.5	2011	2023	2016	438	212	213	5.46%	5.04%	0.40%	14.7%	10.9%
Transaction 78	US CLO	22.9	2012	2023	2015	525	217	217	4.74%	4.00%	0.78%	15.1%	18.5%
Transaction 79	US CLO	19.4	2012	2022	2015	476	215	215	4.20%	4.00%	0.23%	10.0%	12.6%
Transaction 80	US CLO	22.7	2012	2022	2016	480	185	185	4.22%	4.17%	0.07%	13.8%	7.9%
Transaction 81	US CLO	21.7	2012	2024	2016	506	216	217	4.17%	4.00%	0.57%	11.2%	0.0%
Transaction 82	US CLO	25.4	2012	2022	2016	476	206	206	4.09%	4.00%	0.35%	9.7%	0.0%
US CLO Subtotal:		**1,282.0**				**409**	**70**	**72**	**4.28%**	**4.61%**	**(0.02%)**		**127.9%**
Total CLO Portfolio:		**1,608.3**				**404**	**66**	**68**	**3.49%**	**4.66%**	**(0.16%)**		**113.4%**

CLO Equity Portfolio Details (continued)
As of 31 December 2012

Figure 27 (continued)







Notes

(i) The USD investment cost fixes the USD-EUR exchange rate of European CLOs at the same rate to avoid the impact of skewed weightings and FX volatility.
(ii) Par weighted average spread over LIBOR or EURIBOR (as approproate) of the underlying loan assets in each CLO's portfolio.
(iii) Notional weighted average spread over LIBOR or EURIBOR (as appropriate) of the debt tranches issued by each CLO, as of the closing date of each transaction.
(iv) Notional weighted average spread over LIBOR or EURIBOR (as appropriate) of the debt tranches issued by each CLO, as of the most recent trustee report date.
(v) The current junior-most O/C cushion is the excess (or deficit) of the junior-most O/C test ratio over the test requirement, as of the latest trustee report available as of the report date.
(vi) The junior-most O/C cushion at close is the excess (or deficit) of the junior-most O/C test ratio over the test requirement that was expected on each deal's closing date. Please note that two of TFG's investments are so called "par structures" which don't include a junior O/C test. They have been marked by an "N/A" in the relevant junior-most O/C test columns.
(vii) Calculated by annualizing the change from the expected closing date junior-most O/C cushion to the current junior-most O/C cushion.
(viii) Calculated from TFG's investment date. Includes both historical cash flows received to-date and prospective cash flows expected to be received, based on TFG's base case modeling assumptions.
(ix) Inception to report date cash flow received on each transaction as a percentage of its original cost.

APPENDICES

APPENDIX V

Additional Corporate Information

DESCRIPTION OF BUSINESS

TFG (company number 43321) is a Guernsey company traded on NYSE Euronext in Amsterdam under the ticker symbol "TFG" that aims to provide stable returns to investors across various credit, equity, interest rate and real estate cycles. The company maintains two key business segments: an investment portfolio and an asset-management platform. Both business segments cover a broad range of assets including bank loans, real estate, equities, credit and convertible bonds. TFG currently invests primarily through long-term funding vehicles, such as collateralized loan obligations.

TFG's asset-management platform ("TFG Asset Management") currently consists of Polygon Global Partners ("Polygon"), LCM Asset Management LLC ("LCM") and GreenOak Real Estate L.P. ("GreenOak"). TFG Asset Management L.P. is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 and one of its investment management entities, Polygon Global Partners LLP, is authorised and regulated by the United Kingdom Financial Services Authority. The Company is seeking to realize the benefits of building and integrating existing and potentially new asset management businesses into the platform. In turn, the Company will continue to advance this effort throughout 2013, including by evaluating other asset managers.

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.

TFG's investment objective is to generate distributable income and capital appreciation. To achieve this objective, Tetragon Financial 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 favourable transactions and terms for its investments in asset classes and in asset managers. 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.

INVESTMENT MANAGEMENT

Tetragon Financial Management LP 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, Tetragon Financial Management GP LLC (the "General Partner"), which is responsible for all actions of the Investment Manager. The General Partner is directly or indirectly controlled by Reade Griffith, Alexander Jackson and Paddy Dear, who also control TFG's voting shareholder. 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. Mr. Griffith acts as the authorized representative of the General Partner and the Investment Manager.

The Investment Manager is registered as an investment adviser under the U.S. Investment Advisers Act of 1940.

The investment committee of the Investment Manager (the "Investment Committee") currently consists of Jeffrey Herlyn, Michael Rosenberg, David Wishnow, Reade Griffith and Paddy Dear 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 (the "Risk Committee") has the same composition as the Investment Committee. 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 Global Partners LLP and Polygon Global Partners LP (together, the "Service Providers") provide the Investment Manager with certain services in relation to the company pursuant to a Services Agreement dated 30 April 2012. The Service Providers have been indirect subsidiaries of TFG since 28 October 2012, when TFG acquired TFG Asset Management L.P. (f/k/a Polygon Management L.P.) and certain of its affiliates. The Service Providers also provide operating, infrastructure and administrative services to LCM and GreenOak and to various Polygon managers pursuant to applicable services agreements. Polygon Global Partners LLP is authorised and regulated by the United Kingdom Financial Services Authority.

In recognition of the work performed by the Investment Manager in successfully arranging the global offering and the associated raising of new capital for the company, TFG granted to the Investment Manager options (the "Investment Management Options") to purchase 12,545,330 of TFG's Non-Voting Shares (before the application of potential anti-dilution) at an exercise price per share equal to the IPO offer price (U.S. $10). The Investment Management Options are fully vested and immediately exercisable on the date of admission to the NYSE Euronext in Amsterdam and will remain exercisable until the 10th anniversary of that date (*i.e.*, 26 April 2017).

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

CLO BUY-AND-HOLD STRATEGY

The emphasis of the Investment Manager's current CLO investment 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 company believes the Investment Manager's asset liability management and its strategy of taking majority (or substantial) positions in its CLO investments has made a CLO 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 (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 any TFG specific liabilities, such as 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.

CERTAIN CORPORATE AND LISTING BACKGROUND

Shares of TFG (the "Shares") are publicly traded solely on the NYSE Euronext in Amsterdam 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. Polygon Credit Holdings II Limited is controlled by Reade Griffith, Alexander Jackson and Paddy Dear. 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. 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 that NYSE Euronext in 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. The expansion of TFG's asset management platform may help facilitate a potential listing in the United States over the longer-term, which TFG continues to explore. U.S. markets tend to offer better research coverage, liquidity and valuations.

DIVIDENDS AND OTHER DISTRIBUTIONS

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

Dividends:

TFG continues to pursue a progressive dividend policy with a target payout ratio of 30-50% of normalized earnings, based on the long-term target RoE of 10-15%.[(48)]

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.

Share Repurchases:

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 also continues to explore other methods of improving the liquidity of its shares.

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 legal issued and outstanding shares of TFG.

In addition, in accordance with the requirements of NYSE Euronext in Amsterdam 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 as well as U.S. GAAS for regulatory purposes, if applicable. 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.

OTHER LEGAL MATTERS

On 22 February 2011, TFG and the Master Fund and their six directors were served with proceedings in the Royal Court of Guernsey (the "Guernsey Proceedings") instigated by one of Company's former directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a director on 24 January 2011.[(49)]

On 12 July 2011, a shareholder derivative action was filed against the current and former directors of the Company and the Master Fund, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the "Action").[50] On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice. The time period for an appeal of the decision by the plaintiffs has lapsed.

On 19 December 2011, Mr. Jackson filed a claim against Patrick Dear and Reade Griffith in the High Court in London regarding Mr. Jackson's removal in January 2011 from the Board of Directors of TFG and the Master Fund (the "English Proceedings"). Each of TFG and the Master Fund took an interest in the English Proceedings given that they purported to impact TFG's constitution and matters that were already the subject of the Guernsey Proceedings. The defendants contended that Mr. Jackson's claim was without merit and following contested hearings the English Court of Appeal determined specific matters in Mr. Dear and Mr. Griffith's favour by a judgment dated 22 February 2013 and is currently considering whether or not, based on the determination of those matters, Mr. Jackson's claim should be dismissed or continue.

APPENDICES

APPENDIX VI

RISK FACTORS

An investment in TFG (together with the Master Fund, the "Company") 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 TFG'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, which make up the majority of the Company's current investment portfolio 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.
- As the Company becomes more of a financial services firm that functions as a company that owns operating companies, it may face difficulties as it invests in asset classes in which it does not have substantial experience.
- Direct investments in asset managers will expose the Company's business to additional risks, including: a decline in the price of securities, a more complex regulatory environment and competition.
- 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. Additional information on the organizational structure and corporate governance of TFG may be found on TFG'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 (internal and external).
- 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.
- 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 NYSE Euronext in Amsterdam 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 NYSE Euronext in Amsterdam. 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 performance of Polygon and, in turn, the Company's operating results, may be negatively influenced by various factors, including the (i) performance of Polygon-managed funds, and (ii) ability of Polygon to retain key personnel, the loss of whom may negatively affect Polygon's ability to provide asset management services in a fashion, and of a quality, consistent with its prior practice.

- GreenOak has a limited operating history and it may be unable to successfully operate its business or achieve its investment objectives. In connection with the transaction with GreenOak, the Company will invest its capital, directly and indirectly, in certain real estate investments. Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond the Company's control.
- The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds).
- Asset management and financial advisory businesses are subject to extensive regulation, which affects the Company's activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on the Company's business. Recent legislative and regulatory changes in the United States, such as the Dodd-Frank Act, and the European Union, such as the Alternative Investment Fund Managers Directive and the European Market Infrastructure Regulation, could adversely affect the Company's business.
- As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our activities. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. To the extent we fail to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation against us.
- Poor performance of our managed investment funds and vehicles would cause a decline in our asset management revenue, income and cash flow, and could adversely affect our ability to raise capital for future investment funds.
- Our asset management business depends in part on our ability to raise capital from third-party clients. If we are unable to raise capital from third-party clients, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or incentive fees, which would materially reduce our asset management revenue and cash flow.
- As the Company invests in new asset classes and as its asset mix changes, its revenues and profitability could be reduced.
- The Company may issue additional securities that dilute existing holders of Shares, including as a result of the exercise of the Investment Management Options.

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

APPENDICES

BOARD OF DIRECTORS

Paddy Dear	**Reade Griffith**	**Byron Knief***
Rupert Dorey*	**David Jeffreys***	**Greville Ward***

*Independent Director

SHAREHOLDER INFORMATION

Registered Office of TFG and the Master Fund
Tetragon Financial Group Limited
Tetragon Financial Group Master Fund Limited
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Legal Advisor (as to Dutch law)
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Stock Listing
NYSE Euronext in Amsterdam

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Admiral Park
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Channel Islands GYI 6HJ

ENDNOTES

(1) The $7.7 billion AUM includes LCM, Polygon and GreenOak managed assets. Please see Figure 11 of this Annual Report for additional details.
(2) Throughout this Annual Report, except within the letter to shareholders, references to “we” are to Tetragon Financial Management LP, TFG’s Investment Manager.
(3) Adjusted EPS is calculated as Net Economic Income (as defined in the “Financial Review” section) divided by the weighted-average U.S. GAAP Shares outstanding during the year (113,346,744).
(4) Adjusted EPS is calculated as Net Economic Income (as defined in the “Financial Review” section) divided by the weighted-average U.S. GAAP Shares outstanding during the year (113,346,744).
(5) Please see the press release of 29 October 2012 noting TFG’s acquisition of Polygon Management L.P. and certain of its affiliates.
(6) The intrinsic value of the options will be calculated as the excess of (x) the closing price of the shares as of the final trading day in the relevant period over (y) $10.00 (being the exercise price per share) times (z) 12,545,330 (being a number of shares subject to the options before the application of potential anti-dilution). The terms of exercise under the options allow for exercise using cash, as well as, with the consent of the board of the Company, certain forms of cashless exercise. Each of these prescribed methods of exercise may give rise to the issuance of a different number of shares than the approach described herein. If the options were to be surrendered for their intrinsic value with the board’s consent, rather than exercised, the number of shares issued would equal the intrinsic value divided by the closing price of the shares as of the final trading day in the relevant period. This approach has been selected because we currently believe it is more reasonably illustrative of a likely outcome if the options are exercised. The options are exercisable until 26 April 2017.
(7) Please see the press release of 31 January 2013 for further details regarding U.S. GAAP NAV per Share movements.
(8) Please see the press release of 11 January 2013 announcing the continuation of TFG’s share repurchase program.
(9) 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.
(10) Please note that TFG may hold more than one investment in any CLO transaction within its portfolio.
(11) In each case using the weighted-average U.S. GAAP shares outstanding during the year (113,346,744).
(12) Based on the most recent trustee reports available as of 31 December 2012.
(13) Based on the most recent trustee reports available as of 31 December 2012.
(14) In each case using the weighted-average U.S. GAAP shares outstanding during the year (113,346,744).
(15) In each case using the weighted-average U.S. GAAP shares outstanding during the year (113,346,744).
(16) Based on the most recent trustee reports available as of 31 December 2012.
(17) Please see the TFG press release of 29 October 2012 noting TFG’s acquisition of Polygon Management L.P., and certain of its affiliates.
(18) LCM XIII CLO will have a target loan par amount of $500.0 million.
(19) The LCM II, LCM III, LCM IV, LCM V, LCM VI, LCM VIII, LCM IX, LCM X, LCM XI, and LCM XII 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. LCM I CLO has sold all of its assets and repaid all of its liabilities with excess proceeds distributed to equity holders as of 31 December, 2012, and is therefore 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.
(20) Please see also the TFG monthly update for October 2012 released on 20 November 2012.
(21) Citi Global Structured Credit Strategy 22 January 2013
(22) S&P/LCD News, “Levered loan default rate rises modestly in 2012, but remains low,” 3 January 2012.
(23) S&P/LCD News, “Levered loan default rate rises modestly in 2012, but remains low,” 3 January 2012.
(24) S&P/LCD News, “Levered loan default rate rises modestly in 2012, but remains low,” 3 January 2012.
(25) 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 CLO equity and direct loan investment portfolio includes approximately 9.5% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s corporate default rate.
(26) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.
(27) S&P/LCD News, “(EUR) European 2012 loan volumes lag as crisis takes toll,” 3 January 2013.
(28) S&P/LCD News, “(EUR) European 2012 loan volumes lag as crisis takes toll,” 3 January 2013.
(29) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.
(30) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.
(31) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.
(32) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.
(33) S&P/LCD News, “Full Index analysis: Loans return 0.79% in December, 9.66% in 2012,” 3 January 2013.
(34) S&P/LCD News, “(EUR) S&P ELLI: Loans lose 0.06%; YTD return is 9.72%, 27 December 2012.
(35) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.

