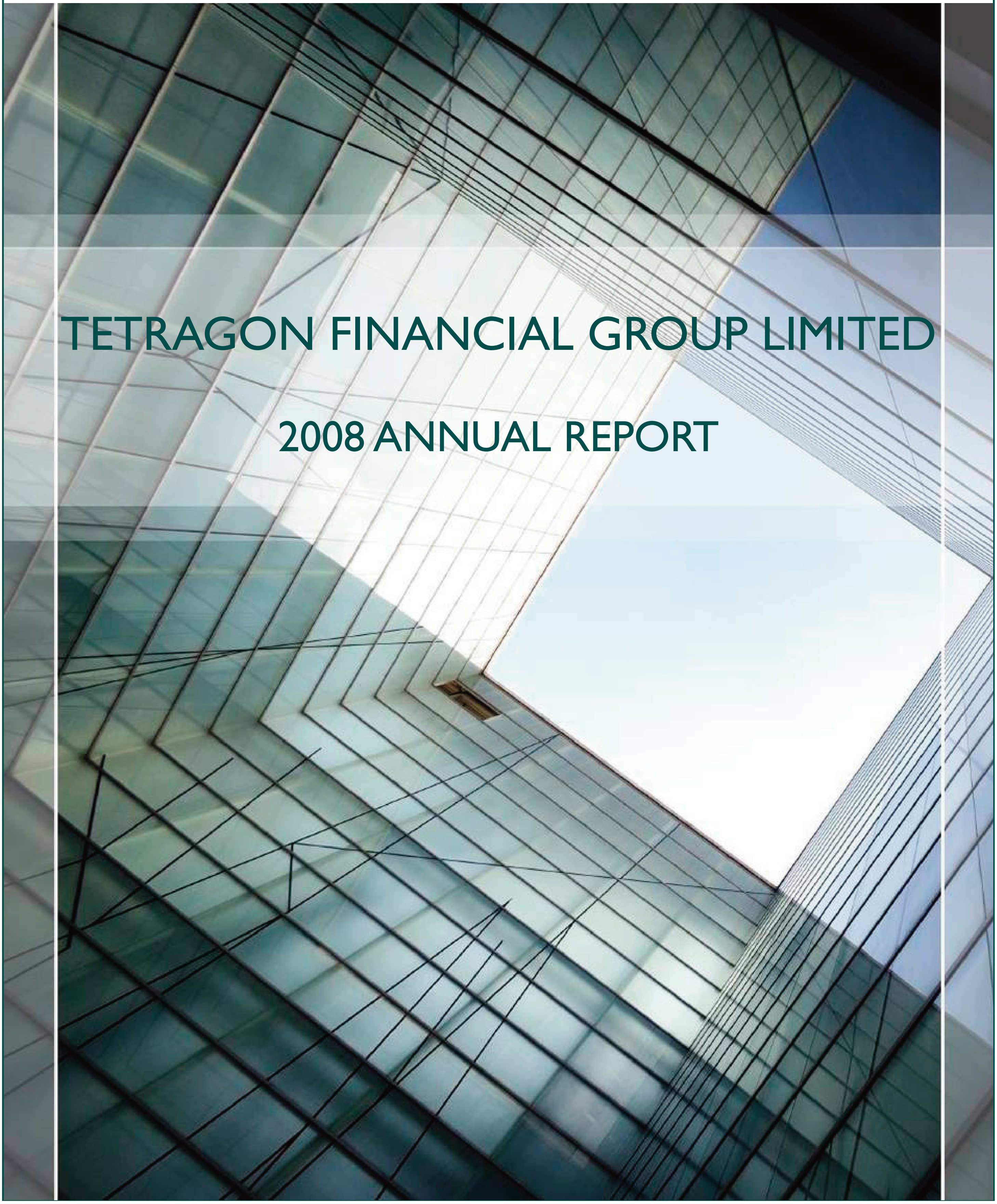
TETRAGON

TETRAGON FINANCIAL GROUP LIMITED

2008 ANNUAL REPORT



TETRAGON

Corporate Profile

Tetragon Financial Group Limited ("TFG") is a Guernsey closed-ended investment company that currently invests in selected securitized asset classes and aims to provide stable returns to investors across various credit and interest rate cycles. TFG is traded on the Euronext Amsterdam by NYSE Euronext under the ticker symbol "TFG", and commenced operations on August 1, 2005.

In this performance report, unless otherwise stated, we report on the consolidated business incorporating TFG, Tetragon Financial Group LP ("TFGLP") and Tetragon Financial Group Master Fund Limited (the "Master Fund").(1) We refer to TFG and the Master Fund together as the "Company."

Investment Objective

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

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Note:
(1) TFG invests substantially all its capital through the Master Fund, in which it holds a 100% share. In accordance with the previously announced Exchange Agreement between TFGLP and TFG dated April 26, 2007, TFGLP investors have exchanged their limited partnership interests on a one-for-one basis for shares of TFG. TFGLP, a U.S. "feeder fund", previously held an interest in the Master Fund and accordingly, received a pro-rata allocation of the performance of the Master Fund.

TETRAGON FINANCIAL GROUP LIMITED (TFG)
2008 FINANCIAL AND OPERATING PERFORMANCE AT A GLANCE

Financial Results:

- **Net investment income:** Net investment income increased to $185.8 million in 2008, up from $172.2 million in 2007, driven primarily by an increase in the top-line investment income generated by the investment portfolio and a reduction in interest expense as a result of both reduced interest rates and significant company-level de-leveraging.
- **Net income:** Net income fell to $(46.6) million from $99.2 million in 2007 as certain adjustments to our IRR modeling assumptions and the establishment of a new balance sheet reserve in Q4 contributed to an unrealized loss on investments of $(224.3) million for the year.
- **Earnings per Share:** Consolidated EPS for the full year was $(0.37) compared to $0.48 for the 2007 period post TFG's initial public offering in April 2007. (1)
- **Cash flows from operations:** Cash flows from the portfolio were strong in each quarter of 2008 resulting in an increase in cash flows from operations to $345.0 million, which was nearly three times the amount generated during 2007 (approximately $120.0 million).
- **Dividend:** TFG continued to maintain a quarterly dividend, declaring quarterly dividends which totaled $0.48 in 2008, including a dividend declared for Q4 of $0.03 per share, payable in March 2009.
- **Leverage:** TFG utilized its operating cash flows to eliminate corporate leverage as at year end. As of 31 December 2008, cash and cash equivalents (including amounts due from counterparties) exceeded all other net liabilities by $60.0 million compared to a deficit of $(183.0) million at the end of 2007.
- **Net Asset Value (NAV) per Share:** NAV per share fell from $10.03 at the end of 2007 to $9.06 reflecting overall performance as well as distributions made to investors.

Portfolio Summary:

- **Portfolio size:** As of the end of 2008, the fair value of the investment portfolio totaled approximately $1.08 billion with exposure to approximately $17.0 billion of leveraged loans. During 2008, the value of the investment portfolio declined by approximately $(364.0) million reflecting a number of factors, including certain adjustments to IRR modeling assumptions, the Accelerated Loss Reserve (as defined below) as well as the repayment or reduction of principal on certain of our investments.
- **Portfolio composition:** As of the end of 2008, TFG's performing portfolio consisted solely of 61 collateralized loan obligation ("CLO") investments managed by 32 CLO managers.
- **IRRs:** The weighted-average IRR as of 2008 year-end declined to approximately 13.8%, down from 16.6% at the end of 2007.
- **Defaults:** TFG's 2008 corporate loan defaults were approximately 2.81%, a significant increase from the 0.13% default rate recorded during 2007, but approximately 25% below the 3.75% lagging 12-month institutional U.S. loan default rate, based on the total par amount outstanding, reported by S&P/LCD for the 12-months ending in December 2008.(2)

Notes:
(1) The accompanying audited financial statements of TFG note EPS of $(0.41) for TFG. The difference from Consolidated EPS is attributable to net income of TFGLP which was recorded as share premium in TFG upon exchange of TFGLP interests into shares of TFG. The exchange did not result in any dilution to NAV per Share.
(2) S&P/LCD U.S. Leveraged Lending Review 4Q08. Please note that TFG's investment portfolio includes approximately 23.9% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's corporate loan default rate.

2008 FINANCIAL AND OPERATING PERFORMANCE AT A GLANCE (continued)

- **Life-to-date net loss reserve:** Approximately $115.0 million of net excess losses have been factored into our IRR calculations as of the end of December 2008, down from approximately $158.0 million as of the end of Q3 2008, but representing a modest increase from approximately $106.0 million as of the end of 2007.

- **Accelerated Loss Reserve:** In December 2008, TFG established a balance sheet reserve calculated on a deal-by-deal basis against potential unrealized losses arising from, among other things, rating agency downgrades to TFG's investments' underlying collateral (the "Accelerated Loss Reserve"). For the quarter-ending December 31, 2008, the Accelerated Loss Reserve totaled approximately $141.0 million.

TO OUR SHAREHOLDERS

2008 was a year of dramatic global economic decline and increasingly negative outlook as well as extensive upheaval in the global financial markets. TFG's results of operations and share price were significantly negatively affected by these developments. What began in 2007 as a deterioration of the U.S. housing sector progressed throughout 2008 into a pervasive global economic decline that negatively affected the vast majority of industries and asset classes. The year was further characterized by a marked increase in both the frequency and magnitude of corporate defaults, especially in the fourth quarter of 2008, and an associated increase in rating agency downgrades and in the number of credits rated Caa1/CCC+ or below. It was also a year of rising counterparty risk in which not one, but two, major U.S. investment banks fell—one to a competitor with the assistance of the U.S. government and another to bankruptcy. Government intervention was also a key theme for the year, as governments around the world, among other actions, deployed many billions of dollars to strengthen the balance sheets of faltering companies which had been damaged by dramatic asset write-downs. Despite the enormity of governmental intervention, the decline in global economic performance accelerated during the fourth quarter of 2008.

During 2008, the number of TFG investments remained constant with a performing portfolio of 61 collateralized loan obligation ("CLO") investments, which generated approximately $345.0 million of cash flows during the year, over two times the amount of cash flows generated in 2007, as 2008 developments have only recently begun to impact the collateral underlying TFG's investments (e.g., senior secured loans). For example, as of December 31, 2008, TFG's lagging 12-month corporate loan default rate was below the comparable S&P/LCD market rate,[1] the weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in TFG's CLO investments was below the weighted-average maximum level permitted under the terms of our investments[2] and the average Moody's Weighted Average Rating Factor ("WARF")[3] on TFG's CLO investments was equivalent to an average rating of between B1 and B2. Notwithstanding the foregoing, the dramatic events of 2008 had a significant negative affect on TFG's results of operations. For example, these developments prompted adjustments to certain of TFG's IRR modeling assumptions (including, constant annual default rate, recovery rate, prepayment rate and reinvestment price and spread) at 2008 year end, where the net effect of those four changes for December 2008 was to reduce the weighted-average IRR by approximately 2.0% relative to the immediately preceding assumptions utilized. Furthermore, TFG established a balance sheet reserve calculated on a deal-by-deal basis against potential unrealized losses arising from, among other things, rating agency downgrades to TFG's investments' underlying collateral (the "Accelerated Loss Reserve"), as described further in the Investment Manager's Report of this Annual Report, which amounted to $141.0 million as of December 31, 2008.