(36) S&P/LCD News, "(EUR) Topical: Loan repayments fall but volumes outweigh issuance," 18 January 2013.
(37) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.
(38) S&P/LSTA Quarterly Leveraged Lending Review, Fourth Quarter 2012.
(39) Morgan Stanley CLO Market Tracker, 4 January 2013.
(40) Morgan Stanley CLO Market Tracker, 4 January 2013; based on a surveillance universe of 487 USD-denominated CLOs and 194 Euro-denominated CLOs.
(41) Morgan Stanley CLO Market Tracker, 9 January 2012; based on a surveillance universe of 461 USD-denominated CLOs and 192 Euro-denominated CLOs.
(42) Morgan Stanley CLO Market Tracker, 4 January 2013; based on a surveillance universe of 487 USD-denominated CLOs and 194 Euro-denominated CLOs.
(43) Morgan Stanley CLO Market Tracker, 9 January 2012; based on a surveillance universe of 461 USD-denominated CLOs and 192 Euro-denominated CLOs.
(44) Morgan Stanley CLO Market Tracker, 4 January 2013; based on a surveillance universe of 487 USD-denominated CLOs and 194 Euro-denominated CLOs.
(45) Morgan Stanley CLO Market Tracker, January 4 2013; based on a surveillance universe of 487 USD-denominated CLOs and 194 Euro-denominated CLOs.
(46) Morgan Stanley CLO Market Tracker, 4 January 2013; based on a surveillance universe of 487 USD-denominated CLOs and 194 Euro-denominated CLOs.
(47) Morgan Stanley CLO Market Tracker, 4 January 2013; based on a surveillance universe of 487 USD-denominated CLOs and 194 Euro-denominated CLOs.
(48) TFG's returns will most likely fluctuate with LIBOR. LIBOR directly flows through some of TFG's investments and, as it can be seen as the risk-free short-term rate, it should affect all of TFG's investments. In high-LIBOR environments, TFG should achieve higher sustainable returns; in low-LIBOR environments, TFG should achieve lower sustainable returns.
(49) By the Guernsey Proceedings, Mr. Jackson seeks to impugn TFG's decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak Real Estate (the "GreenOak Transaction"). The Proceedings are confined to claims for damages and other relief against the Company's directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010. The Company and its directors believe that there is no merit whatsoever in the Proceedings and will take all necessary steps to ensure the Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Company and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.
(50) The Action made a series of allegations with respect to performance fees charged by the Investment Manager. TFG and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit.

AUDITED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2012

TETRAGON FINANCIAL GROUP LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2012

CONTENTS

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2012

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2012.

THE COMPANY

Tetragon Financial Group Limited (the "Company") was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43321. All voting shares of the Company are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Company continues to be registered and domiciled in Guernsey, and the Company's shares are listed on the NYSE Euronext Amsterdam Exchange.

The Company acts as a feeder fund in a "master feeder structure" investing substantially all of its assets in Tetragon Financial Group Master Fund Limited (the "Master Fund").

INVESTMENT OBJECTIVE

The Company's investment objective is to generate distributable income and capital appreciation. To achieve this objective, Tetragon Financial 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 favourable transactions and terms for its investments in asset classes and in asset managers. 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.

The Company maintains two key business segments: an investment portfolio and an asset-management platform. Both segments cover a broad range of assets including bank loans, real estate, equities, credit and convertible bonds. The Company currently invests primarily through long-term funding vehicles such as collateralized loan obligations.

TFG's asset-management platform ("TFG Asset Management") currently consists of Polygon Global Partners, LCM Asset Management LLC ("LCM") and GreenOak Real Estate, LP ("GreenOak"). TFG Asset Management L.P. is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 and one of its investment management entities, Polygon Global Partners LLP, is authorised and regulated by the United Kingdom Financial Services Authority.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on pages 9 to 10. A detailed review of activities and future developments is contained in the Investment Manager's Report in the Annual Report to the Shareholders.

DIRECTORS

The Directors who held office during the year were:

Paddy Dear
Rupert Dorey*
Reade Griffith
David Jeffreys*
Byron Knief*
Greville Ward*

* Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. Each of the Directors' annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund, which is paid by the Master Fund. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors.

The Directors are entitled to be repaid by the Company for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

SECRETARY

State Street (Guernsey) Limited held the office of Secretary throughout the year.

DIVIDENDS

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 the Company and adherence to applicable law including the satisfaction of a solvency test as stated under 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. The Directors declared a dividend amounting to US$ 0.105 per share for the Quarter Ended 31 December 2011, US$ 0.105 per share for the Quarter Ended 31 March 2012, US$ 0.115 for the Quarter Ended 30 June 2012 and US$ 0.115 for the Quarter Ended 30 September 2012. The total dividend declared during the year ended 31 December 2012 amounted to US$ 50.3 million (31 December 2011: US$ 45.1 million). The Directors have declared a dividend US$ 0.135 for the Quarter Ended 31 December 2012. Total dividends paid during the year ended 31 December 2011 amounted to US$ 0.38 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Guernsey Companies law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

On 30 September 2011, the Guernsey Financial Services Commission ("GFSC") issued a new Code of Corporate Governance (the "GFSC Code") which came into effect on 1 January 2012. The GFSC Code replaces the existing GFSC guidance, "Guidance on Corporate Governance in the Finance Sector". The GFSC Code provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. Companies reporting against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are deemed to comply with the GFSC Code.

The Board of Directors has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide).

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that to the best of our knowledge and belief:

- This annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
- The financial statements, prepared in conformity with accounting principles generally accepted in the United States of America give a true and fair view of the assets, liabilities, financial position and results of the Company.

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITORS

KPMG Channel Islands Limited has been appointed as the independent auditors of the Company and they have expressed their willingness to continue in office. A resolution for the re-appointment of KPMG Channel Islands Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 27 February 2013

Independent auditor's report to the members of Tetragon Financial Group Limited

We have audited the financial statements of Tetragon Financial Group Limited (the "Company") for the year ended 31 December 2012 which comprise the Statements of Assets and Liabilities, the Statements of Operations, the Statements of Changes in Net Assets, the Statements of Cash Flows, the Financial Highlights and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its net increase in net assets resulting from operations for the year then ended;

- are in conformity with accounting principles generally accepted in the United States of America; and

- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

- the Company has not kept proper accounting records; or

- the financial statements are not in agreement with the accounting records; or

- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Neale D Jehan
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

Date: 27 February, 2013

The maintenance and integrity of the Tetragon Financial Group Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2012

	Note	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Assets			
Investment in Master Fund	3	1,658,276	1,499,159
Amounts receivable from Master Fund		-	460
Total assets		1,658,276	1,499,619
Liabilities			
Accrued incentive fee	6	30,227	23,225
Amounts payable on Share options	5	6,601	1,579
Amounts payable on Treasury Shares	7	-	460
Total liabilities		36,828	25,264
Net assets		1,621,448	1,474,355
Equity			
Share capital	7	99	116
Share premium	8	964,966	1,128,567
Capital reserve in respect of share options	9	11,789	11,789
Share based employee compensation reserve	4	3,849	-
Earnings	12	640,745	333,883
		1,621,448	1,474,355
Shares outstanding		**Number '000**	**Number '000**
Shares	7	98,805	115,968
Net Asset Value per Share		US$ 16.41	US$ 12.71

The accompanying notes are an integral part of the financial statements.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

27 February 2013

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2012

	Note	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
Investment income allocated from the Master Fund			
Interest income		235,596	209,054
Fee income		36,704	23,105
Other income		6,773	-
Investment income allocated from the Master Fund		279,073	232,159
Direct expenses			
Incentive fee	6	(86,219)	(124,115)
Total direct expenses		(86,219)	(124,115)
Operating expenses allocated from the Master Fund			
Management fees	9	(23,564)	(19,959)
Employee costs		(21,022)	(6,381)
Legal and professional fees		(12,369)	(15,673)
Share based employee compensation		(3,849)	-
Audit fees		(376)	(220)
Other operating and administrative expenses		(8,791)	(4,091)
Total operating expenses allocated from the Master Fund		(69,971)	(46,324)
Total operating expenses		(156,190)	(170,439)
Net investment income		122,883	61,720
Net increase in unrealized depreciation on:			
Share options		(5,022)	(120)
Net increase in unrealized depreciation arising from direct operations		(5,022)	(120)
Net realized and unrealized gain / (loss) from investments and foreign currency allocated from the Master Fund			
Net realized gain / (loss) from:			
Investments		5,334	949
Interest rate swaptions		(15,820)	-
Foreign currency transactions		5,561	5,174
		(4,925)	6,123

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2012

	Note	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		191,275	358,754
Forward foreign exchange contracts		(8,873)	3,810
Interest rate swaptions		9,952	(10,612)
Translation of assets and liabilities in foreign currencies		2,359	(3,511)
		194,713	348,441
Net realized and unrealized gain from investments and foreign currencies allocated from the Master Fund		189,788	354,564
Bargain purchase		54,774	-
Net increase from operations before tax		362,423	416,164
Income and deferred tax expense		(3,574)	(3,804)
Net income after tax		358,849	412,360
Attributed to noncontrolling interest		(1,691)	(1,980)
Net income		357,158	410,380
Earnings per Share			
Basic	11	US$ 3.15	US$ 3.46
Diluted	11	US$ 2.85	US$ 3.46
Weighted average Shares outstanding		**Number '000**	**Number '000**
Basic	11	113,347	118,445
Diluted	11	125,183	118,445

The accompanying notes are an integral part of the financial statements.

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2012

	Note	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
Total investment income		279,073	232,159
Total operating expenses		(156,190)	(170,439)
Net unrealized depreciation on share options		(5,022)	(120)
Net realized (loss) / gain from investments and foreign currency allocated from the Master Fund		(4,925)	6,123
Net unrealized gain from investments and foreign currency allocated from the Master Fund		194,713	348,441
Bargain purchase		54,774	-
Income and deferred tax expense		(3,574)	(3,804)
Attributed to noncontrolling interest		(1,691)	(1,980)
Net income		357,158	410,380
Share based employee compensation		3,849	-
Net increase in net assets resulting from operations		361,007	410,380
Dividends paid to shareholders	10	(50,296)	(45,083)
Issue of Shares	7	11,994	6,729
Purchase of Treasury Shares	7	(175,612)	(35,217)
Decrease in net assets resulting from net Share transactions		(163,618)	(28,488)
Total increase in net assets		147,093	336,809
Net assets at start of year		1,474,355	1,137,546
Net assets at end of year		1,621,448	1,474,355

The accompanying notes are an integral part of the financial statements.

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2012

	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
Operating activities		
Net increase in net assets resulting from operations	357,158	410,380
Adjustments for:		
Net unrealized depreciation on share options	5,022	120
Share based employee compensation reserve	3,849	-
Net unrealized appreciation on investments in Master Fund	(159,117)	(318,621)
Operating cash flows before movements in working capital	206,912	91,879
Decrease in receivables	460	-
Increase / (decrease) in payables	7,002	(18,308)
Net cash provided by operating activities	214,374	73,571
Financing activities		
Issue of Shares	11,994	6,729
Purchase of Treasury Shares	(176,072)	(35,217)
Dividends paid to shareholders	(50,296)	(45,083)
Net cash used in financing activities	(214,374)	(73,571)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

The accompanying notes are an integral part of the financial statements.

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2012 and the year ended 31 December 2011

The following represents selected per Share operating performance of the Company, ratios to average net assets and total return information for the year ended 31 December 2012 and the year ended 31 December 2011.

	31 Dec 2012	31 Dec 2011
	US$	US$
Per Share operating performance		
Net Asset Value at the start of the year	12.71	9.47
Net investment income (excluding incentive fee)	1.88	1.79
Incentive fee	(0.76)	(1.19)
Net realized and unrealized gain from investments and foreign currencies	1.63	3.41
Bargain purchase	0.48	-
Share based employee compensation reserve	0.03	-
Dividends paid to shareholders	(0.44)	(0.43)
Income and deferred tax expense and noncontrolling interest	(0.04)	(0.06)
Other capital transactions	0.92	(0.28)
Net Asset Value at the end of the year*	16.41	12.71
Pro Forma Fully Diluted NAV per Share	**Shares '000**	**Shares '000**
Shares outstanding	98,805	115,968
Shares held in escrow	11,836	-
Pro Forma Fully Diluted Shares	110,641	115,968
Pro Forma Fully Diluted Net Asset Value per Share	US$ 14.65	US$ 12.71
Total return (NAV* change excluding dividends and other capital transactions) before incentive fee	38.61%	54.28%
Incentive fee	(6.00%)	(12.57)%
Total return (NAV* change excluding dividends and other capital transactions) after incentive fee	32.61%	41.71%
Ratios and supplemental data		
Ratio to average net assets:		
Operating expenses allocated from the Master Fund	3.95%	3.43%
Total operating expenses	3.95%	3.43%
Incentive fee	5.46%	9.19%
Net investment income	8.03%	4.57%

* Net of Treasury Shares

An individual shareholder's per Share operating performance and ratios may vary from the above based on the timing of capital transactions.

Note 1 General Information

The Company was registered in Guernsey on 23 June 2005 as a company limited by shares with registered number 43321. All voting shares of the Company are held by Polygon Credit Holdings II Limited (the "Voting Shareholder").

The registered office of the Company is 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands, GY1 6HJ.

The Company's non-voting shares (referred to herein as the "Shares") are listed on the NYSE Euronext in Amsterdam Exchange.

Note 2 Significant Accounting Policies

Basis of Presentation

The financial statements give a true and fair view, are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and comply with The Companies (Guernsey) Law, 2008.

The Company's investment in the Master Fund is valued based on the Net Asset Value per share obtained from the Master Fund's Administrator, which is the Company's interest in the Net Assets of the Master Fund. The performance of the Company is directly affected by the performance of the Master Fund. The Company's Statements of Operations includes its allocated share of each type of gain, loss, income and expense of the Master Fund's Statements of Operations. Attached are the audited consolidated financial statements of the Master Fund, which are an integral part of these financial statements. As at 31 December 2012, the Company had 100% (31 December 2011: 100%) ownership interest in the Master Fund. As the Company owns 100% of the Master Fund and the audited consolidated financial statements of the Master Fund are attached, a separate Schedule of Investments for the Company has not been included.