After accounting for IRR modeling assumption adjustments, the Accelerated Loss Reserve and other relevant inputs, the fair value of TFG's investments at 2008 year end was $1082.0 million compared to $1447.0 million for 2007. NAV per share fell from $10.03 at the end of 2007 to $9.06 (inclusive of dividends for each quarter) for 2008. Earnings per share for 2008 was $(0.37).

Given the challenging conditions evidenced in 2008, which resulted in numerous financial company failures and significant market turmoil, we sought to focus our efforts during the year on the preservation of TFG's investments. To those ends, we believe that TFG took a number of measures during the year to help ensure the continued stability of the company, particularly with respect to leverage and counterparty risk. There were no new investments made during 2008 as TFG chose to improve its balance sheet over making additional investments whether in the secondary or new issue markets. We would note that during this period the new issue CLO market was effectively halted primarily due to a lack of risk capital, particularly at senior debt levels. At year end, TFG had zero net borrowings (cash, cash equivalents and amounts due from counterparties exceeded total borrowings) and held a net long cash position of approximately $60.0 million, or approximately $0.47 per outstanding share as of December 31, 2008, compared to a net debt position of approximately $(183.0) million, or approximately $(1.45) per outstanding share at 2007 year end.

Notes:
(1) Source: Standard & Poors, "Leveraged Lending Review 4Q2008", January 2009. Please note that TFG's investment portfolio includes approximately 23.9% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's corporate loan default rate.
(2) Excess Caa/CCC+ or below rated assets above the transaction specific permitted maximum holding levels are generally held in our transactions at market value for purposes of the over-collateralization and/or interest reinvestment test ratios.
(3) The weighted-average Caa/CCC+ and WARF statistics are a weighted-average summary at original USD cost of all of our 61 performing investments. Each individual investment's metrics will differ from these averages and vary across the portfolio.

We believe that by paying down certain borrowings and accumulating cash to defease the remaining outstanding borrowings during the year, TFG has increased its ability to respond to the rapidly changing and uncertain market environment. We also believe that TFG was quite successful in mitigating counterparty risk. TFG repaid all repurchase borrowings and cleared its repurchase account at Lehman Brothers prior to that company's bankruptcy filing and transferred all un-financed securities (the substantial majority of TFG's investments) to a segregated custodial account.

TFG's investment objective is to generate distributable income and capital appreciation. We also seek to maintain appropriate levels of cash to, among other things, support the Company's ongoing operations and its investments as well as its ability to navigate changing market and business conditions. We believe that the need to maintain such levels of cash on our balance sheet has only increased given the current economic conditions and market uncertainty. Mindful of these needs and as we seek to preserve TFG's investments and navigate a challenging and uncertain environment in 2009, we will seek to also continue to return capital to our investors, including through appropriate levels of dividends, if any. In each of the first three quarters of 2008, the Board of Directors of TFG declared a dividend of $0.15 per share. The dividend for Q4 2008 of $0.03 per share was approved on February 27, 2009 and will be paid on March 25, 2009. This will result in a total dividend of $0.48 for the year. For additional information on the Company's Dividend Policy please refer to the Company's website at www.tetragoninv.com.

In addition, on October 23, 2008, we extended our share repurchase program of up to 5% of our outstanding shares through June 3, 2009. During 2008, the Company purchased 2,550,506 shares at an average price of $4.82 per share, which brought the total number of shares purchased under the program to 2,862,402 at an average price of $5.08 per share. We continue to be confident in the long-term prospects of TFG and believe that the purchase of shares in the market may, at appropriate price levels below Net Asset Value (NAV), represent an attractive use of TFG's excess cash, if any.

Although given the current volatile environment there is a high degree of uncertainty associated with any forecast, we believe 2009 will present very challenging conditions for TFG. Despite global governmental interventions, such as the Troubled Asset Relief Program, American Recovery and Reinvestment Act, capital infusions and monetary easing, which have been far-reaching and substantial, we believe we will likely see difficult economic conditions throughout 2009 as global markets look for evidence of an economic bottoming and demonstrated effectiveness of recent and likely ongoing governmental intervention. We, therefore, expect continued pressure on TFG's investments and results of operations for the near future. Furthermore, as TFG's cash flows and net income come under pressure, we believe they may be lower and more volatile than in the past and certain of TFG's investments due to, among other things, underlying collateral defaults or negative loan rating migration, may cease to generate cash flows in 2009 and possibly beyond. Because of this challenging, volatile and uncertain environment, the Company will primarily focus on the preservation of its investments during 2009. We will also continue to monitor market developments and once we have appropriately addressed our primary aim of preservation, we may begin to explore new investment opportunities in the senior secured loan space.

With regards,

Board of Directors

February 27, 2009

INVESTMENT MANAGER'S REPORT

PORTFOLIO OVERVIEW

As of December 31, 2008, the fair value of the performing investment portfolio totaled approximately $1.1 billion and was 100% invested in CLO transactions. Our CLO portfolio continues to be diversified across underlying asset classes and geographies, with approximately 59.5% of risk capital invested in CLOs with primary exposure to U.S. broadly syndicated senior secured loans, 23.9% in CLOs with primary exposure to European broadly syndicated senior secured loans and 16.6% in CLOs with primary exposure to U.S. middle market senior secured loans at the end of 2008. In general, senior secured loans found in CLO portfolios are typically rated below Baa/BBB by Moody's and S&P. Since October 2007, we have continued to hold five non-performing investments, all of which were in the form of securitization vehicles other than CLOs and one of which generated minimal cash flows in 2008. We do not expect to collect any significant, if any, additional cash flows from these investments.

The weakening 2008 economic environment combined with challenging financing conditions placed significant pressure on leveraged loan borrowers and, therefore, our CLO investments. As firms sought to manage their liquidity, amend covenants, and restructure their balance sheets and operations, many experienced downward ratings migration, particularly during the final weeks of the fourth quarter. 2008 was also characterized by a significant increase in leveraged loan defaults relative to 2007. As of December 31, 2008, the lagging 12-month U.S. institutional loan default rate increased to 3.75% by principal amount, according to S&P/LCD, up from 0.24% in 2007.(1)

In comparison, TFG's lagging 12-month corporate loan default rate increased to approximately 2.81% as of the end of 2008, a level that is approximately 25% below the U.S. institutional loan default rate. Through 2008 year end, approximately $115.0 million of net excess losses have been factored into our IRR calculations.(2) The life-to-date net loss reserve declined from $158.0 million as of the end of Q3 2008, but modestly increased from approximately $106.0 million as of the end of 2007.

Downward loan ratings migration on a market-wide level was evidenced by a material increase in the share of S&P/LSTA Leveraged Loan Index obligors with corporate ratings of Caa1/CCC+ or below (excluding "D" or defaulted ratings), which increased from 1% in January 2008 to 9% by December 2008.(3) CLO investments generally, including certain of our CLO investments, also witnessed increases in the amounts of collateral included in their "CCC baskets" (e.g., levels of Caa1/CCC+ permitted to be held at par value or other than at "Market Value").(4) Much of this deterioration materialized during the final weeks of the fourth quarter triggering a significant negative adjustment of market expectations regarding future defaults and losses and further downward rating migration. As of December 31, 2008, the weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in TFG's 61 CLO investments was approximately 7.6% as compared to an 8.0% weighted-average maximum level permitted under the terms of our investments.(5) The weighted-average rating factor ("WARF") of our investments stood at approximately 2,577.(6)

Notes:
(1) S&P/LCD U.S. Leveraged Lending Review 4Q08. Please note that TFG's investment portfolio includes approximately 23.9% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's corporate loan default rate.
(2) The life-to-date net loss reserve is investment-specific. It is calculated by subtracting the actual collateral loss for each investment from the expected collateral loss, where the expected loss is a function of expected collateral size, TFG's loss assumptions and the length of time the investment has been held. The net excess loss amount reflects the overall O/C loss performance of TFG's portfolio; it reflects the cumulative effect of loss under-performance and over-performance of our individual investments on an aggregate portfolio basis. Please refer to footnote 11 of this Annual Report for a discussion regarding the distinction between life-to-date net loss reserve and the Accelerated Loss Reserve.
(3) In comparison with respect to credit facilities, the share of S&P/LSTA Leveraged Loan Index facilities rated Caa1/CCC+ or below (excluding "D" or defaulted ratings) increased from 2% in January 2008 to 5% in December 2008. Source: Credit Sights: "Strategy Outlook: Leveraged Finance (Part 2)", January 20, 2009.
(4) Market Value is a defined term under each investment's operative documents and typically refers to a mid-price as reported by an approved pricing service or the average of at least two dealers' bids.
(5) The methodology for determining the size of any excess Caa1/CCC+ or below rated assets is defined in each investments operative documents and therefore such definitions are not uniform across the portfolio of TFG's investments.
(6) The WARF is a par-weighted average of the Rating Factors of each of the assets in the collateral pool. A Rating Factor is a numerical value assigned to each rating category by Moody's. For example a "B2" rating has a Rating Factor of 2,720 whereas a B3 rating corresponds to a Rating Factor of 3,490. Please refer to "Moody's Approach to Rating Collateralized Loan Obligations", published on December 31, 2008 for additional information.

It is important to note that the CLO "CCC-rating" categorization methodology is investment-specific and may often require that for purposes of WARF and/or CCC basket calculations, corporate family or issuer (vs. facility ratings) are used, and that obligors rated "B3" on negative watch are lowered to a rating of Caa1/Caa+ or below. Each of these foregoing statistics represents a weighted-average summary of the size of the CCC basket (as defined in each of our investments) for all of our 61 investments.(7) Each individual investment's metrics and definitions will differ from this average and vary across the portfolio.

CCC baskets in CLOs are relevant to the investment's overcollateralization ("O/C") ratio calculations, since any excess above the permitted levels ("Excess CCCs") is typically held at Market Value for purposes of the O/C and/or interest reinvestment and diversion test calculations rather than being held at par. Additional categories of "distressed assets" such as defaults, certain discount securities, and excess current pay assets, are also typically carried at below-par levels for O/C and/or interest reinvestment and diversion test calculation purposes, with provisions generally requiring that such assets are carried at the lower of rating agency assigned recovery rates and Market Value.

As O/C tests and interest reinvestment or diversion tests are breached, CLO structures may divert excess interest cash flows away from the equity tranche holders, such as TFG, to reinvestment into additional collateral (in the event of an interest reinvestment or diversion test breach), to pay down the CLO's debt (in the event of an O/C breach which can typically only be cured by de-leveraging), or via a combination of both "curing methods" (in the event of an interest diversion/reinvestment test breach).(8)

In certain cases, however, such cash diversion may ultimately prove beneficial to TFG's investments, as it may cause the reinvestment of cash into new collateral at what we believe are attractive prices. Nevertheless, CLO managers may not be successful in reinvesting cash proceeds, given CLO terms and/or market conditions, including prevalent trading prices, discounted security provisions, or collateral quality limitations. Given the significant pressure on loan prices witnessed during 2008, which may likely continue through 2009, mark-to-market losses on Excess CCC and other distressed assets may exert pressure on O/C coverage ratios, especially when compounded by defaults or an increase in the size of other distressed asset categories. Although a significant portion of such O/C "losses" (i.e., amounts held at below par due to their categorization as "distressed assets" under each investment's operative documents) may be unrealized, they may result in significant par deterioration and O/C ratio volatility in line with the fluctuation of the market prices of such distressed assets. In light of the marked deterioration of economic outlook, declining corporate earnings, rising defaults and downgrade levels, we believe that significant risk exists for diminished cash flow and earnings for certain of TFG's investments during 2009, including a potential cut-off of cash flows on certain vehicles during 2009 and beyond. We also expect increased volatility of cash flow and earnings. For example, as described above, if an interest reinvestment and diversion test is breached interest payments to equity tranche holders will cease until the breach is cured through the reinvestment into additional collateral at which time, all other things being equal, the interest payments (and TFG's cash flow from that investment) will resume. This volatility may be further exacerbated by the operation of O/C and other coverage ratios as these provisions utilize Market Value inputs in their calculation and such inputs are themselves subject to significant movement.

Notes:
(7) Weighted by the original USD cost of each investment.
(8) Partial cash flow diversion to debt repayment in the event of an interest reinvestment/diversion test breach typically occurs in reverse sequential order, paying down the junior-most note until the test is cured or the junior-most note has been repaid, whereas de-leveraging in the event of an O/C ratio breach generally occurs sequentially paying down the most senior liabilities first.

PORTFOLIO OVERVIEW (continued)

The weighted-average IRR of TFG's investments ended the year at approximately 13.8%, a decline of approximately 3.1% from the end of Q3 2008 and down approximately 2.8% from 16.6% at the end of 2007. This IRR level incorporates, among other things, the life-to-date performance of our investments as well as certain IRR modeling assumption changes instituted as of December 2008 and further intended to factor in historic, current, and potential market developments on the performance of our investments. These December 2008 assumption changes are summarized below (listed in no particular order) (9):

- Constant Annual Default Rate: We have increased the assumed constant annual default rate to approximately 6.4%, which is 3.0x the original base-case WARF-implied default rate, for the next three years, followed by a return to 1.0x (the original base-case WARF-implied default rate) thereafter until maturity.

- Recovery Rate: We have reduced assumed recovery rates to approximately 55%, or approximately 0.8% of the original base-case assumed weighted-average recovery rate, for the next three years, followed by a return to 71% (the original base-case recovery rate) thereafter until maturity.(10)

- Prepayment Rate: We have reduced assumed loan prepayments to 7.5% p.a. for the next three years, followed by a return to 20% p.a. (the original base-case prepayment rate) thereafter until maturity; we have also assumed a 0% prepayment rate on bonds throughout the life of each transaction as in the original base-case assumptions.

- Reinvestment Price and Spread: We have reduced the assumed reinvestment price to 87%, a level that generates an effective spread over LIBOR of approximately 735 bps on broadly syndicated U.S. loans, 745 bps on European loans, and 805 bps on U.S. middle market loans, for the next three years followed by a return to a par reinvestment price (the original base case reinvestment price) thereafter until maturity.

In 2008, TFG established a balance sheet reserve calculated on a deal-by-deal basis against potential unrealized losses arising from, among other things, rating agency downgrades to TFG's investments' underlying collateral (the "Accelerated Loss Reserve").(11) As described herein, the Investment Manager believes that negative loan ratings migration, specifically migration to Caa1/CCC+ or below, may place pressure on the performance of certain of TFG's investments. Caa1/CCC+ or below rated assets exposure over pre-defined limits in such investments may temporarily or permanently cause cash diversion away from CLO equity tranches (TFG's investments) and into the reinvestment of new collateral, and, if significant enough, potential de-leveraging of the CLO.

The Accelerated Loss Reserve seeks to address a near-term rating agency driven phenomenon of an increase in negative loan ratings migration that may persist for a period materially less than the expected life of an investment as well as other potential unrealized losses, which in each case may not be appropriate for inclusion in TFG's long-term IRR modeling assumptions, but which may have an impact on the fair value of TFG's investments. For the quarter-ending December 31, 2008, the Accelerated Loss Reserve totaled approximately $141.0 million.

PORTFOLIO MANAGEMENT APPROACH

We are in regular contact with our asset managers as we seek to continually evaluate the performance and structural soundness of our CLO investments, as we believe this may help us to more effectively add value to our portfolio. Through this dialogue we also monitor and analyze underlying credit exposures and review credit "watch lists". We also seek to support the efforts of our asset managers to enhance the value of our CLOs through, among other things, consultation on amendments to CLO structure and/or terms or collateral management agreement terms.

Notes:
(9) Please note that TFG undertakes no obligation to update public disclosure with respect to these or other modeling assumptions, except as required by law.
(10) The base-case weighted-average recovery rate represents the weighted average of expected recoveries for each transaction based on our assumed recoveries on each asset class and each transactions' targeted asset mix, assuming 75% recovery on first-lien U.S. loans, 70% on first-lien European loans, 50% recovery on U.S. second-lien loans and mezzanine loans, and 30% recovery on high yield bonds.
(11) The Accelerated Loss Reserve like the life-to-date net loss reserve is transaction specific. The life-to-date net loss reserve is calculated by subtracting the actual collateral loss for each investment from its expected collateral loss, where the expected collateral loss is a function of the expected collateral size, TFG's loss assumptions and the length of time the investment has been held. Whereas the life-to-date net loss reserve is an adjustment embedded in TFG's modeling assumptions, the Accelerated Loss Reserve is a direct adjustment to the fair value of an investment and the cumulative value of such adjustments will be and is evidenced in the accompanying financial statements.

FINANCING SOURCES AND INITIATIVES

As of December 31, 2008, the Company had effectively no debt, having paid off or defeased all of its outstanding borrowings during 2008.[12] This represents a reduction of company-level leverage from 1.1x as of 2007 year-end. During 2008, we sought to reduce debt by repaying repurchase and total return swap borrowings and holding cash reserves, which are currently earmarked to pay down or defease remaining borrowings.

As of the end of 2008, TFG maintained repurchase or total return swap financing arrangements with Deutsche Bank and JP Morgan Chase Bank, with outstanding borrowings of approximately $108.0 million with Deutsche Bank and $9.5 million with JP Morgan Chase Bank. These total borrowings of approximately $117.6 million were fully defeased by cash, cash equivalents, and cash due from counterparties (including $94.2 million from Deutsche Bank) during 2008. At year end, TFG held a net long cash position of approximately $60.0 million.

Furthermore, we undertook a number of measures in 2008 to help enhance the Company's financial position and reduce counterparty risks, including:

- ♦ Repaying all repurchase borrowings and clearing the repurchase margin account at Lehman Brothers prior to that company's bankruptcy filing;
- ♦ Transferring all non-financed securities (the substantial majority of our existing investments) to a segregated custodial account.
- ♦ Reducing financing and hedging counterparty exposure when and where appropriate and seeking to limit such exposure to only necessary daily operating activities, such as clearing services; and
- ♦ Un-winding single name or index credit hedges when and where appropriate.

Our hedging strategy generated net gains of approximately $13.9 million during 2008 comprised of $10.3 million of single name and index credit and $3.6 million foreign exchange hedging gains. As of December 31, 2008, the Company had no credit hedges in place having unwound then-existing single name and index credit hedges during Q3 2008 based on the assessed cost-effectiveness of the hedges, potential counterparty risk and the desire to continue to improve the Company's liquidity position by monetizing such gains. Going forward, our hedging strategy may continue to include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges. We review our hedging strategy on an on-going basis as we seek to address identified risks to the extent practicable and in a cost-effective manner.

As we look to 2009, in evaluating the Company's uses of excess cash for investment, financing, and hedging purposes, we will seek to ensure the stability of the Company's business as well as the Company's ability to respond to changing market conditions. We expect to repay each of the previously defeased Deutsche Bank and JPMorgan Chase Bank borrowings during 2009 at which time the Company's primary source of liquidity will be its cash and cash equivalents on balance sheet as well as future CLO investment cash flows. We believe that the need to maintain appropriate levels of cash on our balance sheet has only increased given the current economic conditions and uncertainty.

INVESTMENT OUTLOOK AND STRATEGY

Although given the current volatile environment there is a high degree of uncertainty associated with any forecast, we believe 2009 will present very challenging conditions for TFG. Despite global governmental interventions, such as the Troubled Asset Relief Program, American Recovery and Reinvestment Act, capital infusions and monetary easing, which have been far-reaching and substantial, we believe we will likely see difficult economic conditions throughout 2009. We also anticipate that financial market activity will remain subdued as global markets look for evidence of an economic bottoming and demonstrated effectiveness of the recent and likely ongoing governmental intervention. We, therefore, expect continued pressure on TFG's investments and results of operations for the near future.

Note:
(12) Each of TFG's 61 CLO investments involves embedded leverage, provided by each CLO's liabilities, of approximately 10x -13x.

INVESTMENT OUTLOOK AND STRATEGY (continued)

In particular, we believe that the level of defaults, recoveries, and ratings downgrades of the underlying corporate obligors in TFG's investments will continue to have a substantial negative impact on the performance of TFG. At the end of Q4 2008, both Moody's and S&P materially increased their default expectations for 2009. Although these forecasted default rates encompass both bond and loan issuers (and historically loan default rates have been lower than bond default rates), given the volatile nature of current market conditions there can be no assurance that will remain the case. Loan market investors also share the rating agencies' expectation of further credit deterioration.(13) We also believe loan prepayments will continue to be depressed during 2009 and that the number of corporate obligors and facilities downgraded to Caa1/CCC+ or below will continue to grow during the coming year, as the rating agencies incorporate their new economic forecasts into their rating reviews. Finally, we expect that CLO liability ratings will experience significant downgrades during 2009, as recently outlined in a public announcement by Moody's.(14) Such CLO liability downgrades, if material enough, may result in a termination of a collateral manager's discretionary trading abilities, which may impair their ability to appropriately manage the credit risk of the applicable underlying portfolio. As expectations and market conditions evolve, we will look to incorporate them into our own default, loss and rating migration outlook and IRR modeling assumptions as appropriate.

We expect that rising defaults, ratings downgrades and other factors will put pressure on the performance of TFG's CLO investments. For example and as previously described, O/C and other coverage ratio breaches may cause interest diversion away from CLO equity tranches, such as TFG's investments, which may ultimately result in future partial or complete write-downs of TFG's investments. This uncertainty of performance leads us to believe that TFG's cash flows and net income may be lower and more volatile in 2009 than in the past. Additionally, further adjustments may need to be made to TFG's IRR modeling assumptions to account for further market developments, including our updated view of potential market developments. Because of this challenging and uncertain environment, TFG will primarily focus on the preservation of its existing investments during 2009.