For financial statement reporting purposes, the Company is an investment company and follows the measurement guidance set out in ASC 946, Financial Services – Investment Companies.

Except for new standards adopted, the accounting policies have been consistently applied by the Company during the year ended 31 December 2012 and are consistent with those used in the previous year.

The financial statements are presented in United States Dollars and rounded to the nearest thousand.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Company's management believes that the estimates utilized in preparing the financial statements are reasonable and prudent. Actual results could differ materially from these estimates.

Note 2 Significant Accounting Policies (continued)

Valuation of Investments

The value of the investment in the Master Fund is based on the Net Asset Value per share obtained from the Master Fund's administrator.

Expenses

Expenses are recognized in the Statements of Operations on an accrual basis.

Taxation

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 600 per annum.

In accordance with ASC Subtopic 740-10 – Income Taxes – Overall, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There are no uncertain tax positions recognized at 31 December 2012.

Share Options

The fair value of options granted to the Investment Manager was recognized as a charge to the share premium account, with a corresponding increase in equity, over the period in which the Investment Manager became unconditionally entitled to the options. The options were fully vested and immediately exercisable from the date of the grant, on 26 April 2007 and remain exercisable for ten years.

The fair value of options issued to GreenOak were recognized as a liability in the Statements of Assets and Liabilities, as the options contain certain other performance conditions. Any subsequent change in the fair value is recognized through the Statements of Operations.

Dividend expense

Dividend expense from shares are recognized in the Statements of Changes in Net Assets.

Note 2 Significant Accounting Policies (continued)

Share Based Payments

Share-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. The Company recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to meet the service and performance vesting conditions, on a straightline basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance conditions.

Treasury Shares

When share capital recognized as equity is repurchased the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares may be classified as treasury shares from an accounting perspective and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings. Shares may also be transferred out of the Treasury Account and into a wholly owned subsidiary. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

Note 3 Investment in Master Fund

At the year end, the Master Fund held investments at fair value, cash and cash equivalents, derivatives and other receivables and payables.

As at 31 December 2012, the Company had an investment of US$ 1,658.3 million in the Master Fund (31 December 2011: US$ 1,499.2 million).

Note 4 Share based payments

Polygon Management L.P. and certain of its affiliates (collectively, "Polygon"), including Polygon's asset management businesses and infrastructure platform, along with Polygon's interests in LCM and GreenOak, were acquired on 28 October 2012 (the "Acquisition"), in exchange for consideration of approximately 11.7 million non-voting Shares to the sellers subject to certain vesting and forfeiture conditions (the "Aggregate Consideration"). The Aggregate Consideration shall be held in escrow (along with accrued stock dividends) until it is released over the period 2013 to 2017.

Under ASC 805 these shares are treated as payment for post combination services rather than upfront consideration, hence the initial consideration is determined to be nil, resulting in a bargain purchase. The expense is recognized in the Master Fund through the Statement of Operations, as well as reflecting the assets acquired and a reserve to reflect the capital contribution of the Shares from the Company. The Company has a share based compensation reserve and recognizes the expense indirectly as allocated from the Master Fund. The charge for the year ended 31 December 2012 amounted to US$ 3.8 million.

Note 5 Share options issued to GreenOak

On 16 September 2010, the Master Fund entered into a transaction with GreenOak whereby it received a 10% equity interest in GreenOak and agreed to provide, among other things, a working capital loan of up to US$ 10.0 million and a US$ 100.0 million co-investment commitment that is expected to fund up to a limited fixed percentage of any GreenOak sponsored investment program with the Master Fund retaining the option to invest further amounts.

Under the terms of the transaction, the Company granted to the GreenOak founders options to purchase 3.9 million Shares (exercisable after 5 years and subject to further conditions) at a strike price of US$ 5.50. The aggregate fair value of the options granted at the transaction date was US$ 0.5 million. In order to reflect some key vesting requirements of the options which are not captured by the Black-Scholes model a 50% haircut was applied to the initial calculated valuation. This was derived as follows: restriction on transferability – 25%; requirement to repay working capital loan – 10%; exclusivity of founders – 15%. These have been reviewed on a regular basis and as at 31 December 2012, the restriction on transferability is 15%, reflecting the fact that the options are closer to their exercise dates. After this adjustment the haircut stands at 40%.

The options are split approximately as follows: 50% exercisable 5 years after transaction date and expiring a year later; 25% exercisable 6 years after transaction date and expiring a year later; 25% exercisable 7 years after transaction date and expiring a year later.

At 31 December 2012, the fair value of the options was US$ 6.6 million (31 December 2011: US$ 1.6 million).

Note 6 Incentive Fee

The Company pays the Investment Manager an incentive fee for each Calculation Period (a period of three months ending on 31 March, 30 June, 30 September and 31 December in each year or as otherwise determined by the Directors) equal to 25% of the increase in the Net Asset Value of the Company during the Calculation Period (before deduction of any dividend paid or the amount of any redemptions or repurchases of the shares (or other relevant capital adjustments) during such Calculation Period) above the Reference Net Asset Value (as defined below) plus the Hurdle (as defined below) for the Calculation Period. If the Hurdle is not met in any Calculation Period (and no incentive fee is paid), the shortfall will not carry forward to any subsequent Calculation Period.

The "Hurdle" for any Calculation Period will equal the Reference NAV multiplied by the Hurdle Rate (as defined below). The Hurdle Rate for any Calculation Period equals 3-month USD LIBOR determined as of 11:00 a.m. London time on the first London business day of the then current Calculation Period, plus the Hurdle Spread of 2.647858% in each case multiplied by the actual number of days in the Calculation Period divided by 365.

The "Reference NAV" is the greater of (i) NAV at the end of the Calculation Period immediately preceding the current Calculation Period and (ii) the NAV as of the end of the Calculation Period immediately preceding the Calculation Period referred to in clause (i). For the purpose of determining the Reference NAV at the end of a Calculation Period, NAV shall be adjusted by the amount of accrued dividends and the amounts of any redemptions or repurchase of the shares (or other relevant capital adjustments) and incentive fees to be paid with respect to that Calculation Period.

Note 6 Incentive Fee (continued)

The incentive fee in respect of each Calculation Period is calculated by reference to the Net Asset Value before deduction of any accrued incentive fee. If the Investment Management Agreement is terminated other than at the end of a Calculation Period, the date of termination will be deemed to be the end of the Calculation Period. The incentive fee is normally payable in arrears within 14 calendar days of the end of the Calculation Period.

The incentive fee for the year ended 31 December 2012 was US$ 86.2 million (31 December 2011: US$ 124.1 million). As at 31 December 2012, US$ 30.2 million was outstanding (31 December 2011: US$ 23.2 million).

Note 7 Share Capital

Authorized

The Company has an authorized share capital of US$ 1.0 million divided into 10 voting shares, having a par value of US$ 0.001 each and 999,999,990 non-voting shares, having a par value of US$ 0.001 each. Shares are issuable either as certificated shares or uncertificated shares, and in both cases as registered shares in accordance with applicable law.

Voting Shares

The 10 voting shares in issue were issued at par and are owned by the Voting Shareholder, which is a non-U.S. affiliate of the Investment Manager.

The voting shares are the only shares of the Company entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the shares described below. The voting shares are not entitled to receive dividends.

Shares

The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their class rights. The Shares carry a right to any dividends or other distributions declared by the Company. The Shares are subject to certain transfer restrictions as set out in the Company's Memorandum and Articles of Incorporation.

The Directors, upon the recommendation of the Investment Manager and with prior approval of a resolution of voting shares, may allot, issue or otherwise dispose of Shares to such persons, at such times, for such consideration and on such terms and conditions as they deem necessary or desirable. There are no pre-emption rights attaching to any Shares.

The Directors, upon the recommendation of the Investment Manager, may grant options over the Shares. The Company may repurchase Shares and hold such repurchased Shares as Treasury Shares.

Note 7 Share Capital (continued)

Share Transactions

	Voting Shares No.	Shares No. '000	Shares US$ '000
Shares in issue at 31 December 2010	10	120,134	120
Issued	-	909	1
Treasury Shares	-	(5,075)	(5)
Shares in issue at 31 December 2011	10	115,968	116
Issued	-	1,530	2
Treasury Shares	-	(18,693)	(19)
Shares in issue at 31 December 2012	10	98,805	99

Optional Stock Dividend

The Company has an Optional Stock Dividend Plan which offers investors an opportunity to elect to receive any declared dividend in the form of dividend shares at a reference price determined by calculating the five-day weighted average price post ex-dividend date.

During the year a total dividend of US$ 50.3 million (31 December 2011: US$ 45.1 million) was declared, of which US$ 38.3 million was paid out as a cash dividend (31 December 2011: US$ 38.4 million), and the remaining US$ 12.0 million (31 December 2011: US$ 6.7 million) was reinvested under the Optional Stock Dividend Plan.

Treasury Shares

The Company owns a subsidiary, TFG Holdings I, to which it may transfer, and has transferred, Shares previously held in a Treasury Account. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

On 30 November 2007, the Company announced the implementation of a share repurchase program of their outstanding Shares. As at 31 December 2012, this program had expired, but it was subsequently updated on 11 January 2013 and will now continue from 14 January 2013 until 30 April 2013 or until 5 % of the Company's outstanding shares authorised under the most recent prior share repurchase program have been repurchased or until terminated by the Board. In conjunction with this, the Master Fund has undertaken to repurchase an identical number of its own Shares from the Company as and when it makes these repurchases in the open market.

The Master Fund will match the price per share paid by the Company. The Shares are held in a Treasury Account or in a subsidiary (as described below) allowing them to potentially be resold back to the Company if it resells its own shares back into the market at a later date. Whilst they are held by the Master Fund (whether directly or via a subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

Note 7 Share Capital (continued)

On 28 October 2012, Polygon was acquired (as described in Note 4) for approximately 11.7 million Shares. These Shares were transferred from existing Treasury Shares and Shares held in the subsidiary, TFG Holdings I, to be held in escrow, and will be reflected in the Share outstanding as and when they are released to the Polygon sellers. Concurrently with the delivery of these shares to the escrow account, the Master Fund delivered an equivalent number of its shares to the Company which will vest on the same basis.

On 7 December 2012, the Company and the Master Fund announced that under the terms of a "modified Dutch auction" tender offer (the "Tender Offer") it had accepted for purchase approximately 15.4 million non-voting shares of the Company at a purchase price of US$ 9.75 per share and an aggregate cost of US$ 150.0 million. The repurchased Shares were exchanged with the Company for the identical amount of Master Fund Shares and both sets of shares were transferred to the subsidiary, TFG Holdings I.

After giving effect to the transfer of Shares in connection with the Acquisition and the Tender Offer, 16.6 million Shares are held in TFG Holdings I (31 December 2011: 8.5 million) and 6.5 million Shares in the Treasury Account (31 December 2011: 7.6 million).

	Treasury Shares Shares No. '000	Shares held in subsidiary Shares No. '000
Shares brought forward at 31 December 2010	7,117	3,908
Treasury shares purchased during the year	5,075	-
Shares transferred to subsidiary	(4,615)	4,615
Treasury shares at 31 December 2011	7,577	8,523
Treasury shares purchased during the year	18,693	-
Shares transferred to subsidiary	(15,385)	15,385
Shares contributed in connection with the Acquisition	(4,382)	(7,304)
Treasury shares at 31 December 2012	6,503	16,604

Note 8 Share Premium

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Balance at start of year	1,128,567	1,157,051
Premium arising on issuance of shares	11,992	6,728
Discount arising from purchase of shares	(175,593)	(35,212)
Balance at end of year	964,966	1,128,567

Note 9 Related Party Transactions

The Investment Manager is entitled to receive management fees equal to 1.5% per annum of the Net Asset Value of the Company payable monthly in advance prior to the deduction of any accrued incentive fee. All fees and expenses of the Company including the Management and Administration fees, but excluding incentive fees from the Investment Manager, are paid by the Master Fund and allocated fully to the Company. An incentive fee may be paid to the Investment Manager as disclosed in Note 6.

In recognition of the work performed by the Investment Manager in successfully arranging the global offering and the associated raising of new capital for the Company, in 2007 the Company granted to the Investment Manager options (the "Investment Management Options") to purchase approximately 12.5 million of the Company's non-voting shares (before any application of potential anti-dilution) at an exercise price per share equal to the Offer Price (US$ 10). The Investment Management Options are fully vested and immediately exercisable on the date of admission to the NYSE Euronext in Amsterdam exchange and will remain exercisable until the 10th anniversary of that date. The aggregate fair value of the options granted at the time of the global offering was US$ 11.8 million. The fair value of each option granted during 2007 was US$ 0.94 on the date of grant using the Binomial-pricing model with the following average assumptions: expected dividend yield 8%, risk-free interest rate of 5.306%, an expected life of 5 years and a volatility of 17.5%.

The Company invests substantially all of its assets in the Master Fund, a Guernsey based closed-ended investment company which has the same Investment Manager as the Company.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Each of the Directors' annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund. The Master Fund will pay the Directors' fees. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors. The Directors are entitled to be repaid by the Company all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

The Voting Shareholder is an affiliate of the Investment Manager and holds all of the voting shares. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Company's Directors (subject to applicable law). Affiliates of the Voting Shareholder also control the Investment Manager and, accordingly, control the Company's business and affairs.

Paddy Dear, Reade Griffith, and Rupert Dorey all Directors of the Company and the Master Fund, were shareholders in the Company as at 31 December 2012, with holdings of 310,218, 1,036,209 and 88,940 Shares respectively (31 December 2011: 285,195, 1,036,209, and 79,778 Shares, respectively). Messrs. Griffith and Dear also have an interest in the Escrow Shares (as defined below). Mr. Byron Knief held no Shares as of 2012 year-end compared to 110,000 at 2011 year-end

As described in Note 4, Polygon including Polygon's asset management businesses and infrastructure platform, and a interests in LCM and GreenOak, were acquired on 28 October, 2012 (the "Acquisition"). The Shares issued in consideration are subject to vesting and forfeiture conditions and will be held in escrow until they vest over the period 2013 to 2017.