We will seek to support our existing performing investments through a variety of potential strategies to the extent possible and cost effective, and our majority equity tranche positions may prove valuable in those efforts. However, there can be no assurance that we will be successful in such efforts or that such majority positions will, in and of themselves, contribute to such efforts. Finally, we will continue to monitor market developments and once we have appropriately addressed our primary aim of preservation, we may begin to explore new investment opportunities in the senior secured loan space, including possibly through investments in debt tranches of CLOs. We believe, however, that the new issue CLO market, which was effectively halted primarily due to a lack of risk capital, particularly at senior debt levels, will remain sluggish during 2009 and accordingly, expect any opportunities to mainly come from the secondary market. Given our preservation aim, existing market opportunities and our buy-and-hold strategy (further described herein), we would expect TFG's assets to continue to mainly consist of CLO investments, cash and cash equivalents.

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

Notes:
(13) Source: LCD, "Default Rates: How high will they go? And what about recoveries?", December 2008
(14) Source: Moody's Global Credit Research Announcement: "Moody's updates key assumptions for rating CLOs", February 4, 2009.

FINANCIAL REVIEW 2008

OVERVIEW

2008 ultimately proved to be a challenging year for TFG. IRR modeling assumptions were modified to reflect rapidly changing economic conditions and outlook, particularly in Q4 2008, and the Accelerated Loss Reserve was introduced. The resulting reduction in fair value of the portfolio generated a loss for the year of almost $(0.37) per share.(15) Whilst performance in terms of EPS was mainly impacted by fourth quarter developments, cash continued to flow through to TFG from its investments, with net cash inflows from operations of $345.0 million compared to the $120.0 million generated in 2007.

CONSOLIDATED INCOME COMPARISON 2008 VS. 2007

	2008				2007			
Statement of Operations	**Master Fund ($MM)**	**TFG ($MM)**	**TFG LP ($MM)**	**Consolidated ($MM)**	**Master Fund ($MM)**	**TFG ($MM)**	**TFG LP ($MM)**	**Consolidated ($MM)**
Interest Income from Investments	217.1	0.0	0.0	217.1	201.6	0.0	0.0	**201.6**
Interest Income from Cash	4.3	0.0	0.0	4.3	12.4	0.0	0.0	**12.4**
Investment Income	**221.4**	**0.0**	**0.0**	**221.4**	**214.0**	**0.0**	**0.0**	**214.0**
Management Fees	(19.6)	0.0	0.0	(19.6)	(12.9)	(4.0)	(1.1)	**(18.0)**
Administrative / Custody and Other Fees	(2.9)	0.0	0.0	(2.9)	(2.2)	(0.1)	(0.0)	**(2.3)**
Interest Expense	(13.1)	0.0	0.0	(13.1)	(21.5)	0.0	0.0	**(21.5)**
Total Operating Expenses	**(35.6)**	**0.0**	**0.0**	**(35.6)**	**(36.6)**	**(4.1)**	**(1.1)**	**(41.8)**
Net Investment Income	**185.8**	**0.0**	**0.0**	**185.8**	**177.4**	**(4.1)**	**(1.1)**	**172.2**
Realized / Unrealized Gain From Hedging	13.9	0.0	0.0	13.9	10.0	0.0	0.0	**10.0**
Net change in Unrealized (Depreciation) / Appreciation in Investments	(224.3)	0.0	0.0	(224.3)	3.7	0.0	0.0	**3.7**
Net Realized Gain / (Loss) on Investments	0.3	0.0	0.0	0.3	(69.1)	0.0	0.0	**(69.1)**
Realized / Unrealized Gains / (Losses) from Investments and FX	**(210.1)**	**0.0**	**0.0**	**(210.1)**	**(55.4)**	**0.0**	**0.0**	**(55.4)**
Net (Expense) / Income before Performance Fee	**(24.3)**	**0.0**	**0.0**	**(24.3)**	**122.0**	**(4.1)**	**(1.1)**	**116.8**
Performance Fees	0.0	(21.9)	0.4	(22.3)	0.0	(16.1)	(1.5)	**(17.6)**
Net (Expense) / Income	**(24.3)**	**(21.9)**	**0.4**	**(46.6)**	**122.0**	**(20.2)**	**(2.6)**	**99.2**

On a consolidated basis net investment income of $185.8 million was relatively stable in comparison to $172.2 million in 2007. Top line income grew to $221.0 million, reflecting a small increase in the average number of investments in the portfolio and expenses were largely unchanged.

Hedge gains of $13.9 million were recorded in the year with $10.3 million of these generated through single name and index credit hedges. However, as mentioned in the overview, a significant write-down in the fair value of the portfolio turned the net investment income profit into an overall net income loss of $(47.0) million, which equates to $(0.37) per share.

Note:
(15) The accompanying audited financial statements of TFG note EPS of $(0.41) for TFG. The difference from Consolidated EPS is attributable to net income of TFGLP which was recorded as share premium in TFG upon exchange of TFGLP interests into shares of TFG. The exchange did not result in any dilution to NAV per Share.

CONSOLIDATED INCOME - 2008 QUARTER ON QUARTER COMPARISON

The quarter-on-quarter comparison of consolidated net income (see table below) shows the relative stability of bottom line income across the first three quarters. The rapidly deteriorating economic environment and outlook in Q4 2008, among other factors, prompted adjustments to IRR modeling assumptions, as well as the introduction of the Accelerated Loss Reserve.

The impact of the assumption changes and the Accelerated Loss Reserve flowed through the unrealized depreciation investment line resulting in a $(187.1) million net loss in Q4 2008.

TFG Quarterly Statement of Operations

Statement of Operations	Q1 2008 ($MM)	Q2 2008 ($MM)	Q3 2008 ($MM)	Q4 2008 ($MM)	Total 2008 ($MM)
Interest Income from Investments	55.9	54.6	53.5	53.1	217.1
Interest Income from Cash	2.1	1.1	1.0	0.1	4.3
Investment Income	**58.0**	**55.7**	**54.5**	**53.2**	**221.4**
Management Fees	(4.8)	(4.8)	(5.0)	(5.0)	(19.6)
Administrative / Custody and Other Fees	(0.6)	(0.5)	(0.8)	(1.0)	(2.9)
Interest Expense	(5.2)	(3.6)	(3.0)	(1.3)	(13.1)
Total Operating Expenses	**(10.6)**	**(8.9)**	**(8.8)**	**(7.3)**	**(35.6)**
Net Investment Income	**47.4**	**46.8**	**45.7**	**45.9**	**185.8**
Realized / Unrealized Gains / (Losses) From Hedging	9.5	(1.1)	3.4	2.0	13.8
Net change in Unrealized (Depreciation) / Appreciation in Investments	(9.0)	9.7	10.0	(235.0)	(224.3)
Net Realized Gain / (Loss) on Investments	0.4	0.0	0.0	0.0	0.4
Realized / Unrealized Gains / (Losses) from Investments and FX	**0.9**	**8.6**	**13.4**	**(233.0)**	**(210.1)**
Net Increase / (Decrease) in Net Assets From Operation Before Performance Fees	**48.3**	**55.4**	**59.1**	**(187.1)**	**(24.3)**
Performance Fees	(2.4)	(9.6)	(10.3)	0.0	**(22.3)**
Net Increase / (Decrease) in Net Assets from Operations	**45.9**	**45.8**	**48.8**	**(187.2)**	**(46.6)**

Performance Metrics and Drivers

The key performance metrics and drivers table tells a similar story to the one outlined with respect to net income. The reduction in Q4 2008 of the weighted-average IRR primarily reflects the aforementioned IRR modeling assumption adjustments.

Performance Metrics and Drivers				
Performance Metrics	**Q1 2008**	**Q2 2008**	**Q3 2008**	**Q4 2008**
EPS ($)	$0.36	$0.36	$0.39	($1.48)
DPS ($)	$0.15	$0.15	$0.15	$0.03
Operating Cost - Income Ratio (16)	22.4%	33.2%	35.0%	13.6%
Performance Drivers	**Q1 2008**	**Q2 2008**	**Q3 2008**	**Q4 2008**
Number of Investments (17)	61	61	61	61
Weighted Average IRR on Completed Transactions	16.0%	16.6%	16.9%	13.8%
Leverage at end of Period	1.09	1.03	0.97	0.95
Net Assets ($MM)	$1,289	$1,319	$1,348	$1,142
Number of Shares in Issue (million)	125.7	126.3	126.2	126.0
Net Excess Life-to-Date Loss Reserves ($MM) (18)	(116)	(137)	(158)	(115)

Notes:

(16) Calculated as follows: Total operating expenses including performance fee / Investment income.

(17) Excludes CDO-squared and ABS CDO transactions written off in October 2007. TFG continues to hold the economic rights to these written-off investments, but does not expect any further significant cash flows, if any, going forward.

(18) Net excess life-to-date loss accrual is investment specific. It subtracts the actual collateral loss from the expected loss, where the expected loss is a function of expected collateral size, TFG's loss assumption and length of time the investment has been held

CASH FLOW FROM OPERATIONS

The cash flow table below reflects a business strategy in 2008 of using strong cash flows to pay down and defease debt, whilst maintaining dividend payments to investors. Cash inflows from operations nearly trebled to $345.0 million as the investment portfolio seasoned and cash flows to CLO equity holders, such as TFG, improved. Net outflows from financing activities of $490.0 million includes $301.0 million of direct repayment of repurchase borrowings and a further $78.0 million of debt defeasement, as well as $61.0 million of cash dividend distributed to TFG shareholders.

Cash Flow From Operations	2008	2007
	MM	MM
	$	$
Net cash inflow from operating activities	345	120
Net cash outflows from investing activities	-	(692)
Net cash (outflows) / inflows from financing activities	(490)	663
Net (decrease) / increase in cash and short term deposits	(145)	91
Cash and cash equivalents at start of year	209	118
Exchange rate gain / loss	(1)	-
Cash and cash equivalents at end of year	63	209

NET ASSETS

The Consolidated Balance Sheet further demonstrates the results of the strategy described in the cash flow section above. In 2007 net debt, classified as cash less debt plus other assets/liabilities was $(183.0) million. By the end of 2008, TFG had net long cash of $60.0 million which is calculated as cash and cash equivalents of $63.0 million minus payables under repurchase and swap agreements plus accrued interest of $(118.0) million, plus other assets/ (liabilities) of $115.0 million.

Consolidated Balance Sheet Summary	2008	2007
	MM	MM
	$	$
Cash and cash equivalents	63	209
Investments in CLOs (at fair value)	1,082	1,447
Debt	(118)	(423)
Other Assets / Liabilities	115	31
Equity	1,142	1,264

Description of Business

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

As described above, the Company’s investment objective is to generate distributable income and capital appreciation. To achieve this investment objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Investment Manager seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on experience and expertise, and to use the market experience of the Investment Manager to negotiate favorable transaction terms for vehicles in which the Company invests. From inception through December 31, 2008, the Master Fund has acquired investments with a fair value of approximately $1.1 billion.

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

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

Investment Management

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

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

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

Polygon Investment Partners LLP and Polygon Investment Partners LP (together, the “Service Providers”) provide the Investment Manager with certain services in relation to Company pursuant to a Services Agreement dated April 26, 2007. The Service Providers provide investment management services to Polygon Global Opportunities Master Fund and its feeder funds (the “Polygon Fund”), which in 2008 commenced a complete disposition of its assets. This unwinding of the Polygon Fund is not expected to negatively impact the ability of the Service Providers to continue to provide services to the Company.

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

Historical Approach to Investments

The Investment Manager has sourced investment opportunities through a variety of channels, including the Investment Manager's network of direct relationships with major commercial and investment banks and asset managers. The current performing portfolio is composed solely of substantial positions in the Residual Tranches of a broad range of CLO products. Residual Tranches will in most cases be unrated and represent the "equity" or "first loss" position of a CLO.

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

Asset Class Selection

The Investment Manager has to date focused on utilizing CLO securitization vehicles to achieve its investment objective. It has gained exposure to senior secured bank loans through its CLO investments and within its CLOs the Investment Manager has sought to employ a multiple asset class investment strategy. The Investment Manager selected the Company's target asset classes following an analysis of key factors affecting returns, including (i) credit spread risk premiums, (ii) economic and credit cycles, and (iii) rating agency analyses. Among other things, the Investment Manager has sought exposure to those assets that have the largest portion of their credit spread attributable to risks that it believes may be mitigated most effectively, such as concentration risk and currency risk, particularly through the use of structured finance vehicles such as CLOs.

As previously described, the asset class primarily represented in the Company's current portfolio consists of leveraged loans, comprised of (a) broadly syndicated senior secured loans of U.S. borrowers; (b) broadly syndicated senior secured loans of European borrowers; and (c) middle-market senior secured loans of U.S. borrowers.

Asset Manager Selection

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

The Investment Manager has selected asset managers that it believes to be superior and has looked to select asset managers with a demonstrated strength in credit analysis and the management of credits on a long-term basis consistent with its buy-and-hold strategy.

The Company believes that, as a result of (among other things) the reduction in CLO issuance volumes in 2008 and expected low levels of issuance in 2009, the CLO asset manager industry may continue to face some consolidation pressures as was evidenced in 2008 as several managers exited the market or otherwise reorganized, including certain of our CLO managers. The Company continues to selectively explore strategic business opportunities related to this consolidation of CLO asset managers, as the Company may benefit from utilizing asset managers that would be affiliated with the Company. Furthermore, where the Company enjoys a sizable position in a particular CLO transaction, it may realize value on its investments in conjunction with CLO asset manager consolidation transactions as has been the case recently.

ASSET DIVERSIFICATION

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

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

As described above, all of the Company's currently performing investments are in CLOs. Notwithstanding the efforts of the Investment Manager to diversify across underlying assets, the Company's investments could face significant downward pressure as Securitization Vehicles, such as CLOs, generally come under increased market pressure. For example, many of the Company's investments in Securitization Vehicles are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for the Company to sell such holdings.

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

BUY-AND-HOLD STRATEGY

The emphasis of the Investment Manager's existing strategy for the Company has been on the selection and structuring of investment positions that are then intended to be held for returns based on cash flows to provide a stable stream of income. The Investment Manager believes 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. For example, the fourth quarter of 2008 evidenced dramatic developments, including a marked deterioration in economic outlook and an increasingly negative default outlook by various market participants, including rating agencies, with an associated significant increase in rating agency downgrades and credits related Caa1/CCC+ or below. The potential impact of those and further similar developments has prompted adjustments to TFG's IRR modeling assumptions and a corresponding reduction in the fair value of TFG's investments. The Investment Manager also may dispose of portfolio positions from time to time and may reallocate investments in the portfolio within and among asset classes on a discretionary basis. The Company believes the Investment Manager's strategy of taking substantial (or majority) positions has made a buy-and-hold strategy more attractive, as the Investment Manager may in certain cases influence the performance of a CLO through, among other things, the support of amendments to the CLO structure or the collateral management agreement.

VALUATION

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

DIVIDEND POLICY AND SHARE REPURCHASES

Subject to having sufficient profits available and applicable law, TFG is currently targeting a dividend payout in the range of 30% to 50% per annum of the net increase in net assets resulting from operations in quarterly installments. These are targeted dividend levels and are not forecasts or binding commitments. The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, and subject to the approval of the voting shares of TFG. TFG has and may continue to also pay scrip dividends currently conducted through an optional dividend reinvestment program. If the Board of Directors declares a cash dividend payable by TFG, they will also (in their capacity as directors of the Master Fund) declare an equal dividend per share payable concurrently by the Master Fund. TFG has and may also continue to engage in share repurchases in the market from time to time. Such purchases may at appropriate price levels below NAV represent an attractive use of TFG's excess cash and an efficient means to return cash to Shareholders. Any decision to engage in market purchases will be made by the Board of Directors upon consideration of the recommendation of the Investment Manager, as well as all other relevant factors, and will be subject to, among other things, applicable law and profits at the time.

REPORTING

In accordance with applicable regulations under Dutch law, TFG publishes monthly statements on its website for the benefit of its investors containing the following information:

- the total value of the investments of the Master Fund;
- a general statement of the composition of the investments of the Master Fund; and
- the number of outstanding shares of TFG.

In addition, in accordance with the requirements of Euronext Amsterdam by NYSE Euronext and applicable regulations under Dutch law, TFG provides annual and semi-annual reports to its Shareholders, including year-end financial statements, which in the case of the financial statements provided in its annual reports, will be reported in accordance with U.S. GAAP and audited in accordance with international auditing standards. As of January 1, 2009, TFG will also provide 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.

RISK FACTORS

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

- Many of the Company's investments are in the form of highly subordinated securities, which are susceptible to losses of up to 100% of the initial investments, including losses resulting from changes in the financial rating ascribed to, or changes in the market value or fair value of, the underlying assets of an investment. CLO vehicles generally invest in fixed income securities rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality) and may be regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. Moreover, market developments (including, without limitation, deteriorating economic outlook, rising defaults and rating agency downgrades) may impact the fair value of an investment and/or its underlying assets, as we experienced in the third and fourth quarters of 2008.

- Defaults, their resulting losses and other losses on underlying assets (including bank loans) may have a negative impact on the value of the Company's portfolio and cash flows received. In addition, bank loans may require substantial workout negotiations or restructuring in the event of a default or liquidation which could result in a substantial reduction in the interest rate and/or principal.

- The modeled cash flow predictions and assumptions used to calculate the IRR and fair value of each CLO investment may prove to be inaccurate and require adjustment. Factors affecting the accuracy of such modeled cash flow predictions include: (1) uncertainty in predicting future market values of certain distressed asset types, (2) the inability to accurately model collateral manager behavior, and (3) the divergence of assumed variables from realized levels over the period covered by the model.

- Bank loans are generally subject to liquidity risks and, consequently, there may be limited liquidity if a Securitization Vehicle is required to sell or otherwise dispose of such bank loans.

- Many of the Company's investments in Securitization Vehicles are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for the Company to sell such holdings.

- The Company may be exposed to counterparty risk, which could make it difficult for the Company to collect on the obligations represented by investments and result in significant losses.

- The Company's organizational, ownership and investment structure may create significant conflicts of interest that may be resolved in a manner which is not always in the best interests of the Company or the shareholders of TFG.

- The Investment Manager may devote time and commitment to other activities.

RISK FACTORS (CONTINUED)

- Shares of TFG (the "Shares") do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The holder of the voting shares of TFG will be able to control the composition of the Board of Directors and exercise extensive influence over TFG's and the Master Fund's business and affairs. Furthermore, no formal corporate governance code applies to TFG. Additional information on the organizational structure and corporate governance of TFG may be found on the Company's website at www.tetragoninv.com.
- The performance of many of the Company's investments may depend to a significant extent upon the performance of its asset managers.
- The Company is subject to concentration risk in its investment portfolio, which may increase the risk of an investment in TFG.
- The Company's 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 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 Euronext Amsterdam by NYSE Euronext trading market is less liquid than other major exchanges, which could affect the price of the Shares. TFG may decide in the future to list the Shares on a stock exchange other than Euronext Amsterdam by NYSE Euronext. There can be no assurance that an active trading market would develop on such an exchange.

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

Board of Directors

Paddy Dear	**Reade Griffith**	**Byron Knief***	**Alex Jackson**
Rupert Dorey*	**David Jeffreys***	**Lee Olesky***	

*Independent Director

Shareholder Information

Registered Office of TFG and the Master Fund
Tetragon Financial Group Limited
Tetragon Financial Group Master Fund Limited
Tudor House
Le Bordage
St. Peter Port, Guernsey
Channel Islands GYI 3PF

Investment Manager
Polygon Credit Management LP
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Administrator and Registrar
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TETRAGON

WWW.TETRAGONINV.COM

AUDITED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2008

TETRAGON FINANCIAL GROUP LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2008

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TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2008

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2008.

THE COMPANY

Tetragon Financial Group Limited (the "Company") was registered in Guernsey on 23 June 2005 under the provisions of The Companies (Guernsey) Law, 1994, as amended, 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 changed its name from Tetragon Credit Income Fund Limited to Tetragon Financial Group Limited on 30 March 2007. In addition, on 22 March 2007 the shareholders of the Fund passed a resolution, amending its articles of association to modify, among other things, its capital structure. Such amendment to the Company's articles of association converted the Company into a closed-ended fund by eliminating redemption rights of investors. The Company continues to be registered and domiciled in Guernsey. Following the global offering the Company's shares were listed on the NYSE Euronext Amsterdam Exchange on 19 April 2007, with shares being paid for and delivered on 26 April 2007.

The Companies (Guernsey) Laws 1994, (as amended), (the "Old Law") was replaced by the Companies Guernsey) Law, 2008 (the "New Law") with effect from 1 July 2008. Under transitional provisions permitted by the New Law, the Company has prepared these financial statements in compliance with the Old Law. Future financial statements will be prepared in compliance with the New Law.

INVESTMENT OBJECTIVE

The Company's investment objective is to generate distributable income and capital appreciation by investing substantially all of its assets in Tetragon Financial Group Master Fund Limited (the "Master Fund"). To achieve this investment objective, and to provide stable returns to investors across various interest rate and credit cycles, Polygon Credit Management LP (the "Investment Manager") seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on experience and expertise, and to use its market experience to negotiate favourable transaction terms for vehicles in which the Master Fund invests. As part of this current investment strategy, the Master Fund may employ hedging strategies and leverage in seeking to provide attractive returns from the portfolio while managing risk.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on pages 8 to 9. 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:

Patrick Dear
Rupert Dorey*
Reade Griffith
David Jeffreys*
Byron Knief*
Lee Olesky *
David Wishnow (until 17 December 2008)
Alex Jackson (from 17 December 2008)

* Independent non-executive Directors

DIRECTORS (CONTINUED)

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Initially, the Directors' annual fee shall be US$ 50,000, 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. Patrick Dear, Reade Griffith, David Wishnow and Alex Jackson have waived their entitlement to a fee.

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

As of 1 July 2008 State Street Fund Services (Guernsey) Limited replaced Kleinwort Benson (Channel Islands) Fund Services as Secretary, Administrator and Registrar of the Fund.