Note 9 Related Party Transactions (continued)

These escrow shares are eligible to participate in the optional stock dividend program, and as part of the Q3 2012 dividend further Shares were added to the relevant escrow accounts. As part of the Acquisition, Reade Griffith and Paddy Dear, as founders of Polygon, were awarded consideration in Shares which would vest between 2015 and 2017. In particular, Messrs. Griffith and Dear, as founders of Polygon were allocated 5,539,954 and 1,955,291 Shares, respectively, and these are currently held in escrow pending release between 2015 and 2017. As at 31 December 2012, 5,611,297 Shares were held in escrow on behalf of Mr. Griffith and 1,980,470 on behalf of Mr. Dear. It was also contractually agreed at the time that they would be entitled to total annual compensation in respect of their employment with the Company and its subsidiaries totaling not more than US$ 100,000 each. During 2012 total compensation paid to them in this capacity by the Master Fund was in aggregate US$ 33,333.

The Acquisition was approved and authorised by the Boards of Directors of the Company and the Master Fund following consideration by parallel committees of independent directors of the Company and the Master Fund (the "Independent Committees"), which received independent financial, legal, tax and accounting advice from various external professional firms. The Independent Committees were composed of the four independent directors with no financial or beneficial interest in Polygon or the transaction (Rupert Dorey, David Jeffreys, Byron Knief and Greville Ward). The Independent Committee unanimously approved the Acquisition, and the full Boards of Directors of the Company and the Master Fund unanimously endorsed such approval and authorized the transaction.

Perella Weinberg Partners, which was engaged by the Independent Committees as independent financial advisor to the Company and the Master Fund and compensated on a fixed-fee basis without any success fees, delivered an opinion that, subject to the limitations, assumptions and qualifications set forth in their opinion, as of the date of the opinion (i) the consideration paid in the transaction was fair from a financial point of view and (ii) for purposes of Guernsey law, such consideration was within a reasonable range of possible aggregate values for the acquired property. This satisfied the Guernsey law requirement that the terms of the transaction were at least as favourable to the Company and the Master Fund as would be any comparable arrangement effected on normal commercial terms negotiated at arm's length between the relevant persons and an independent party.

The Master Fund owns a 23% equity interest in GreenOak, a multi-jurisdictional real estate venture, in which it also provides a US$ 10.0 million working capital loan and a US$ 100.0 million co-investment commitment. As part of the original transaction to acquire a share in GreenOak, the Company has issued 3.9 million Share options to the GreenOak founders.

As described in Note 7, in December 2012, the Master Fund repurchased 15.4 million Shares of the Company in the Tender Offer at a purchase price of US$ 9.75 per Share and aggregate cost of US$ 150.0 million. Polygon Recovery Fund L.P. (the "Polygon Recovery Fund") is an affiliate of the Company and a holder of its Shares. Its manager and investment managers are also subsidiaries of the Company. With authorization from its advisory board, the Polygon Recovery Fund participated in the Tender Offer, through which it tendered and sold approximately 7.6 million Shares at a price of US$ 9.75 per share. As stated in the Tender Offer offering circular, certain steps were taken in order to address potential conflict of interests arising from the Polygon Recovery Fund's participation. After reflecting the sale of these Shares the Polygon Recovery Fund held approximately 13.7 million Shares.

Note 10 Dividends

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Quarter ended 31 December 2010 of US$ 0.09 per share	-	10,792
Quarter ended 31 March 2011 of US$ 0.09 per share	-	10,753
Quarter ended 30 June 2011 of US$ 0.10 per share	-	11,847
Quarter ended 30 September 2011 of US$ 0.10 per share	-	11,691
Quarter ended 31 December 2011 of US$ 0.105 per share	12,080	-
Quarter ended 31 March 2012 of US$ 0.105 per share	12,073	-
Quarter ended 30 June 2012 of US$ 0.115 per share	13,079	-
Quarter ended 30 September 2012 of US$ 0.115 per share	13,064	-
	50,296	45,083

The fourth quarter dividend of US$ 0.135 per share was approved by the Directors on 27 February 2013 and has not been included as a liability in these financial statements.

Note 11 Earnings per Share

	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings for the purposes of basic earnings per share being net profit attributable to shareholders for the year	357,158	410,380
Weighted average number of Shares for the purposes of basic earnings per share	113,347	118,445
Effect of dilutive potential Shares:		
Share based employee compensation	11,836	-
Share options	-	-
Weighted average number of Shares for the purposes of diluted earnings per share	125,183	118,445

Diluted earnings per share is calculated by adjusting the weighted average number of Shares outstanding assuming conversion of all potential dilutive Shares. Share options and share based employee compensation are potential dilutive Shares.

In respect of share based employee compensation, it is assumed that all of the shares currently held in escrow will be released, thereby increasing the weighted average number of Shares. This includes Shares which are schedule to vest and be released between 2013 and 2017.

In respect of share options, there was no dilution as the conditions on the options at the date of these financial statements have not been met.

Note 12 Earnings

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Balance at start of year	333,883	(31,414)
Net increase in net assets resulting from operations for the year	357,158	410,380
Dividends paid	(50,296)	(45,083)
Balance at end of year	640,745	333,883

Note 13 Other Matters

On 22 February 2011, the Company and the Master Fund and their six Directors were served with proceedings in the Royal Court of Guernsey (the "Guernsey Proceedings") instigated by one of the Company's former Directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a Director on 24 January 2011. By the Guernsey Proceedings, Mr. Jackson seeks to impugn the Company's decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak (the "GreenOak Transaction"). The Guernsey Proceedings are confined to claims for damages and other relief against the Company and the Master Fund's Directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010.

The Company and the Master Fund have issued a public statement stating that they and their Directors believe that there is no merit whatsoever in the Guernsey Proceedings and will take all necessary steps to ensure the Guernsey Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Company and the Master Fund and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.

On 12 July 2011, a shareholder derivative action was filed in United States District Court – Southern District of New York – against the current and former Directors of the Company and the Master Fund, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the "Action"). The Action made a series of allegations specifically with respect to incentive fees charged by the Investment Manager.

The Company and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit. Accordingly, the defendants sought dismissal of the Action. On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice. There has been no appeal of that ruling and the time for appeal has expired.

Note 13 Other Matters (continued)

On 19 December 2011, Mr. Jackson filed a claim against Patrick Dear and Reade Griffith in the High Court in London regarding Mr. Jackson's removal in January 2011 from the Board of Directors of the Company and the Master Fund (the "English Proceedings"). Each of the Company and the Master Fund took an interest in the English Proceedings given that they purported to impact their constitution and matters that were already the subject of the Guernsey Proceedings. The defendants contended that Mr. Jackson's claim was without merit and following contested hearings the English Court of Appeal determined specific matters in Mr. Dear and Mr. Griffith's favour by a judgment dated 22 February 2013 and is currently considering whether or not, based on the determination of those matters, Mr. Jackson's claim should be dismissed or continue.

Note 14 Subsequent Events

The Directors have evaluated subsequent events up to 27 February 2013, which is the date that the financial statements were approved, and have concluded that there are not any material events, other than described above under Note 13, that require disclosure or adjustment to the financial statements.

Note 15 Recent Changes to US GAAP

In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities". ASU 2011-11 requires entities to disclose both gross and net information about financial instruments and derivative instruments that are either (i) offset in the statement of assets and liabilities, or (ii) subject to an enforceable master netting arrangement or similar arrangement, irrespective of whether they are offset in the statement of assets and liabilities. In addition, ASU 2011-11 requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements.

The requirements of ASU 2011-11 are effective for interim and annual reporting periods beginning on or after 1 January 2013. The guidance requires retrospective application for all comparative periods presented.

The adoption of ASU 2011-11 will not have any impact on the Company's financial net position or results of operations, as ASU 2011-11 only affects disclosures about offsetting. Management is currently evaluating the implications of ASU 2011-11 and its impact on the financial statements and disclosures.

Note 16 Approval of Financial Statements

The Directors approved the financial statements on 27 February 2013.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2012

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

CONTENTS

DIRECTORS' REPORT
For the year ended 31 December 2012

The Directors present to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2012.

THE FUND

Tetragon Financial Group Master Fund Limited (the "Fund") was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43322. All voting shares of the Fund are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Fund continues to be registered and domiciled in Guernsey.

INVESTMENT OBJECTIVE

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this objective, Tetragon Financial 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 favourable transactions and terms for its investments in asset classes and in asset managers. 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.

The Fund maintains two key business segments: an investment portfolio and an asset-management platform. Both segments cover a broad range of assets including bank loans, real estate, equities, credit and convertible bonds. The Fund currently invests primarily through long-term funding vehicles such as collateralized loan obligations.

TFG's asset-management platform ("TFG Asset Management") currently consists of Polygon Global Partners, LCM Asset Management LLC ("LCM") and GreenOak Real Estate LP ("GreenOak"). TFG Asset Management L.P. is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 and one of its investment management entities, Polygon Global Partners LLP, is authorised and regulated by the United Kingdom Financial Services Authority.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on page 8. A detailed review of activities and future developments is contained in the Investment Manager's Report in the Annual Report to the Shareholders of Tetragon Financial Group Limited (the "Feeder").

DIRECTORS

The Directors who held office during the year were:

Paddy Dear
Rupert Dorey*
Reade Griffith
David Jeffreys*
Byron Knief*
Greville Ward*

* Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. Each of the Directors' annual fee is US$ 75,000 in compensation for service on the Board of Directors of both the Fund and the Feeder and is paid by the Fund. Paddy Dear and Reade Griffith have waived their entitlement to a fee.

The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Fund or the Feeder providing for benefits upon termination of employment.

DIVIDENDS

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 the Fund and adherence to applicable law including the satisfaction of a solvency test as stated under 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 Fund's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Fund, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Fund's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.105 per share for the Quarter Ended 31 December 2011, US$ 0.105 per share for the Quarter Ended 31 March 2012, US$ 0.115 for the Quarter Ended 30 June 2012 and US$ 0.115 for the Quarter Ended 30 September 2012. The total dividend declared during the year ended 31 December 2012 amounted to US$ 50.3 million (31 December 2011: US$ 45.1 million). The Directors have declared a dividend US$ 0.135 for the Quarter Ended 31 December 2012. Total dividends paid during the year ended 31 December 2011 amounted to US$ 0.38 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Guernsey Companies law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund for that period.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that to the best of our knowledge and belief:

- This annual report includes a fair review of the development and performance of the businesses and the position of the Fund together with a description of the principal risks and uncertainties that the Fund faces; and

- The financial statements, prepared in conformity with accounting principles generally accepted in the United States of America give a true and fair view of the assets, liabilities, financial position and results of the Fund.

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITORS

KPMG Channel Islands Limited has been appointed as the independent auditors of the Fund and they have expressed their willingness to continue in office. A resolution for the re-appointment of KPMG Channel Islands Limited as auditors of the Fund is to be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 27 February 2013

Independent auditor's report to the members of Tetragon Financial Group Master Fund Limited

We have audited the consolidated financial statements of Tetragon Financial Group Master Fund Limited (the "Fund" or "Group") for the year ended 31 December 2012 which comprise the Consolidated Statements of Assets and Liabilities, the Consolidated Statements of Operations, the Consolidated Statements of Changes in Net Assets, the Consolidated Statements of Cash Flows, the Consolidated Schedule of Investments, the Financial Highlights and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America.

This report is made solely to the Fund's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its net increase in net assets resulting from operations for the year then ended;
- are in conformity with accounting principles generally accepted in the United States of America; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

- the Fund has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Chartered Accountants
Guernsey

Date: 27 February 2013

The maintenance and integrity of the Tetragon Financial Group Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2012

	Note	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Assets			
Property, Plant and Equipment	2	30	-
Investments, at fair value	2, 3	1,440,437	1,264,445
Management contracts	2, 4, 5	43,395	109
Cash and cash equivalents	7	175,941	211,513
Amounts due from brokers	9	13,112	15,848
Derivative financial assets – forward contracts	8	-	6,693
Derivative financial assets – interest rate swaptions	8	7,620	7,208
Other receivables	10	15,620	2,754
Total assets		1,696,155	1,508,570
Liabilities			
Derivative financial liabilities – forward contracts	8	2,180	-
Amounts payable to Feeder for shares		-	460
Other payables and accrued expenses	11	31,361	6,999
Income tax payable	16	2,094	1,112
Deferred tax liability	16	2,244	686
Total liabilities		37,879	9,257
Net assets		1,658,276	1,499,313
Equity			
Share capital	12	99	116
Share premium	13	924,189	1,087,790
Earnings	15	730,139	411,253
Capital contribution	4	3,849	-
Total equity attributable to Master Fund		1,658,276	1,499,159
Noncontrolling interest	12	-	154
Total shareholders equity		1,658,276	1,499,313
Shares outstanding		**Number '000**	**Number '000**
Shares	12	98,805	115,968
Net Asset Value per Share*		US$ 16.78	US$ 12.93

*calculated by dividing Total equity attributable to Master Fund by Shares outstanding at the year-end date.