DIVIDENDS

The Directors currently target a dividend payout in the range of 30% to 50% per annum of the net increase in net assets resulting from operations in quarterly installments. These are target dividend levels and are not forecasts or binding commitments. The Company is not obligated to pay dividends at this level or at all. The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager and subject to the approval of the Voting Shares. The Directors declared a dividend amounting to US$ 0.15 per share for the quarter ended 31 December 2007, US$ 0.15 per share for the Quarter Ended 31 March 2008, US$ 0.15 for the Quarter Ended 30 June 2008 and US$ 0.15 for the Quarter Ended 30 September 2008. The Directors have declared a dividend US$ 0.03 for the Quarter Ended 31 December 2008. Dividends paid during the year ended 31 December 2007 amounted to US$ 0.30 per share.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing financial statements for each financial year which present fairly in all material respects the state of affairs of the Company and of the net increase or decrease in net assets from operations of the Company for that year in accordance with applicable laws and US Generally Accepted Accounting Principles. 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;
- 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 also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994, as amended, the requirements of NYSE Euronext and the applicable regulations under Dutch law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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.

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 will 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 2009

TETRAGON FINANCIAL GROUP LIMITED

INDEPENDENT AUDITORS' REPORT
As at 31 December 2008

Independent auditors' report to the members of Tetragon Financial Group Limited

We have audited the company's financial statements (the "financial statements") of Tetragon Financial Group Limited for the year ended 31 December 2008 which comprise the Statements of Assets and Liabilities, The Statements of Operations, the Statements of Changes in Net Assets, the Statements of Cash Flows and the related notes on pages 12 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994, as amended. 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 auditors

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable Guernsey law and accounting principles generally accepted in the United States of America as set out in the statement of Directors' responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements are presented fairly in all material respects and are properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended, and the principal documents. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT (continued)
As at 31 December 2008

Basis of audit opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- present fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America, of the state of the company's affairs as at 31 December 2008 and of its result for the year ended 31 December 2008; and

- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended, and the principal documents

KPMG Channel Islands Limited
Chartered Accountants

Guernsey

Date: 27 February 2009

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2008

	Note	31 Dec 2008 US$	31 Dec 2007 US$
Assets			
Investment in Master Fund	3	1,141,950,194	1,188,220,992
Amounts receivable from Master Fund		74,366	416,429
Total assets		1,142,024,560	1,188,637,421
Liabilities			
Amounts payable on Treasury shares		74,366	416,429
Total liabilities		74,366	416,429
Net assets		1,141,950,194	1,188,220,992
Equity			
Share capital	5	125,980	118,455
Share premium	6	1,182,232,455	1,104,465,395
Capital reserve in respect of share options	7	11,789,336	11,789,336
Earnings	10	(52,197,577)	71,847,806
		1,141,950,194	1,188,220,992
Shares outstanding		Number	Number
Participating shares	5	125,979,883	118,455,430
Net asset value per share			
Participating shares		US$9.06	US$10.03

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 2009

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2008

	Note	Year ended 31 Dec 2008 US$	Year ended 31 Dec 2007 US$
Direct investment income			
Interest income from cash		-	1,366
Direct investment income		-	1,366
Investment income allocated from the Master Fund			
Interest income		215,836,216	177,472,739
Investment income allocated from the Master Fund		215,836,216	177,472,739
Total investment income		215,836,216	177,474,105
Direct expenses			
Management fees	7	-	(4,046,952)
Incentive fee	4	(21,930,546)	(16,141,014)
Custodian fees		-	(38,878)
Audit fees		-	(7,093)
Directors' fees	7	-	(19,552)
Other operating expenses		-	(7,201)
Direct expenses		(21,930,546)	(20,260,690)
Operating expenses allocated from the Master Fund			
Management fees	7	(19,145,015)	(10,670,903)
Administration fees		(719,633)	(512,723)
Custodian fees		(52,105)	(1,863)
Legal and professional fees		(628,016)	(420,895)
Audit fees		(307,770)	(233,706)
Directors' fees	7	(195,175)	(134,040)
Transfer agent fees		(175,128)	(97,587)
Other operating expenses		(713,056)	(404,245)
Interest expense		(12,708,466)	(17,822,315)
Operating expenses allocated from the Master Fund		(34,644,364)	(30,298,277)
Total operating expenses		(56,574,910)	(50,558,967)
Net investment income		159,261,306	126,915,138

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2008

	Note	Year ended 31 Dec 2008 US$	Year ended 31 Dec 2007 US$
Net realized and unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund			
Net realized gain / (loss) from:			
Investments		303,684	(57,346,711)
Foreign currency transactions		19,644,084	(19,936,557)
Credit default swaps		19,731,448	(4,855,858)
		39,679,216	(82,139,126)
Net (decrease) / increase in unrealized (depreciation) / appreciation on:			
Investments		(223,944,692)	3,073,038
Forward foreign exchange contracts		(2,890,973)	464,270
Credit default swaps		(9,606,673)	9,351,191
Foreign exchange options		2,930,275	-
Translation of assets and liabilities in foreign currencies		(16,228,221)	23,263,449
		(249,740,284)	36,151,948
Net realized and unrealized loss from investments and foreign currencies allocated from the Master Fund		(210,061,068)	(45,987,178)
Net (decrease) / increase in net assets resulting from operations		(50,799,762)	80,927,960
Earnings per Share			
Basic	9	US$(0.41)	US$0.48
Diluted	9	US$(0.41)	US$0.48
Weighted average Shares outstanding		**Number**	**Number**
Basic	9	122,880,187	112,945,594
Diluted	9	122,880,187	112,945,594

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 2008

	Year ended 31 Dec 2008 US$	Year ended 31 Dec 2007 US$
Total investment income	215,836,216	177,474,105
Total operating expenses	(56,574,910)	(50,558,967)
Net realized gain / (loss) from investments and foreign currencies allocated from the Master Fund	39,679,216	(82,139,126)
Net unrealized (loss)/gain from investments and foreign currencies allocated from the Master Fund	(249,740,284)	36,151,948
Net (decrease) / increase in net assets resulting from operations	(50,799,762)	80,927,960
Dividends paid to shareholders	(73,245,621)	(33,422,949)
Issue of redeemable preference shares during the period	-	331,904,271
Issue of shares through global offering	-	300,000,000
Issue of shares*	90,144,138	140,715,240
Redemptions of redeemable preference shares	-	(90,204,825)
Treasury shares	(12,369,553)	(2,167,664)
Global offering costs	-	(16,490,565)
Increase in net assets resulting from net share transactions	77,774,585	663,756,457
Total (decrease) / increase in net assets	(46,270,798)	711,261,468
Net assets at start of year	1,188,220,992	476,959,524
Net assets at end of year	1,141,950,194	1,188,220,992

* Issue of shares include Shares issued under the Exchange Agreement and the Optional Stock Dividend Plan as detailed in Note 5.

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 2008

	Year ended 31 Dec 2008 US$	Year ended 31 Dec 2007 US$
Operating and investing activities		
Net (decrease) / increase in net assets resulting from operations	(50,799,762)	80,927,960
Adjustments for:		
Net unrealized depreciation / (appreciation) on investments in Master Fund	46,270,798	(41,192,198)
Operating cash flows before movements in working capital	(4,528,964)	39,735,762
Decrease / (increase) in receivables	342,063	(416,429)
Decrease in payables	(342,063)	(5,636,688)
Cash flows (used in) / from operations	(4,528,964)	33,682,645
Net purchase of investments*	-	(656,853,580)
Cash outflows from operating and investing activities	(4,528,964)	(623,170,935)
Financing activities		
Issue of redeemable preference shares during the year	-	331,904,271
Issue of shares through global offering	-	300,000,000
Issue of shares	90,144,138	133,252,892
Redemptions of redeemable preference shares	-	(90,204,825)
Treasury shares	(12,369,553)	(1,751,235)
Decrease in equalization credit payable	-	(7,579,271)
Global offering costs	-	(16,490,565)
Dividends paid to shareholders**	(73,245,621)	(25,960,601)
Cash inflows from financing activities	4,528,964	623,170,666
Net decrease in cash and cash equivalents	-	(269)
Cash and cash equivalents at beginning of year	-	269
Cash and cash equivalents at end of year	-	-

* Additional Master Fund shares received through the Exchange Agreement are non cash transactions.

** In 2007 dividends paid to shareholders is shown net of the amount reinvested under the Optional Stock Dividend Plan.

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

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

Note 1 General Information

Tetragon Financial Group Limited (the “Company”) was registered in Guernsey on 23 June 2005 as a company limited by shares under the provisions of The Companies (Guernsey) Law, 1994, as amended, 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 Tudor House, Le Bordage, St. Peter Port, Guernsey, Channel Islands, GY1 3PF.

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”). Following the global offering the Company's shares were listed on the NYSE Euronext Amsterdam Exchange on 19 April 2007, with shares being paid for and delivered on 26 April 2007.

Note 2 Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in conformity with United States generally accepted accounting principles ("US GAAP").

The Company’s investment in the Master Fund is valued based on the accounting net asset value per share obtained from the Master Fund’s administrator, which is the Company’s proportionate 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 pro-rata share of each type of gain, loss, income and expense of the Master Fund’s Statements of Operations. Attached are the audited financial statements of the Master Fund, which are an integral part of these financial statements. As at 31 December 2008, the Company had 100% (2007: 94%) ownership interest in the Master Fund.

For financial statement reporting purposes, the Company is an investment company and follows the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies (the “Guide”).

The accounting policies have been consistently applied by the Company during the year ended 31 December 2008 and are consistent with those used in the previous year. The financial statements are presented in United States Dollars.

Use of Estimates

The preparation of financial statements in conformity with US 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; however, 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 accounting net asset value per share obtained from the Master Fund's administrator.

Expenses

Expenses, including management fees, incentive fees, administration fees and custodian fees, 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 GBP600 per annum.

Capital expenses

The preliminary expenses of the Company directly attributable to the global offering were charged to the share premium account and included payments made to regulatory bodies and exchanges.

Share options granted to the Investment Manager were treated as a capital expense on the basis that they were granted by the Company as a fee for the Investment Manager's work in successfully arranging the global offering and the associated issuance of new capital for the Company. The share premium account was credited with the fair value of such options at the time that such options were vested.

Share Options

The fair value of options granted to the investment manager was recognised 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 and remained exercisable until the tenth anniversary of admission and listing.

Dividends payable

Dividends payable on shares are recognised in the Statements of Changes in Net Assets.

Treasury shares

When share capital recognised as equity is repurchased the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Note 3 Investment in Master Fund

The Master Fund at the year end held investments in securities at fair value, cash and cash equivalents, forward contracts, FX call options, repurchase / swap agreements and other receivables and payables.

As at 31 December 2008, the Company had an investment of US$ 1,141,950,194 (31 December 2007: US$ 1,188,220,992) in the Master Fund with a cost of US$ 1,113,464,521 (2007: US$ 1,113,464,521).

Note 4 Incentive fee

Since 25 April 2007, 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) 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 a Hurdle.

The Hurdle for any Calculation Period will equal (i) the Reference NAV multiplied by (ii) the Hurdle Rate. For Calculation Periods ending prior to 25 April 2008 the Hurdle Rate was equal to 8% per annum multiplied by the actual number of days in the Calculation Period divided by 365. Subsequently, the Hurdle Rate is determined by 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%.