The accompanying notes are an integral part of the consolidated financial statements.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys. Director

27 February 2013

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended 31 December 2012

	Note	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
Interest income	17	235,596	209,054
Fee income	18	36,704	23,105
Other income	2, 21	6,773	-
Investment income		279,073	232,159
Management fees	21	(23,564)	(19,959)
Employee costs	21	(21,022)	(6,381)
Legal and professional fees	4, 22	(12,369)	(15,673)
Share based employee compensation	4	(3,849)	-
Audit fees		(376)	(220)
Other operating and administrative expenses	21	(8,791)	(4,091)
Operating expenses		(69,971)	(46,324)
Net investment income		209,102	185,835
Net realized and unrealized gain / (loss) from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		5,334	949
Interest rate swaptions		(15,820)	-
Foreign currency transactions		5,561	5,174
		(4,925)	6,123
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		191,275	358,754
Forward foreign exchange contracts		(8,873)	3,810
Interest rate swaptions		9,952	(10,612)
Translation of assets and liabilities in foreign currencies		2,359	(3,511)
		194,713	348,441
Net realized and unrealized gain from investments and foreign currency		189,788	354,564
Bargain purchase	4	54,774	-
Net increase from operations before tax		453,664	540,399
Income and deferred tax expense	16	(3,574)	(3,804)
Net income after tax		450,090	536,595
Attributed to noncontrolling interest	12	(1,691)	(1,980)
Net income		448,399	534,615

The accompanying notes are an integral part of the consolidated financial statements.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2012

	Note	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
Net investment income		209,102	185,835
Net realized (loss) / gain from investments and foreign currency		(4,925)	6,123
Net increase / (decrease) in unrealized appreciation / (depreciation) on investments and translation of assets and liabilities in foreign currencies		194,713	348,441
Bargain Purchase		54,774	-
Income and deferred tax expense	16	(3,574)	(3,804)
Net income after tax		450,090	536,595
Share based employee compensation		3,849	-
Net increase in net assets resulting from operations		453,939	536,595
Dividends paid to Feeder	14	(79,217)	(142,422)
Dividends paid to other shareholders	14	(50,296)	(45,083)
Distributions paid to noncontrolling interest	12	(1,845)	(3,195)
Total distributions		(131,358)	(190,700)
Issue of Shares	12	11,994	6,729
Purchase of Treasury Shares	12	(175,612)	(35,217)
Decrease in net assets resulting from Capital transactions		(163,618)	(28,488)
Total increase in net assets		158,963	317,407
Net assets at start of year		1,499,313	1,181,906
Net assets at end of year		1,658,276	1,499,313

The accompanying notes are an integral part of the consolidated financial statements.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2012

	Year ended 31 Dec 2012 US$ '000	Year ended 31 Dec 2011 US$ '000
Operating activities		
Net income after tax	450,090	536,595
Adjustments for:		
Realized loss / (gain) on investments and interest rate swaptions	10,486	(949)
Cash received on investments in excess of interest income	229,619	205,785
Amortization on intangible assets	1,242	101
Bargain purchase	(54,774)	-
Share based employee compensation	3,849	-
Unrealized gains	(194,713)	(348,441)
Deferred tax	1,558	593
Operating cash flows before movements in working capital	447,357	393,684
Increase in receivables	(12,866)	(1,016)
Increase in payables	25,344	3,664
Cash flows from operations	459,835	396,332
Proceeds from sale / prepayment / maturity of investments	89,626	122,311
Purchase of investments	(292,782)	(217,365)
Net cash provided by operating activities	256,679	301,278
Financing activities		
Amounts due from / (to) brokers	2,736	(11,562)
Proceeds from issue of Shares	11,994	6,729
Treasury Shares	(176,072)	(34,757)
Dividends paid to shareholders	(50,296)	(45,083)
Dividends paid to Feeder	(79,217)	(142,422)
Distributions to noncontrolling interest	(1,845)	(3,195)
Net cash used in financing activities	(292,700)	(230,290)
Net (decrease) / increase in cash and cash equivalents	(36,021)	70,988
Cash and cash equivalents at beginning of year	211,513	140,625
Effect of exchange rate fluctuations on cash and cash equivalents	449	(100)
Cash and cash equivalents at end of year	175,941	211,513

The accompanying notes are an integral part of the consolidated financial statements.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS
As at 31 December 2012

Security Description	Nominal '000	Cost US$ '000	Fair Value US$ '000	% of Net Assets
US Dollar				
Cayman Islands – CLO equity				
ABS and Structured Finance	18,400	17,572	-	-
Broadly Syndicated Senior Secured Loans	1,172,872	1,057,015	908,707	54.80%
CDOs Squared	17,250	16,640	-	-
Middle Market Senior Secured Loans	245,249	227,357	180,079	10.86%
	1,453,771	1,318,584	1,088,786	65.66%
Euro				
Ireland – CLO equity				
Broadly Syndicated Senior Secured Loans	127,400	155,917	75,069	4.53%
	127,400	155,917	75,069	4.53%
Luxembourg – CLO equity				
Broadly Syndicated Senior Secured Loans	65,100	80,652	32,233	1.94%
	65,100	80,652	32,233	1.94%
Netherlands – CLO equity				
Broadly Syndicated Senior Secured Loans	24,000	31,759	18,323	1.10%
	24,000	31,759	18,323	1.10%
US Dollar				
Cayman Islands – CLO Mezzanine	1,750	1,103	1,569	0.09%
	1,750	1,103	1,569	0.09%
US Dollar – Loans				
Broadly Syndicated Senior Secured Loans	114,253	112,231	114,057	6.88%
Unsecured Loan	9,500	9,500	10,091	0.61%
	123,753	121,731	124,148	7.49%
US Dollar – Unlisted Stock				
Financial Real Estate Manager		10,728	18,126	1.09%
		10,728	18,126	1.09%
US Dollar – Investment Funds				
Real Estate – United States		14,863	14,789	0.89%
Real Estate – Japan		3,847	3,821	0.23%
Real Estate – United Kingdom		7,036	7,074	0.43%
Hedge Funds – Global		55,000	56,499	3.41%
		80,746	82,183	4.96%
Total Investments		**1,801,220**	**1,440,437**	**86.86%**

Financial Derivative Instruments

	Fair Value US$ '000	% of Net Assets
Interest rate swaptions	7,620	0.46%
Forward foreign currency exchange contracts	(2,180)	(0.13)%
Total Financial Derivative Instruments	5,440	0.33%
Cash and Cash Equivalents	175,941	10.61%
Other Assets and Liabilities	36,458	2.20%
Net Assets	1,658,276	100.00%

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2011

Security Description	**Nominal '000**	**Cost US$ '000**	**Fair Value US$ '000**	**% of Net Assets**
US Dollar				
Cayman Islands – CLO equity				
ABS and Structured Finance	18,400	17,572	-	-
Broadly Syndicated Senior Secured Loans	1,069,821	943,269	832,599	55.52%
CDOs Squared	17,250	16,640	-	-
Middle Market Senior Secured Loans	245,249	227,357	191,418	12.77%
	1,350,720	1,204,838	1,024,017	68.29%
Euro				
Ireland – CLO equity				
Broadly Syndicated Senior Secured Loans	127,400	155,917	78,118	5.21%
	127,400	155,917	78,118	5.21%
Luxembourg – CLO equity				
Broadly Syndicated Senior Secured Loans	65,100	80,652	28,195	1.88%
	65,100	80,652	28,195	1.88%
Netherlands – CLO equity				
Broadly Syndicated Senior Secured Loans	24,000	31,759	17,050	1.14%
	24,000	31,759	17,050	1.14%
US Dollar – Loans				
Broadly Syndicated Senior Secured Loans	111,089	107,744	107,123	7.15%
Unsecured Loan	6,875	6,875	7,051	0.47%
	117,964	114,619	114,174	7.62%
US Dollar – Unlisted Stock				
Financial Real Estate Manager		482	482	0.03%
		482	482	0.03%
US Dollar – Investment Funds				
Real Estate – United States		1,941	1,921	0.13%
Real Estate – Japan		478	488	0.03%
		2,419	2,409	0.16%
Total Investments		**1,590,686**	**1,264,445**	**84.33%**

Financial Derivative Instruments

	Fair Value US$ '000	**% of Net Assets**
Interest rate swaptions	7,208	0.48%
Forward foreign currency exchange contracts	6,693	0.45%
Total Financial Derivative Instruments	13,901	0.93%
Cash and Cash Equivalents	211,513	14.11%
Other Assets and Liabilities	9,454	0.63%
Net Assets	1,499,313	100.00%

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS
For the years ended 31 December 2012 and 31 December 2011

The following represents selected per Share operating performance of the Fund, ratios to average net assets and total return information for the year ended 31 December 2012 and the year ended 31 December 2011.

	31 Dec 2012	31 Dec 2011
	US$	US$
Per Share operating performance		
Net Asset Value at start of year	12.93	9.83
Net investment income	1.85	1.81
Net realized and unrealized gain from investments, derivatives and foreign currencies	1.68	3.45
Bargain purchase	0.48	-
Share based employee compensation	0.03	-
Dividends paid to shareholders	(1.15)	(1.82)
Income and deferred tax expense and noncontrolling interest	(0.04)	(0.06)
Other capital transactions	1.00	(0.28)
Net Asset Value at the end of the year*	16.78	12.93
Pro Forma Fully Diluted NAV per Share		
	Shares '000	**Shares '000**
Shares outstanding	98,805	115,968
Shares held in escrow	11,836	-
Pro Forma Fully Diluted Shares	110,641	115,968
Pro Forma Fully Diluted Net Asset Value per Share	US$ 14.99	US$ 12.93
Return (NAV* change excluding dividends and other capital transactions)	38.66%	52.90%
Ratios and supplemental data		
Ratio to average net assets:		
Total operating expenses	(3.90%)	(3.37%)
Net investment income	13.34%	13.53%

* Net of Treasury Shares

An individual shareholder's per Share operating performance and ratios may vary from the above based on the timing of capital transactions.

Note 1 General Information

The Fund was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43322. All voting shares of the Fund are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Fund continues to be registered and domiciled in Guernsey.

The Fund owns a number of operating business subsidiaries, including those resulting from the acquisition of Polygon Management L.P. and certain of its affiliates (collectively, "Polygon") and its asset management businesses. The Fund consolidates in these financial statements, the income and expense and assets and liabilities of entities where appropriate, and in accordance with the accounting policy on consolidation detailed in Note 2.

The registered office of the Fund is 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands GY1 6HJ.

Note 2 Significant Accounting Policies

Basis of Presentation

The consolidated financial statements give a true and fair view, are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and comply with The Companies (Guernsey) Law, 2008.

For financial statement reporting purposes, the Fund is an investment company and follows Financial Services – Investment Companies (ASC 946).

Except for new standards adopted, the accounting policies have been consistently applied by the Fund during the year ended 31 December 2012 and are consistent with those used in the previous year.

The financial statements are presented in United States Dollars rounded to the nearest thousand.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Fund's management believes that the estimates utilized in preparing the financial statements are reasonable and prudent, however actual results could differ materially from these estimates.

Foreign Currency Translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. All assets and liabilities denominated in foreign currencies are translated to US Dollars at the foreign currency closing exchange rate ruling at the reporting date. Foreign currency exchange differences arising on translation and realized gains and losses on disposals or settlements of monetary assets and liabilities are recognized in the Consolidated Statements of Operations.

Foreign currency exchange differences relating to derivative financial instruments are included in foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents and investments, are included in the foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations.

Note 2 Significant Accounting Policies (continued)

Investment Transactions and Investment Income

Investment transactions are recorded on a trade date basis (the trade date is the date that an entity commits to purchase or sell an asset). Realized gains and losses from CLO equity and mezzanine securities, leveraged loans, forwards, swaptions, investment funds and unlisted stock are calculated on the identified historical cost basis. Interest income is recognized on an effective interest rate basis.

Financial Instruments

Investments in CLO equity tranche investments ("CLO equity"), at fair value

In the absence of an active market for the equity tranche investments in securitization vehicles, a mark to model approach has been adopted to determine their valuation. A third party valuation model that is used by Tetragon Financial Management LP (the "Investment Manager") and the administrator has been selected for this purpose. The model contains characteristics of the securitization vehicle structure, including current assets and liabilities and inception to date performance, based upon information derived by a specialist firm, from data sources such as the trustee reports. Key model inputs include asset spreads, expected defaults and expected recovery rates for the relevant category of underlying collateral held in the securitization vehicle. These inputs are derived by reference to a variety of market sources, which are used by both the Investment Manager and the Administrator. The model is used to project performance ("Expected IRR") for each investment, based on performance to date and expected future cash flows as well as to calculate fair value. As cash is received from the securitization vehicle, only the Expected IRR is recognized as income and any difference is treated as an adjustment of principal.

The fair value calculations for the equity tranches are sensitive to the key model inputs, including amongst other things, defaults and recovery rates. The default rate, recovery rate and other assumptions are determined by reference to a variety of observable market sources and applied according to the quality and asset class mix of the underlying collateral.

The model assumptions are reviewed on a regular basis and adjusted as appropriate to factor in historic, current and potential market developments. A different set of forward looking assumptions is applied according to whether the security is characterized as being U.S. or European.

The Fund recognizes interest income and any impairment pursuant to "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" (ASC 325). ASC 325 sets forth rules for recognizing interest income and determining when an investment is impaired.

In accordance with ASC 325, the excess of the estimated future cash flows over the initial investment is the accretable yield which is recognized as interest income over the life of the investment using the effective yield method. Cash distributions received from investments under ASC 325 may not necessarily equal the income earned during any given year or period. The amortized cost of each investment is equal to the initial investment plus the yield accrued to date less all cash received to date less any write downs for impairment.

Investments are evaluated for impairment as of each month end or more frequently if the Fund becomes aware of any material information that would lead it to believe an investment may be impaired. Unrealized gains and losses occur when actual cash receipts differ from the amounts initially estimated, discount rates and / or assumptions included in the fair valuation models (such as estimated default rates, prepayment or recovery rates) have changed. Any unrealized loss is tested for permanent impairment as required by ASC 325.

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in leveraged loans, at fair value

To the extent that the Fund's leveraged loans are exchange traded and are priced or have sufficient bid price indications from normal course trading at or around the valuation date (financial reporting date), such bid pricing will determine fair value. Pricing service marks from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the marks, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity.

Investments in CLO mezzanine tranche investments, at fair value

Investments in CLO mezzanine tranches are carried at fair value using the latest broker indicative bid prices. As the mezzanine tranches are marked-to-market, changes in the fair value are recognized immediately in the Consolidated Statements of Operations.

Investments in securities, unlisted common stock and unsecured loans, at fair value

Investments in unlisted common stock and unsecured loans are carried at fair value. Where applicable their cost price, the price at which any recent transaction in the security may have been effected and any other relevant factors may be considered, as well as valuation techniques which may be used by market participants.

Investments in unlisted investment funds, at fair value

Investments in unlisted investment funds are valued utilizing the net asset valuations provided by the managers of the underlying funds and / or their administrators. This approach is known as the "practical expedient" and has been applied in accordance with the Accounting Standards Update No. 2009-12.

Forward currency contracts, at fair value

Forward currency contracts are recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a forward contract at initial recognition is the transaction price. Subsequent changes in the fair value of any forward contract are recognized immediately in the Consolidated Statements of Operations.

Interest rate swaptions, at fair value

This instrument combines the features of two other financial instruments, namely an option and an interest rate swap. A swaption involves writing / purchasing options to enter into a swap.

When the Fund purchases a swaption, a premium is paid by the Fund and the swaption is initially recognized at the amount of the premium. The swaption is subsequently marked-to-market to reflect the fair value of the swaption purchased, which is reported as an asset on the Consolidated Statements of Assets and Liabilities, and changes in the fair value are recognized immediately in the Consolidated Statements of Operations.

Note 2 Significant Accounting Policies (continued)

Fixed assets

Fixed assets (including property, plant and equipment) are stated at cost and depreciated on a straight-line basis over their estimated useful lives.