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 Reference NAV at the end of a Calculation Period, NAV shall be adjusted by 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.

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 2008 was US$21,930,546 (31 December 2007: US$ 16,141,014). As at 31 December 2008 US$ Nil was outstanding (31 December 2007: US$ Nil).

Note 5 Share Capital

On 22 March 2007 the shareholders of the Company passed a resolution amending its Articles of Association to modify, among other things, its capital structure.

Note 5 Share Capital (continued)

Class A, Class B and Class C shares (Redeemable Preference Shares) which were in issue prior to the resolution, converted into Shares on 26 April 2007. Shares are described below.

Authorized

The Company has an authorized share capital of US$1,000,000 divided into 10 Voting Shares, having a par value of US$ 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. Shares are issuable either as certificated shares or uncertificated shares, and in both cases as registered shares. Shares are only transferable pursuant to regulations that the Directors may adopt in their discretion.

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 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 Shares as Treasury Shares.

Share transactions

	Voting Shares No.
Shares in issue at start of year	10
Issued	-
Redeemed	-
Shares in issue at end of year	10

Note 5 Share Capital (continued)

Share transactions (continued)

	Class A No.	Class B No.	Class C No.	Shares No.	Shares US$
Shares in issue at 31 December 2006	3,501,654	10,473	522,374	-	-
Issued	1,905,763	21,873	628,582	44,126,080	44,126
Redeemed	(551,737)	-	-	-	-
Treasury shares	-	-	-	(311,895)	(312)
Converted	(4,855,680)	(32,346)	(1,150,956)	74,641,245	74,641
Shares in issue at 31 December 2007	-	-	-	118,455,430	118,455
Issued				10,074,959	10,075
Treasury Shares				(2,550,506)	(2,550)
Shares in issue at 31 December 2008				125,979,883	125,980

Exchange Agreement

On 26 April 2007 the Company entered into an irrevocable Exchange Agreement with Tetragon Financial Group LP (the "U.S. Feeder"). The Exchange Agreement provided that at the request of a holder of interests in the U.S. Feeder ("Partner"), the Company would acquire the U.S. Feeder's associated holding of Master Fund units in exchange for its non-voting shares or cash equal to the fair value on the date of request. During the period all remaining partners in the U.S. Feeder carried out the exchange resulting in nil conversion rights outstanding as at 31 December 2008.

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$ 73,245,621 was declared, of which US$ 61,158,437 was paid out as a cash dividend, and the remaining US$ 12,087,184 reinvested under the Optional Stock Dividend Plan.

Treasury Shares

On 30 November 2007, the Company announced the implementation of a share repurchase program of up to 5% of its outstanding non-voting shares over the following 12 months. On 23 October 2008 the program was extended through to 3 June 2009 until either 5% of the shares have been repurchased or until terminated by the Board. The Company purchases its shares in the open market which are then held in a Treasury Account allowing them to be resold in the market at a later date. Whilst they are held in the Treasury Account the shares are neither eligible to receive dividends nor are they included in the shares outstanding on the Statements of Assets and Liabilities.

Note 6 Share Premium

	31 Dec 2008 US$	31 Dec 2007 US$
Balance at start of year	1,104,465,395	452,612,694
Premium arising from net issue of Shares	77,767,060	668,343,266
Expenses of issue of Shares	-	(16,490,565)
Balance at end of year	1,182,232,455	1,104,465,395

Note 7 Related party transactions

The Company has appointed Polygon Credit Management LP, a Delaware limited partnership (the "Investment Manager"), as investment manager. The investment activities of the Investment Manager are subject to the overall supervision, control and policies of the Directors.

For the period to 25 April 2007 the management fee was charged directly to the Company. The former principal manager was entitled to receive management fees equal to (i) two percent (2%) per annum of the Net Asset Value per Class A and Class B Share and (ii) one and one-half percent (1.5%) per annum of the Net Asset Value per Class C Share, in each case calculated on a Share-by-Share basis and payable monthly in advance prior to the deduction of any accrued incentive fees applicable to such Class. After the closing of the global offering on 25 April 2007, the Investment Manager is entitled to receive management fees equal to 1.5% per annum of the Net Asset Value of the Company.

The management fee is charged to the Master Fund and allocated pro rata between the Company and the U.S. Feeder, based on the Company's and the U.S. Feeder's ownership of the Master Fund.

Since 25 April 2007 all fees and expenses of the Company including the management and administration fees, but excluding incentive fees for the Investment manager, are paid by the Master Fund and allocated pro rata between the Company and the U.S. Feeder, based on the Company's and the U.S. Feeder's percentage ownership of the Master Fund. An incentive fee may be paid to the Investment Manager as disclosed in Note 4.

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. Initially, the Directors' annual fee shall be US$ 50,000, 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. Patrick Dear, Reade Griffith, David Wishnow and Alex Jackson have waived their entitlement to a fee. 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.

Note 7 Related party transactions (continued)

The Voting Shareholder is an affiliate of Polygon Investment Partners LLP and Polygon Investment Partners LLP (the "Service Providers") and 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. Affiliates of the Service Providers also control the Investment Manager and, accordingly, control the Company's business and affairs.

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, the Company granted to Polygon Credit Management LP options (the "Investment Management Options") to purchase 12,545,330 of the Company's non-voting shares 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 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$11,789,336. 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%.

Lee Olesky, Byron Knief, Paddy Dear, Reade Griffith, Alex Jackson and Rupert Dorey, all Directors of the Company and Master Fund, were shareholders in the Company as at 31 December 2008, with holding of 55,538, 110,000, 269,325, 1,036,209, 440,518 and 22,294 shares, respectively.

Note 8 Dividends

The following dividends were declared during the period

	31 Dec 2008	**31 Dec 2007**
	US$	**US$**
Period Ended 30 June 2007 of US$ 0.15 per share	-	15,696,187
Quarter Ended 30 September 2007 of US$ 0.15 per share	-	17,726,762
Quarter Ended 31 December 2007 of US$ 0.15 per share	17,768,315	-
Quarter Ended 31 March 2008 of US$ 0.15 per share	17,656,982	-
Quarter Ended 30 June 2008 of US$ 0.15 per share	18,917,681	-
Quarter Ended 30 September 2008 of US$ 0.15 per share	18,902,643	-
	73,245,621	33,422,949

The fourth quarter dividend of US$ 0.03 cents was proposed by directors on 27 February 2009 and has not been included as a liability in these financial statements.

Note 9 Earnings per share

	31 Dec 2008 US$	31 Dec 2007 US$
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	(50,799,762)	54,059,046*
Weighted average number of Shares for the purposes of basic earnings per share	122,880,187	112,945,594
Effect of dilutive potential Shares:		
Share options	-	-
Weighted average number of Shares for the purposes of diluted earnings per share	122,880,187	112,945,594

* Net profit attributable to share holders for the period from the closing of the global offering 25 April 2007.

Note 10 Earnings

	31 Dec 2008 US$	31 Dec 2007 US$
Balance at start of year	71,847,806	24,342,795
Net (decrease) / increase in net assets resulting from operations for the year	(50,799,762)	80,927,960
Dividends paid	(73,245,621)	(33,422,949)
Balance at end of year	(52,197,577)	71,847,806

Note 11 Recent changes to US GAAP

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of Statement 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after 15 November 2008. The Company is currently evaluating the impact of Statement 161 on the disclosures about its hedging activities and use of derivatives.

Note 11 Recent changes to US GAAP (continued)

In February 2008, the FASB issued FASB Staff Position FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The objective of the FSP is to provide guidance on accounting for a transfer of a financial asset and repurchase financing. The FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under Statement 140. However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under Statement 140. FSP FAS 140-3 is effective for annual and interim periods beginning after November 15, 2008 and early adoption is not permitted. The Company is currently evaluating the provisions of this standard, but does not expect adoption to have a material impact on its financial position and results of operations.

Note 12 Approval of financial statements

The Directors approved the financial statements on 27 February 2009.

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2008

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 2008.

31 December 2008	**Shares**
	US$
Per share operating performance	
Net asset value at start of year	10.03
Net investment income (excl performance fee)	1.41
Performance fee	(0.17)
Net realized and unrealized loss from investments in foreign currencies	(1.64)
Dividends paid to shareholders	(0.57)
Net asset value at the end of the year	9.06
Total return (NAV change excluding dividends) before performance fee	(2.19)%
Performance fee	(1.69)%
Total return (NAV change excluding dividends) after performance fee	(3.88)%
Ratios and supplemental data	
Ratio to average net assets:	
Direct operating expenses	0.00%
Operating expenses allocated from the Master Fund	2.74%
Total operating expenses	2.74%
Performance fee	1.74%
Net investment income	12.60%

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

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS (continued)
For the year ended 31 December 2007

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 2007.

<u>31 December 2007</u>	Shares*	Class A**	Class B**	Class C**
	US$	US$	US$	US$
Per share operating performance				
Net asset value at start of year / initial issue date	9.84	117.84	122.53	120.67
Net investment income (excl performance fee)	1.00	6.23	6.53	6.81
Performance fee	(0.09)	(1.17)	-	(1.00)
Net realized and unrealized gain / (loss) from investments and foreign currencies	(0.41)	(0.18)	(0.22)	(0.22)
Dividends paid to shareholders	(0.31)	-	-	-
Net asset value at the end of the year	10.03	122.72	128.84	126.26
Total return (NAV change excluding dividends) before performance fee	2.88%	5.12%	5.15%	5.46%
Performance fee	(0.94%)	(0.98%)	-	(0.83%)
Total return (NAV change excluding dividends) after performance fee	1.94%	4.14%	5.15%	4.63%
Ratios and supplemental data				
Ratio to average net assets:				
Direct operating expenses	-	(0.64%)	(0.64%)	(0.48%)
Operating expenses allocated from the Master Fund	(2.27%)	(0.66%)	(0.58%)	(0.55%)
Total operating expenses	(2.27%)	(1.30%)	(1.22%)	(1.03%)
Performance fee	(0.88%)	(0.97%)	-	(0.64%)
Net investment income	8.70%	4.26%	4.52%	3.73%

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

* This share class came into existence as a result of the global offering. The performance shown is for the period from 26 April 2007 to 31 December 2007.

** Class A, Class B and Class C shares were converted into Shares at the date of the global offering. The performance shown is for the period from 1 January 2007 to 25 April 2007.

TETRAGON FINANCIAL GROUP LIMITED

SCHEDULE OF INVESTMENTS
as at 31 December 2008

Security Description	Nominal / Shares	Cost US$	Fair Value US$	% of Net Assets
Investment Funds - Guernsey				
Tetragon Financial Group Master Fund Limited - shares	125,979,883	1,113,464,521	1,141,950,194	100.00
Total Investments			1,141,950,194	100.00
Other Assets and Liabilities			-	-
Net Assets			**1,141,950,194**	**100.00**

TETRAGON FINANCIAL GROUP LIMITED

SCHEDULE OF INVESTMENTS (continued)
as at 31 December 2007

Security Description	Nominal / Shares	Cost US$	Fair Value US$	% of Net Assets
Investment Funds - Guernsey				
Tetragon Financial Group Master Fund Limited - shares	118,455,430	1,113,464,521	1,188,220,992	100.00
Total Investments			1,188,220,992	100.00
Other Assets and Liabilities			-	-
Net Assets			**1,188,220,992**	**100.00**

AUDITED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2008

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2008

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TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2008

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2008.