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents, short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Management contracts

Management contracts providing investment management services to investment funds, accounts and other vehicles are amortized over their useful lives. Management contracts are stated at cost less accumulated amortisation and impairment. The Fund reviews purchased intangible assets for impairment where there are events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

Amortisation is recognized in profit or loss on a straight-line basis over the useful life of the agreements. The estimated useful life for the purposes of amortizing management contracts ranges from three to ten years.

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund and their majority owned subsidiaries (collectively, the "Group"). All significant intercompany balances and transactions have been eliminated on consolidation.

The Fund consolidates all entities where it has an economic interest in excess of 50% and is deemed to have control over the significant operational and financial decisions. Where the Fund owns an interest which is less than 50% but more than 20% consideration is made as to the level of control exercised. The Fund owns 23% of GreenOak and certain of its affiliates, a real estate investment manager. It has determined that it does not exhibit significant control over GreenOak and is therefore carrying this investment at fair value.

The Fund is the primary beneficiary of some securities which are considered variable interest entities ("VIE"). As the Fund is accounting for its investments at fair value in accordance with the accounting guidance in the AICPA Audit and Accounting Guide: Investment Companies and has determined that it does not have control over the significant operational and financial decisions of these securities, consolidation of these entities is not required. At 31 December 2012 the Fair value of these VIEs is approximately US$ 1,296.6 million (31 December 2011: US$ 1,149.8 million). These are non-recourse securities with no contingent liabilities where the Fund's maximum loss exposure is capped at the current carrying value.

Acquisitions of non-controlling interest

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result.

Note 2 Significant Accounting Policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in the Statement of Operations.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Share based employee compensation

Share-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. The Fund recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to meet the service and performance vesting conditions, on a straightline basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance conditions.

The Feeder Fund issues the shares to Polygon's owners on behalf of the Fund and consequently the Share Based Payments expense is recognised as a Capital Contribution.

Fee income

Fee income from management contracts is usually derived from either a base management fee, which is typically based on assets under management, or an incentive or performance fee which is linked to the performance of the applicable investment fund, account or vehicle. Base management fees are recognized on an accruals basis. Incentive or performance fees are recognized only when they have crystalized, which is usually on an annual or otherwise defined basis.

Other income

Where investment management, operating, infrastructure and administrative services are contractually provided to external entities outside of the consolidated Group, these services, along with any associated direct costs are invoiced and recorded as other income. This income is recognized on an accruals basis.

Expenses

Expenses are recognized in the Consolidated Statements of Operations on an accrual basis.

Taxation

Income taxes, Fund

The Fund is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 600 per annum. The Fund has consolidated U.S. and UK operating business which are subject to federal and local taxes as applicable.

Note 2 Significant Accounting Policies (continued)

Income taxes, Corporate Entities

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In accordance with ASC Subtopic 740-10 – Income Taxes – Overall, the Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There are no uncertain tax positions recognized at 31 December 2012.

Dividend Expense

Dividend expense from shares are recognized in the Consolidated Statements of Changes in Net Assets.

Note 3 ASC 820, fair value measurements

The Fund adopted the provisions of "Fair Value Measurements" (ASC 820). ASC 820 defines fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 also establishes a framework for measuring fair value and a three level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability.

The three levels of the fair value hierarchy are described below:

Level 1 - Quoted in active markets for identical investments.
Level 2 - Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayments speeds, credit risk and others.
Level 3 - Unobservable inputs. Unobservable inputs reflect assumptions market participants would be expected to use in pricing the asset or liability.

The following is a summary of the inputs used as of 31 December 2012 in valuing the Fund's assets carried at fair value:

	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
CLO Equity Tranches	-	-	1,214,411	1,214,411
CLO Mezzanine	-	1,569	-	1,569
Broadly Syndicated Senior Secured Loans	-	114,057	-	114,057
Unsecured Loan	-	-	10,091	10,091
Interest rate swaptions	-	7,620	-	7,620
Forward foreign exchange contracts	-	(2,180)	-	(2,180)
Common Stock	-	-	18,126	18,126
Collective Investment Schemes	-	56,499	25,684	82,183
	-	177,565	1,268,312	1,445,877

Note 3 ASC 820, fair value measurements (continued)

There were no transfers of the Fund's assets between Level 1 and 2 during the year ended 31 December 2012 or during the year ended 31 December 2011.

The following is a summary of the inputs used as of 31 December 2011 in valuing the Fund's assets carried at fair value:

	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
CLO Equity Tranches	-	-	1,147,381	1,147,381
Broadly Syndicated Senior Secured Loans	-	107,123	-	107,123
Unsecured Loan	-	-	7,051	7,051
Interest rate swaptions	-	7,208	-	7,208
Forward foreign exchange contracts	-	6,693	-	6,693
Common Stock	-	-	482	482
Collective Investment Schemes	-	-	2,408	2,408
	-	121,024	1,157,322	1,278,346

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 31 December 2012.

	CLO Equity Tranches US$ '000	Unsecured Loan US$ '000	Common Stock US$ '000	Collective Investment Scheme US$ '000	Total US$ '000
Balance at start of year	1,147,381	7,051	482	2,408	1,157,322
Purchases of investments	112,082	2,625	10,246	25,045	149,998
Proceeds from sale of investments	(198)	-	-	(2,293)	(2,491)
Realised gain /change in unrealized appreciation / (depreciation)	184,765	415	7,398	524	193,102
Amortisation	(229,619)	-	-	-	(229,619)
Balance at end of year	1,214,411	10,091	18,126	25,684	1,268,312

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 31 December 2011.

	CLO Equity Tranches US$ '000	Unsecured Loan US$ '000	Common Stock US$ '000	Collective Investment Scheme US$ '000	Total US$ '000
Balance at start of year	932,677	4,521	482	-	937,680
Purchases of investments	62,913	2,375	-	2,418	67,706
Realised gain /change in unrealized appreciation / (depreciation)	357,976	155	-	(10)	358,121
Amortisation	(206,185)	-	-	-	(206,185)
Balance at end of year	1,147,381	7,051	482	2,408	1,157,322

Note 3 ASC 820, fair value measurements (continued)

Quantitative information about Level 3 Fair Value Measurements

Investments in securities	Balance at 31 December 2012 US$ '000	Valuation methodology	Unobservable inputs	Range
CLO Equity Tranches	1,214,411	Market standard model	See investments in CLO equity tranche investments	(1)
Unsecured Loan	10,091	Market standard model	Cost of financing for loan counterparty	3-6%
Common Stock	18,126	Market standard model	% of assets under management	2-5%
Collective Investment Scheme	25,684	Net asset value of underlying investment companies	Lock up period	N/A

The fair value of the level 3 investments are sensitive to the inputs used in the valuation process. The CLO equity valuations are sensitive to a number of different inputs to the third party model. For example, if the default rate assumption inputs were increased, assuming all other inputs were held constant, then the fair value would decrease. Equally, if the discount rates applied to projected cash flows were increased, and similarly all other inputs were held constant, then the fair value would also decrease.

The unsecured loan is valued with reference to an implied yield or cost of financing for the company. If the implied yield were increased then the fair value of the loan would be reduced.

The common stock investment referenced in the table above is a 23% stake in GreenOak. At the current stage of its development, a valuation using a percentage of assets under management is considered to be most relevant, although as the business matures it is expected that EBITDA multiples and discounted cash flow analysis may also become relevant inputs to apply in determining valuation. If the percentage of assets under management input value was reduced then the fair value of the investments would also be reduced.

The collective investment schemes are valued using the net asset value of the underlying investment companies using the approach known as the "practical expedient". This is in accordance with ASU2009-12.

(1) CLO equity tranche investments

As disclosed in Note 2, a mark to model approach has been adopted to determine the valuation of the equity tranche CLO investments. As at 31 December 2012, some of the modeling assumptions used are disclosed below. The modeling assumptions disclosed below are a weighted average (by U.S. dollar amount) of the individual deal assumptions, aggregated by geography (i.e. U.S. and European). Each individual deal's assumptions may differ from this geographical average and vary across the portfolio.

U.S. CLO equity tranche investments -

- Constant Annual Default Rate ("CADR"): This is approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor ("WARF") derived base-case default rate for 2013-14 before changing to 2.75% or 1.25x the original base-case for 2015-17 and returning to 1.0x the base case thereafter.

- Recovery Rate: The assumed recovery rate is 73%, or 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.

- Prepayment Rate: Loan prepayments are assumed to be 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.

Note 3 ASC 820, fair value measurements (continued)

(1) CLO equity tranche investments(continued)

U.S. CLO equity tranche investments (continued)

• Reinvestment Price and Spread: The assumed reinvestment price is par for the life of the transaction, with an effective spread over LIBOR of approximately 284 bps on broadly U.S. syndicated loans and 328 bps on middle market loans for the life of the transaction.

European CLO equity tranche investments -

• Constant Annual Default Rate ("CADR"): This is approximately 3.1%, which is 1.5x the original WARF derived base-case default rate for 2013-14, changing to 2.6% or 1.25x the original base-case for 2015-17, changing to the original base-case thereafter.

• Recovery Rate: The assumed recovery rate is 68%, or 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.

• Prepayment Rate: Loan prepayments are assumed to be 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.

• Reinvestment Price and Spread: The assumed reinvestment price is par for the life of the transaction with an effective spread over LIBOR of approximately 272 bps.

When determining the fair value of the equity tranches a discount rate is applied to the expected future cash flows derived from the third party valuation model. The discount rate applied to those future cash flows reflects the perceived level of risk that would be used by another market participant in determining fair value. In determining the discount rates to use an analysis of the observable risk premium data as well as the individual deal's structural strength and credit quality is undertaken.

As at 31 December 2012, for the pre-2010 vintage US equity tranches, the Fund applies a 17.5% discount rate to those equity tranches determined to be relatively stronger in terms of structure and credit quality and 22.5% to the remainder. The European equity tranches are all discounted at 27.5%. For both U.S. and European deals the aforementioned discount rates represent a significant spread over observed yields on the applicable BB-rated CLO tranches for each geographical region at that date.

For the post-2010 vintage U.S. equity tranches the applicable discount rate is determined with reference to each deal's specific IRR, which, in the absence of other observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the year end, the discount rate applied to these deals ranged from 9.7% to 15.1% with a weighted average of 12.4%. Such deals represented approximately 14.3% of the CLO equity portfolio by fair value.

Note 4 Bargain Purchase

Polygon Management L.P. and certain of its affiliates (collectively "Polygon"), including Polygon's asset management business and infrastructure platform and interests in LCM and GreenOak, were acquired on 28 October 2012, in exchange for consideration of approximately 11.7 million non-voting Shares of the Feeder to the sellers subject to certain vesting and forfeiture conditions (the "Aggregate Consideration"). The Aggregate Consideration shall be held in escrow (along with accrued stock dividends) until it is released over the period from 2013 to 2017.

Note 4 Bargain Purchase (continued)

Under ASC 805 these shares are treated as payment for post combination services rather than upfront consideration, hence the initial consideration is determined to be nil, resulting in a bargain purchase.

The assets and liabilities purchased were separately identified and an estimated fair value was calculated as at the acquisition date. The management contracts were classified as either Hedge Funds or Private Equity and an estimated fair value for these intangible assets was calculated by reference to applicable market methodologies such as percentage of assets under management, discounted cash flow analysis and price-earnings ratios. The 13% interest in GreenOak was not consolidated, but classified as an investment to be held at fair value. This was also valued by reference to similar applicable market methodologies. As part of the transaction, the noncontrolling interest in LCM was treated as a transaction with the Fund in its capacity as owners and therefore no separate asset or goodwill is recognised as a result. The following table summarizes the estimated fair value of the assets acquired against the consideration recognized:

	US$ '000
Assets	
Management contracts – Hedge Funds	34,282
Management contracts – Private Equity	10,246
13% interest in GreenOak	10,246
LCM noncontrolling interest	-
	54,774
Net liabilities	-
Total identifiable net assets assumed	54,774
Consideration	-
Bargain purchase recognized in the consolidated statement of operation	54,774

The overall value of the Aggregate Consideration delivered to the escrow account for the sellers amounted to US$ 98.5 million based on a share price of US$ 8.43 at the close on the last business day prior to the transaction date. Polygon was acquired free of cash and debt.

The Aggregate Consideration together with any dividends paid in respect of the Aggregate Consideration shall be held by the escrow agent pursuant to the terms of the escrow agreement. Such non-voting shares are subject to vesting and forfeiture conditions: in particular, all of the consideration due to Reade Griffith and Paddy Dear, Founders of Polygon, will vest between 2015 and 2017.

As the consideration is treated as share based payments under ASC 805, the Fund will recognize the individual compensation costs on a straight line basis over the relevant service period of each award if the vesting performance conditions are met. These are reflected in the Statements of Operations as share based employee compensation and through Equity as a separate reserve. The charge for the year ended 31 December 2012 amounted to US$ 3.8 million. The table below does not include any dividends awarded subsequent to the Polygon transaction.

Vesting Schedule - Shares

	Shares '000	US$ '000
2013	1,241	23,096
2014	1,241	23,096
2015	3,739	23,097
2016	2,967	16,586
2017	2,498	12,637
	11,686	98,512

Note 4 Bargain Purchase (continued)

During 2012, the acquired Polygon businesses generated gross fee income of US$ 20.7 million, of which US$ 8.4 million was reflected through the Fund's Statement of Operations. LCM generated full year fee income of US$ 20.1 million, all of which is contained within the Fund's fee income line in the Statement of Operations. Prior to the LCM interest purchase in the Polygon acquisition, 25% of this LCM income was apportioned to the noncontrolling interest held by Polygon. As part of the transaction process US$ 10.3 million in legal and professional fees were incurred and have been reflected through the Fund's Statement of Operations.

Results of the operations for an acquisition are presented for the prior period, unless these results are not considered material to the Fund's consolidated statements of operations. The prior period results of operations have not been presented because they are not material to the Fund.

Note 5 Management contracts

As detailed in Note 4, during 2012 the Fund acquired Polygon. Of the assets that were purchased intangible assets of management contracts for hedge funds and private equity were identified. These were tested for impairment on a regular basis and are amortized over an estimated useful life as detailed below.

31 December 2012

	Weighted average amortization period	Gross carrying amount US$ '000	Weighted average outstanding amortization period	Accumulated amortization US$ '000	Net carrying amount US$ '000
Amortising intangible assets:					
Management contracts – hedge funds	10 years	34,282	9 years 10 months	571	33,711
Management contracts – private equity	3 years	10,246	2 years 10 months	570	9,676
CLO Management contracts	3 years	303	1 month	295	8
Total		44,831		1,436	43,395

31 December 2011

	Weighted average amortization period	Gross carrying amount US$ '000	Weighted average outstanding amortization period	Accumulated amortization US$ '000	Net carrying amount US$ '000
Amortising intangible assets:					
CLO Management contracts	3 years	303	1 year 1 month	194	109
Total		303		194	109

Aggregate amortization expense for amortizing intangible assets was US$ 1.2 million for the year ended 31 December 2012. Estimated amortization expense for the next nine years is US$ 6.9 million in 2013, US$ 6.8 million in 2014, US$ 6.3 million in 2015, US$ 3.4 million in years 2016 to 2021 and US$ 2.9 million in 2022.

Note 6 GreenOak

The Fund now owns a 23% interest in GreenOak after acquiring an additional 13% interest as part of the Polygon acquisition. The Fund has determined that it does not have control over the significant operational and financial decisions of GreenOak and is carrying both the investment in GreenOak and working capital loan at fair value.

Note 6 GreenOak (continued)

The following table outlines the movement in fair value of the GreenOak financial real estate manager,

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Opening fair value	482	482
Purchase of 13% stake	10,246	-
Change in unrealized appreciation	7,398	-
Closing fair value	18,126	482

The Fund has provided GreenOak with working capital of up to US$ 10.0 million in the form of a seven year non-recourse loan facility. Under the terms of this facility, the first US$ 5.0 million will earn an annual interest rate of 3% and the balance will earn an annual interest rate of 6%.

The following table outlines the movement in the fair value of the unsecured working capital facility provided by the Fund to GreenOak.

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Opening fair value	7,051	4,521
Working capital advanced to GreenOak	2,625	2,375
Unrealised appreciation	415	155
Closing fair value	10,091	7,051

Note 7 Cash and Cash Equivalents

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Cash and current deposits with banks	164,895	205,652
Foreign currency cash with banks (cost: US$ 10.8 million (31 December 2011: US$ 6.1 million))	11,046	5,861
	175,941	211,513

Of this cash balance, approximately US$ 4.5 million was held with respect to certain capital requirements in regulated entities.

Note 8 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

To the extent prices may be obtained on some or all of the Fund's assets, those prices may be extremely volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the Fund's assets.

The Fund's assets include securities or other financial instruments or obligations which are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The valuation of the CLO equity tranche investments is 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 how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of these CLO equity 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.

Note 8 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of the CLO equity investments, the Fund seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Although seeking to utilize, where possible, observable market data, for certain assumptions the Investment Manager may be required to make subjective judgements and forward-looking determinations, and its experience and knowledge is instrumental in the valuation process.

Further, because of overall size or concentration in particular markets of positions held by the Fund, the value at which its investments can be liquidated may differ, sometimes significantly, from the interim valuations arrived at.

The majority of the Fund's investments consist of interests in and / or economic exposures to limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by the same pool of assets. In the event of default by an issuer in relation to such investments holders of the issuer's more senior securities will be entitled to payments in priority to the Fund.

Some of the Fund's investments may also have structural features that divert payments of interest and / or principal to more senior classes secured by the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels. This may lead to interruptions in the income stream that the Fund anticipates receiving from its investment portfolio. To the extent that actual losses on the underlying collateral exceed the level of assumed losses used to determine the fair value of the investment, the value of the investment may be reduced.

Some of the Fund's assets are held by a custodian and the Fund is exposed to the credit risk of this counterparty. The Fund has also entered into derivative transactions which results in exposure to counterparty credit risk. The counterparty to these derivative transactions are major financial institutions.

As part of the Fund's current investment strategy it may employ hedging strategies and leverage in seeking to provide attractive returns from the portfolio while managing risk. The hedging strategy may include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges and interest rate swaptions. This is reviewed on an on-going basis in order to seek to address identified risks to the extent practicable and in a cost effective manner. As at 31 December 2012 and 31 December 2011 there were no credit hedges in place.

The Fund's investments in leveraged loans through equity tranche investments in securitization vehicles generate LIBOR plus returns and are sensitive to interest rate levels and volatility. Although these vehicles are structured to hedge interest rate risk through the use of matched funding, there may be some difference between the timing of LIBOR resets on the liabilities and assets, which could have a negative effect on the amount of funds distributed to equity tranche holders.

Furthermore, in the event of a significant rising interest rate environment and / or economic downturn, loan defaults may increase and result in credit losses that may be expected to affect the Fund's cash flow, fair value of its assets and operating results adversely. The Fund may utilize hedging instruments, such as interest rate swaptions, to try and mitigate interest rate tail risks.

The Fund did not have a significant concentration of credit risk exposure to leveraged loans at 31 December 2012 or 31 December 2011. No individual investment in leveraged loans exceeded 0.25% of the net assets at 31 December 2012 or 31 December 2011.

The Fund is exposed to credit risk through its investment in GreenOak investment funds and the working capital it has provided to GreenOak through a seven year non-recourse loan facility. Bankruptcy or insolvency of GreenOak may cause the Fund's rights with respect to the investment funds to be delayed or limited. The maximum exposure to GreenOak at 31 December 2012 and 31 December 2011 is disclosed on the Consolidated Schedule of Investments.

Note 8 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

The Fund has made investments into certain collective investment schemes. These include real estate investment vehicles and hedge funds which have exposure to securities including equities, convertible bonds and derivatives. These underlying investments may be in securities or assets which are illiquid or in different geographies around the world. These investments may be subject to counterparty risk. Capital invested in to the investment vehicles may be subject to lock ups and gates, or subject to the realisation of the underlying investments and assets.

The Fund's investments that are denominated in currencies other than US Dollar are subject to the risk that the value of such currency will decrease in relation to the US Dollar. The Fund currently uses foreign exchange rate forwards to seek to hedge this currency risk, in whole or in part, to the extent practicable and in a cost effective manner. As described above, the hedging strategy (including, these currency hedges) is reviewed on an on-going basis. Details of the Fund's investment portfolio at the reporting date are disclosed in the Schedule of Investments on pages 11 and 12.

Note 9 Amounts Due From Brokers

The amounts due from brokers is cash pledged as collateral on the forward contracts and interest rate swaptions. At 31 December 2012 the collateral cash balance with UBS AG was US$ 13.1 million (31 December 2011: US$ 15.8 million).

Note 10 Other Receivables

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Accrued fee income	9,645	2,477
Rent deposits on properties	1,708	-
Amounts receivable on sale of investments	510	-
Other receivables	3,757	277
	15,620	2,754

Note 11 Other Payables and Accrued Expenses

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Employee costs	22,234	3,576
Amounts owing to former Polygon Partners (see Note 21)	6,982	-
Other operating and administrative expenses	2,145	3,423
	31,361	6,999

Note 12 Share Capital

Authorized

The Fund has an authorized share capital of US$ 1.0 million divided into 10 voting shares, having a par value of US$ 0.001 each and 999,999,990 non-voting shares (which are the "Shares" referred to herein), having a par value of US$ 0.001 each.

Voting Shares

All of the Fund's voting shares are issued at par and are beneficially owned by the Voting Shareholder, a non-U.S. affiliate of the Investment Manager. The voting shares will be the only shares entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the Shares described below. The voting shares are not entitled to receive dividends.

Note 12 Share Capital (continued)

Non-Voting Shares

The Shares carry a right to any dividends or other distributions declared by the Fund. The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their own class rights.

Dividend Rights

Dividends may be paid to the holders of Shares at the sole and at the absolute discretion of the Directors. The voting shares carry no rights to dividends.

Share Transactions

	Voting Shares No.	Shares No. '000	Shares US$ '000
Shares in issue at 31 December 2010	10	120,134	120
Issued*	-	909	1
Treasury Shares	-	(5,075)	(5)
Shares in issue at 31 December 2011	10	115,968	116
Issued*	-	1,530	2
Treasury Shares	-	(18,693)	(19)
Shares in issue at 31 December 2012	10	98,805	99

* Issued in lieu of Stock Dividend

Treasury shares

The Fund owns a subsidiary, TFG Holdings I, to which it may transfer, and has transferred, Shares previously held in a Treasury Account. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

On 30 November 2007, the Feeder announced the implementation of a share repurchase program of its outstanding non-voting shares. As at 31 December 2012, this program had expired, but it was subsequently updated on 11 January 2013 and will now continue from 14 January 2013 until 30 April 2013 or until 5 % of the Feeder's outstanding shares authorised under the most recent prior share repurchase program have been repurchased or until terminated by the Board . In conjunction with this, the Fund has undertaken to repurchase an identical number of its own Shares from the Feeder as and when it makes these repurchases in the open market. The Fund will match the price per share paid by the Feeder. The Shares are held in a Treasury Account or in a subsidiary (as described below) allowing them to potentially be resold back to the Feeder if it resells its own shares back into the market at a later date.

Whilst they are held by the Fund (whether directly or via a subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Consolidated Statements of Assets and Liabilities.

On 28 October 2012, Polygon was acquired (as described in Note 4) for approximately 11.7 million non-voting Shares of the Feeder. Concurrently with the foregoing, the Fund transferred 11.7 million Shares to the Feeder.

On 7 December 2012, the Feeder and the Fund announced that under the terms of a "modified Dutch auction" (the "Tender Offer") the Fund had accepted for purchase approximately 15.4 million Feeder non-voting shares at a purchase price of US$ 9.75 per share and an aggregate cost of US$ 150.0 million. The repurchased shares, together with an equivalent number of Fund Shares that had been held by the Feeder, were transferred to TFG Holdings I.

Note 12 Share Capital (continued)

After giving effect to the transfer of Shares in connection with the Tender Offer, 16.6 million Shares are held in TFG Holdings I (31 December 2011: 8.5 million) and 6.5 million Shares in the Treasury Account (31 December 2011: 7.6 million).

Treasury Share Transactions

	Treasury Shares Shares No. '000	Shares held in subsidiary Shares No. '000
Shares brought forward at 31 December 2010	7,117	3,908
Treasury shares purchased during the year	5,075	-
Shares transferred to subsidiary	(4,615)	4,615
Treasury shares at 31 December 2011	7,577	8,523
Treasury shares purchased during the year	18,693	-
Shares transferred to subsidiary	(15,385)	15,385
Shares transferred to Feeder in connection with Polygon acquisition	(4,382)	(7,304)
Treasury shares at 31 December 2012	6,503	16,604

Noncontrolling Interest relating to LCM

The Fund adopted "Noncontrolling Interests in Consolidated Financial Statements" (ASC 810) which requires noncontrolling interests to be classified in the Consolidated Statements of Operations as part of consolidated net earnings and to include the accumulated amount of noncontrolling interests in the Consolidated Statements of Assets and Liabilities as part of shareowners' equity. Any distributions to the noncontrolling interest are recorded in the Consolidated Statements of Cash Flows.

As part of the Polygon acquisition during the year, the remaining noncontrolled 25% of LCM was purchased, resulting in 100% of LCM now being owned by the Fund. Prior to that transaction the remaining balance due to the noncontrolling interest (US$ 1.8 million) was paid, and as at 31 December 2012 there was no outstanding amount due to the noncontrolling interest. As the purchase of the noncontrolling interest in LCM was treated as a transaction with the Fund in its capacity as owners, in accordance with ASC 805, no separate asset or goodwill is recognized as a result.

The table below shows a reconciliation in the movement in noncontrolling interest for the years ending 31 December 2012 and 31 December 2011.

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Balance at start of year	154	1,369
Attributed to noncontrolling interest	1,691	1,980
Distributions paid to noncontrolling interest	(1,845)	(3,195)
Balance at end of year	-	154

Note 13 Share Premium

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Balance at start of year	1,087,790	1,116,274
Premium arising from issuance of Shares	11,992	6,728
Discount arising from purchase of Shares	(175,593)	(35,212)
Balance at end of year	924,189	1,087,790

Note 14 Dividends

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Quarter ended 31 December 2010 of US$ 0.09 per share	-	10,792
Quarter ended 31 March 2011 of US$ 0.09 per share	-	10,753
Quarter ended 30 June 2011 of US$ 0.10 per share	-	11,847
Quarter ended 30 September 2011 of US$ 0.10 per share	-	11,691
Quarter ended 31 December 2011 of US$ 0.105 per share	12,080	-
Quarter ended 31 March 2012 of US$ 0.105 per share	12,073	-
Quarter ended 30 June 2012 of US$ 0.115 per share	13,079	-
Quarter ended 30 September 2012 of US$ 0.115 per share	13,064	-
	50,296	45,083

The fourth quarter dividend of US$ 0.135 per share was approved by the Directors on 27 February 2013 and has not been included as a liability in these financial statements.

The Fund also pays a dividend to the Feeder that is sufficient to pay their incentive fee liability which in the year ended 31 December 2012 was US$ 79.2 million (31 December 2011: US$ 142.4 million).

Note 15 Earnings

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Balance at start of year	411,253	64,143
Net income resulting from operations for the year	448,399	534,615
Dividends paid to shareholders	(50,296)	(45,083)
Dividends paid to Feeder	(79,217)	(142,422)
Balance at end of year	730,139	411,253

Note 16 Income and deferred tax expense

Income tax for the years ended 31 December 2012 and 31 December 2011 consists of:

Year ended 31 December 2012:	Current US$ '000	Deferred US$ '000	Total US$ '000
U.S. federal	1,279	1,558	2,837
U.S. State and local	737	-	737
	2,016	1,558	3,574

Year ended 31 December 2011:	Current US$ '000	Deferred US$ '000	Total US$ '000
U.S. federal	2,037	593	2,630
State and local	1,174	-	1,174
	3,211	593	3,804

US$ 2.1million of current tax was outstanding at the end of the year (31 December 2011: US$ 1.1 million).

Note 16 Income and deferred tax expense (continued)

Tax Rate Reconciliation

Income tax expense was US$ 3.6 million for the year ended 31 December 2012, and differed from the amounts computed by applying the U.S. federal income tax of 34% to pretax increase in the net assets as a result of the following:

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Net increase in operations before tax	453,664	540,399
Computed "expected" tax expense at 34%	154,245	183,736
Deduction in income taxes resulting from:		
Income not subject to U.S. tax	(152,965)	(181,698)
State and local income taxes	737	1,174
Change in deferred tax liability	1,558	593
Other exemptions net	(1)	(1)
Total income and deferred tax expense	3,574	3,804

Deferred Tax

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Deferred tax liability brought forward at start of year	686	93
Change in deferred tax liability	1,558	593
Deferred tax liability carried forward at end of year	2,244	686

The deferred tax liability has been recognized with respect to applicable undistributed earnings at a withholding rate of 30%.

Note 17 Interest Income

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Debt securities – CLO equity tranches and mezzanine tranches	229,286	202,965
Debt securities – Leveraged loans	5,633	5,779
Cash and short term funds	264	155
Debt securities – Unsecured loans	413	155
	235,596	209,054

Note 18 Fee income

	31 Dec 2012 US$ '000	31 Dec 2011 US$ '000
Management fees		
CLO	28,299	23,105
Hedge Funds	3,677	-
Private equity	2,639	-
Performance fees	2,089	-
	36,704	23,105

Note 18 Fee income (continued)

CLO management fee income generally comprises senior and subordinated fees. Senior fees range from 0 bps to 20 bps per annum of collateral under management and subordinated fees range from 30 bps to 50 bps per annum of collateral under management.

Hedge fund management fees range from 150 bps to 200 bps of net assets under management depending upon the applicable fund and share class. Management fees paid in connection with the private equity style vehicle are either 200 bps of net assets under management or a fixed declining management fee depending on the applicable class.

Performance fees can be earned on the hedge fund upon the terms of each vehicle and the share class where applicable. During the year performance fees totaling US$ 2.1 million were earned.

Note 19 Segmental reporting

Description of segments

In pursuit of the Fund's investment objective to generate distributable income and capital appreciation, it currently maintains two key business segments: an investment portfolio and an asset-management platform.

Both business segments cover a broad range of assets including bank loans, real estate, equities, credit and convertible bonds. TFG currently invests primarily through long-term funding vehicles such as collateralized loan obligations.

The asset management platform segment contains investment manager brands: Polygon, LCM and GreenOak. These three businesses provide investment management and other services to a number of investment fund, accounts and vehicles and other managers, including CLOs, hedge funds, real estate funds and a private equity vehicle. The Polygon asset management business also has an agreement to provide certain infrastructure services to the Investment Manager and an affiliate. Some fee income is earned through certain short- and long- term fee agreements with third parties.

Segment Data

The results for 2012 are presented to show the split of revenues, income and net income across the two business segments. The asset management segment incorporates the consolidated results of Polygon and LCM. The Fund owns 23% of GreenOak and is carrying this as an investment at fair value; consequently any unrealised gain or loss is being reflected through the investment portfolio segment.

In October 2012, the Fund acquired Polygon as detailed in Note 4. The segment results for the asset management business therefore only include Polygon's performance from that date. Comparative segmental data for 2011 is not included as in 2011 there was only one segment for the purposes of financial reporting.

In arriving at the net income split between the two segments a number of assumptions have been made as to how the expenses of the consolidated business should be split. Expenses of the asset management segment include amortisation of management contracts.

Note 19 Segmental reporting (continued)

Year ended 31 December 2012:	Investment portfolio US$ '000	Asset-management platform US$ '000	Total US$ '000
Interest income	235,395	201	235,596
Fee and other income	-	43,477	43,477
Total segment income	235,395	43,678	279,073
Management fees and operating expenses	(38,024)	(28,098)	(66,122)
Realised and unrealised gains and losses	189,788	-	189,788
Net income before noncontrolling interest and taxes	387,159	15,580	402,739

This includes only Fund income and expenses and does not include income and expenses earned or incurred at the Feeder.

Reconciliation of net income before noncontrolling interest and taxes to net income per Statement of Operations.

	Year ended 31 Dec 2012 US$ '000
Total segment net income before noncontrolling interest and taxes	402,739
Bargain purchase	54,774
Income and deferred tax expense	(3,574)
Share based employee compensation	(3,849)
Attributed to noncontrolling interest	(1,691)
Net income	448,399

Note 20 Contingencies and commitments

As part of the acquisition of a 10% stake in GreenOak in 2010, the Fund committed to provide a co-investment commitment of up to US$ 100.0 million into GreenOak investment vehicles. As at 31 December 2012, it had funded US$ 13.4 million of this commitment, (31 December 2011: US$ 1.4 million). The Fund has made investment commitments in several existing vehicles where only a partial capital drawdown has occurred to date. The Fund has estimated unfunded commitments of up to US$ 36.9 million in this respect (31 December 2011: US$ 16.6 million).

Note 21 Related Party Transactions

The Feeder, a Guernsey based closed-ended investment company, invests substantially all of its assets in the Fund, and has the same Investment Manager as the Fund.

All fees and expenses of the Feeder and the Fund (including management fees), except for the incentive fees, are paid by the Fund and allocated to the Feeder. An incentive fee may be paid to the Investment Manager by the Feeder.

Note 21 Related Party Transactions (continued)

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Each of the Directors' annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Feeder and the Fund. The Fund will pay the Directors' fees. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors. The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Feeder or the Fund providing for benefits upon termination of employment.

The Voting Shareholder, which holds all of the voting shares, was an affiliate of Polygon and continues to be an affiliate of the Investment Manager. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Fund and Feeder's Directors (subject to applicable law). Affiliates of the Voting Shareholder also control the Investment Manager and, accordingly, control the Fund's business and affairs.

As described in Note 4, Polygon, including Polygon's asset management businesses and infrastructure platform and interests in LCM and GreenOak, were acquired on 28 October 2012 (the "Acquisition").

As part of the Acquisition, Reade Griffith and Paddy Dear, as founders of Polygon, were awarded consideration in non-voting shares of the Feeder, which would vest between 2015 and 2017. It was contractually agreed as part of the Acquisition that to the extent any annual compensation actually paid to each of Mr. Griffith and Mr. Dear in respect of his employment with the Fund exceeds an annual base salary of US$ 100,000, each of Mr. Griffith and Mr. Dear will promptly return such excess amount to the Fund. During 2012 total compensation paid to them in aggregate was US$ 33,333.

The Acquisition was approved and authorised by the Boards of Directors of the Fund and the Feeder following consideration by parallel committees of independent directors of the Fund and the Feeder (the "Independent Committees"), which received independent financial, legal, tax and accounting advice from various external professional firms. The Independent Committees were composed of the four independent directors with no financial or beneficial interest in Polygon or the transaction (Rupert Dorey, David Jeffreys, Byron Knief and Greville Ward). The Independent Committee unanimously approved the Acquisition, and the full Boards of Directors of the Fund and the Feeder unanimously endorsed such approval and authorized the transaction.

Perella Weinberg Partners, which was engaged by the Independent Committees as independent financial advisor to the Fund and the Feeder and compensated on a fixed-fee basis without any success fees, delivered an opinion that, subject to the limitations, assumptions and qualifications set forth in their opinion, as of the date of the opinion (i) the consideration paid in the transaction was fair from a financial point of view and (ii) for purposes of Guernsey law, such consideration was within a reasonable range of possible aggregate values for the acquired property. This satisfied the Guernsey law requirement that the terms of the transaction were at least as favourable to the Fund as would be any comparable arrangement effected on normal commercial terms negotiated at arm's length between the relevant persons and an independent party.

As at 31 December 2012, in connection to the Acquisition, US$ 7.0 million in aggregate is owed to Reade Griffith and Paddy Dear, directly or via an entity to which they may direct payment. This payable primarily relates to the repayment of certain rent deposits and other working capital funded through Polygon entities by Messrs Griffith and Dear before the Acquisition. Under the terms of the sale and purchase agreement relating to the Acquisition, Messrs Griffith and Dear retained the economic rights to such deposits.

Notwithstanding the Acquisition, Reade Griffith and Paddy Dear continue to hold membership interests in Polygon Global Partners LLP (the "U.K. Investment Manager") which collectively entitle them to exercise all of the voting rights in respect of the U.K. Investment Manager. As part of the Acquisition, each of Mr. Griffith and Mr. Dear have agreed that he will (i) exercise his voting rights in a manner that is consistent with the best interests of the Fund and (ii) upon the request of the Fund, for nominal consideration, sell, transfer and deliver his membership interests in the U.K. Investment Manager to the Fund.

Note 21 Related Party Transactions (continued)

Prior to the Acquisition, the Voting Shareholder was also an affiliate of Polygon Global Partners LLP and Polygon Global Partners LP (the "Service Providers"). The Service Providers had an agreement to provide certain operating, infrastructure and administrative services to LCM. For the period up to the transaction date, the Service Providers recharged LCM US$ 7.1 million (31 December 2011, US$ 8.1 million). This includes invoices from third parties with respect to services such as market data. The Service Providers are now owned by the Fund and consolidated within these financial statements.

In December 2012, the Fund repurchased 15.4 million Feeder non-voting shares at a purchase price of US$ 9.75 per share and an aggregate cost of US$ 150.0 million. Polygon Recovery Fund L.P. (the "Polygon Recovery Fund") is an affiliate of the Fund and the Feeder and a holder of the Feeder's shares. Its manager and investment managers are also subsidiaries of the Fund. With authorization from its advisory board, the Polygon Recovery Fund participated in the Tender Offer, through which it tendered and sold approximately 7.6 million Feeder non-voting shares at a price of US$ 9.75 per share. As stated in the Tender Offer offering circular, certain steps were taken in order to address potential conflicts of interest arising from the Polygon Recovery Fund's participation.

The Service Providers also have agreements to provide certain operating, infrastructure and administrative services to the Investment Manager, GreenOak and Polygon Private Investment Partners LP, an affiliate of the Voting Shareholder. In the period post Acquisition the amount recharged to these entities was US$ 6.7 million. As at 31 December 2012, the amount receivable relating to these recharges was US$ 2.2 million.

The Fund holds CLO equity investments in CLOs which are managed by LCM. During the year it purchased a portion of the equity tranche in each of LCM X, LCM XI and LCM XII at a total cost of US$ 67.5 million. In total, as at 31 December 2012, it held CLO equity tranche investments in 11 CLOs managed by LCM with a fair value of US$ 190.2 million.

On 1 December 2012, the Fund made investments totaling US$ 55.0 million across four hedge funds managed by Polygon. These hedge funds employ investment strategies involving investing in equities, convertible bonds and derivatives. As at 31 December 2012, the fair value of these investments was US$ 56.5 million.

The Fund owns a 23% equity interest in GreenOak, in which it also provided a US$ 10.0 million working capital loan commitment and a US$ 100.0 million coinvestment commitment. As part of the original transaction to acquire a share in GreenOak, the Feeder has issued 3.9 million share options to the GreenOak founders.

The Fund has made investments across several real estate investment vehicles managed by GreenOak. As at 31 December 2012, these investments referenced real estate in the United States, Japan and United Kingdom with a net asset value of US$ 25.7 million. These investments are typically illiquid where the Fund will only receive distributions on liquidation of the investment vehicle's underlying assets and in some cases this may not be for several years. In addition, based on projected capital raised (subject to change), the Fund had estimated unfunded commitments of up to US$ 36.9 million with respect to the investment vehicles.

Note 22 Other Matters

On 22 February 2011, the Fund and the Feeder and their six Directors were served with proceedings in the Royal Court of Guernsey (the "Guernsey Proceedings") instigated by one of the Fund's former Directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a Director on 24 January 2011. By the Guernsey Proceedings, Mr. Jackson seeks to impugn the Fund's decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak (the "GreenOak Transaction"). The Guernsey Proceedings are confined to claims for damages and other relief against the Fund and the Feeder's Directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010.

Note 22 Other Matters (continued)

The Fund and the Feeder have issued a public statement stating that they and their Directors believe that there is no merit whatsoever in the Guernsey Proceedings and will take all necessary steps to ensure the Guernsey Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Fund and the Feeder and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.

On 12 July 2011, a shareholder derivative action was filed in United States District Court – Southern District of New York – against the current and former Directors of the Fund and the Feeder, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the "Action"). The Action made a series of allegations specifically with respect to performance fees charged by the Investment Manager.

The Fund and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit. Accordingly, the defendants sought dismissal of the Action. On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice. There has been no appeal of that ruling and the time for appeal has expired.

On 19 December 2011, Mr. Jackson filed a claim against Patrick Dear and Reade Griffith in the High Court in London regarding Mr. Jackson's removal in January 2011 from the Board of Directors of the Fund and the Feeder (the "English Proceedings"). Each of the Fund and the Feeder took an interest in the English Proceedings given that they purported to impact their constitution and matters that were already the subject of the Guernsey Proceedings. The defendants contended that Mr. Jackson's claim was without merit and following contested hearings the English Court of Appeal determined specific matters in Mr. Dear and Mr. Griffith's favour by a judgment dated 22 February 2013 and is currently considering whether or not, based on the determination of those matters, Mr. Jackson's claim should be dismissed or continue.

During 2012, the Fund incurred legal expenses of US$0.4 million in connection with the aforementioned Guernsey Proceedings and Action, which includes amounts paid under applicable indemnification provisions with respect to the Directors, the Investment Manager and principals of the Investment Manager, and the Fund incurred direct legal expenses of US$0.5 million in connection with the aforementioned English Proceedings. No adjustment has been made for amounts that may be recoverable under relevant insurance policies held by the Fund and the Feeder. At 31 December 2012, US$0.1 million (31 December 2011: US$1.6 million) was accrued in the Consolidated Statements of Assets and Liabilities.

Note 23 Subsequent Events

The Directors have evaluated subsequent events up to 27 February 2013, which is the date that the financial statements were approved, and have concluded that there are not any material events that require disclosure or adjustment to the financial statements.

Note 24 Recent changes to US GAAP

In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities". ASU 2011-11 requires entities to disclose both gross and net information about financial instruments and derivative instruments that are either (i) offset in the statement of assets and liabilities, or (ii) subject to an enforceable master netting arrangement or similar arrangement, irrespective of whether they are offset in the statement of assets and liabilities. In addition, ASU 2011-11 requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements.

Note 24 Recent changes to US GAAP (continued)

The requirements of ASU 2011-11 are effective for interim and annual reporting periods beginning on or after 1 January 2013. The guidance requires retrospective application for all comparative periods presented.

The adoption of ASU 2011-11 will not have any impact on the Fund's financial net position or results of operations, as ASU 2011-11 only affects disclosures about offsetting. Management is currently evaluating the implications of ASU 2011-11 and its impact on the financial statements and disclosures.

Note 25 Approval of Financial Statements

The Directors approved the financial statements on 27 February 2013.