THE FUND

Tetragon Financial Group Master Fund Limited (the "Fund") was registered in Guernsey on 23 June 2005 under the provisions of The Companies (Guernsey) Law, 1994, as amended, 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 changed its name from Tetragon Credit Income Master Fund Limited to Tetragon Financial Group Master Fund Limited on 30 March 2007. In addition, on 22 March 2007 the shareholders of the Fund passed a resolution, amending its articles of association to modify, among other things, its capital structure. Such amendment to the Fund's articles of association converted the Fund into a closed-ended fund by eliminating redemption rights of investors. The Fund continues to be registered and domiciled in Guernsey.

The Companies (Guernsey) Laws 1994, (as amended), (the "Old Law") was replaced by the Companies Guernsey) Law, 2008 (the "New Law") with effect from 1 July 2008. Under transitional provisions permitted by the New Law, the Company has prepared these financial statements in compliance with the Old Law. Future financial statements will be prepared in compliance with the New Law.

INVESTMENT OBJECTIVE

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this investment objective, and to provide stable returns to investors across various interest rate and credit cycles, the Polygon Credit Management LP (the "Investment Manager") seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on experience and expertise, and to use its market experience to negotiate favourable transaction terms for vehicles in which the Fund invests. As part of this current investment strategy, the Fund may employ hedging strategies and leverage in seeking to provide attractive returns from the portfolio while managing risk.

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.

DIRECTORS

The Directors who held office during the year were:

Patrick Dear
Rupert Dorey*
Reade Griffith
David Jeffreys*
Byron Knief*
Lee Olesky *
David Wishnow (until 17 December 2008)
Alex Jackson (from 17 December 2008)

* Independent non-executive Directors

DIRECTORS (continued)

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Initially, the Directors' annual fee shall be US$ 50,000, in compensation for service on the Boards of Directors of both the Fund and the Guernsey Feeder. The Fund will pay the Directors' fees. Patrick Dear, Reade Griffith, David Wishnow and Alex Jackson 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 Guernsey Feeder providing for benefits upon termination of employment.

SECRETARY

As of 1 July 2008, State Street Fund Services (Guernsey) Limited replaced Kleinwort Benson (Channel Islands) Fund Services as Secretary, Administrator and Registrar of the Fund.

DIVIDENDS

The Directors currently target a dividend payout in the range of 30% to 50% per annum of the net increase in net assets resulting from operations in quarterly installments. These are target dividend levels and are not forecasts or binding commitments. The Fund is not obligated to pay dividends at this level or at all. The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager and subject to the approval of the Voting Shares. The Directors declared a dividend amounting to US$ 0.15 per share for the quarter ended 31 December 2007, US$ 0.17 per share for the quarter ended 31 March 2008, US$ 0.23 for the quarter ended 30 June 2008 and US$ 0.23 for the quarter ended 30 September 2008. The Directors have declared a dividend of US$ 0.03 for the quarter ended 31 December 2008. Dividends paid during the Year Ended 31 December 2007 amounted to US$ 0.53 per share.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing financial statements for each financial year which present fairly in all material respects the state of affairs of the Fund and of the net increase or decrease in net assets from operations of the Fund for that period in accordance with applicable laws and US Generally Accepted Accounting Principles. 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;
- 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 also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and which enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994, as amended. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of 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.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS’ REPORT (continued)
For the year ended 31 December 2008

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 will 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 2009

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

INDEPENDENT AUDITORS' REPORT

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

We have audited the Fund's financial statements (the "financial statements") of Tetragon Financial Group Master Fund Limited for the Year Ended 31 December 2008 which comprise of the Statements of Assets and Liabilities, the Statements of Operations, the Statements of Changes in Net Assets, the Statements of Cash Flows and the related notes on pages 11 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994, as amended. 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 auditors

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable Guernsey law and accounting principles generally accepted in the United States of America as set out in the statement of Directors' responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements are presented fairly in all material respects and are properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended, and the principal documents. We also report to you if, in our opinion, the Fund has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT (continued)

Basis of audit opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- present fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America, of the state of the Fund's affairs as at 31 December 2008 and of its result for the year ended 31 December 2008; and

- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended, and the principal documents

KPMG Channel Islands Limited
Chartered Accountants

Guernsey

Date: 27 February 2009

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2008

	Note	31 Dec 2008 US$	31 Dec 2007 US$
Assets			
Investments in securities at fair value*			
(cost US$ 1,416,516,946 (2007: US$ 1,416,516,946))		1,082,495,071	1,446,544,122
Cash and cash equivalents	3	63,042,822	209,237,922
Amounts due from brokers	5	114,374,113	36,860,768
Unrealized gain on forward contracts	4	-	317,732
Derivative financial assets - credit default swaps	4	-	11,267,718
Derivative financial assets - foreign exchange options	4	5,477,600	-
Other receivables	6	176,192	935,562
Total assets		1,265,565,798	1,705,163,824
Liabilities			
Payables under repurchase and swap agreements	7	117,557,492	419,005,128
Unrealized loss on forward contracts	4	4,841,576	2,317,971
Derivative financial liabilities - credit default swaps	4	-	1,481,131
Bank overdraft	3	-	13,092,191
Amounts payable to feeder fund		74,366	416,429
Interest payable		665,976	3,878,818
Other payables and accrued expenses	8	476,194	534,200
Total liabilities		123,615,604	440,725,868
Net assets		1,141,950,194	1,264,437,956
Equity			
Share capital	9	125,980	126,054
Share premium	10	1,141,455,539	1,141,737,834
Earnings	12	368,675	122,574,068
		1,141,950,194	1,264,437,956
Shares outstanding		**Number**	**Number**
Shares	9	125,979,883	126,053,607
Net asset value per share			
Shares		US$ 9.06	US$ 10.03

* US$ 242,616,706 (2007: US$ 812,296,967) of these investments are pledged as collateral under repurchase and swap agreements.

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 2009

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2008

	Note	31 Dec 2008 US$	31 Dec 2007 US$
Interest income	13	221,401,820	213,962,305
Investment income		221,401,820	213,962,305
Management fees	14	(19,607,211)	(12,864,911)
Administration fees		(735,738)	(618,142)
Custodian fees		(52,105)	(2,246)
Legal and professional fees		(646,260)	(507,434)
Audit fees		(315,343)	(281,758)
Directors' fees	14	(200,000)	(161,599)
Transfer agent fees		(178,822)	(117,652)
Other operating expenses		(729,307)	(487,360)
Interest expense		(13,155,175)	(21,486,701)
Operating expenses		(35,619,961)	(36,527,803)
Net investment income		185,781,859	177,434,502
Realized and unrealized gain / (loss) from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		322,349	(69,137,573)
Foreign currency transactions		18,363,324	(24,035,644)
Credit default swaps		20,119,864	(5,854,253)
		38,805,537	(99,027,470)
Net (decrease) / increase in unrealized (depreciation) / appreciation on:			
Investments		(224,306,182)	3,704,875
Forward foreign exchange contracts		(2,841,337)	559,727
Credit default swaps		(9,786,587)	11,273,856
Foreign exchange options		2,930,275	-
Translation of assets and liabilities in foreign currencies		(14,934,379)	28,046,568
		(248,938,210)	43,585,026
Net realized and unrealized loss from investments and foreign currencies		(210,132,673)	(55,442,444)
Net (decrease) / increase in net assets resulting from operations		(24,350,814)	121,992,058

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2008

	31 Dec 2008 US$	31 Dec 2007 US$
Investment income	221,401,820	213,962,305
Operating expenses	(35,619,961)	(36,527,803)
Net realized gain / (loss) from investments and foreign currency	38,805,537	(99,027,470)
Net unrealized (depreciation) / appreciation on investments and translation of assets and liabilities in foreign currencies	(248,938,210)	43,585,026
Net (decrease) / increase in net assets resulting from operations	(24,350,814)	121,992,058
Dividends paid to shareholders	(97,854,579)	(48,866,347)
Issue of shares	12,087,183	716,272,081
Redemption of shares	-	(109,034,278)
Treasury shares	(12,369,552)	(2,167,664)
Global offering costs	-	(19,881,134)
Increase in net assets resulting from net share transactions	(282,369)	585,189,005
Total (decrease) / increase in net assets	(122,487,762)	658,314,716
Net assets at start of year	1,264,437,956	606,123,240
Net assets at end of year	1,141,950,194	1,264,437,956

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2008

	31 Dec 2008 US$	31 Dec 2007 US$
Operating and investing activities		
Net (decrease) / increase in net assets resulting from operations	(24,350,814)	121,992,058
Adjustments for:		
Realized (gain) / loss on investments	(322,349)	69,137,573
Non cash interest income on investments	123,938,243	(28,499,321)
Unrealized loss / (gain)	248,938,210	(43,585,026)
Operating cash flows before movements in working capital	348,203,290	119,045,284
Decrease / (increase) in receivables	759,370	(391,771)
(Decrease) / increase in payables	(3,612,911)	1,791,676
Cash flows from operations	345,349,749	120,445,189
Proceeds from repayments on investments		91,730,545
Purchase of investments	-	(784,200,793)
Cash inflow / (outflow) from operating and investing activities	345,349,749	(572,025,059)
Financing activities		
Amounts due from brokers	(77,513,345)	(36,860,768)
Proceeds from issue of shares	12,087,183	708,809,733
Payments on redemption of shares	-	(109,034,278)
Treasury shares	(12,369,552)	(1,751,235)
Global offering costs	-	(19,881,134)
Dividends paid to shareholders*	(97,854,579)	(41,403,999)
Receipts from repurchase and swap agreements	(301,447,636)	150,482,335
Bank overdraft	(13,092,191)	13,092,191
Cash (outflow) / inflow from financing activities	(490,190,120)	663,452,845
Net (decrease) / increase in cash and cash equivalents	(144,840,371)	91,427,786
Cash and cash equivalents at beginning of year	209,237,922	117,859,435
Effect of exchange rate fluctuations on cash and cash equivalents	(1,354,729)	(49,299)
Cash and cash equivalents at end of year	63,042,822	209,237,922

* In 2007 dividends paid to shareholders is shown net of the amount reinvested under the Optional Stock Dividend Plan.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

Note 1 General Information

Tetragon Financial Group Master Fund Limited (the “Fund”) was registered in Guernsey on 23 June 2005 under the provisions of The Companies (Guernsey) Law, 1994, as amended, 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”). On 22 March 2007, the shareholders of the Fund passed a resolution, amending its articles of association to modify, among other things, its capital structure. Such amendment to the Fund’s articles of association converted the Fund into a closed-ended fund by eliminating redemption rights of investors. The Fund continues to be registered and domiciled in Guernsey.

The registered office of the Fund is Tudor House, Le Bordage, St. Peter Port, Guernsey, Channel Islands GY1 3PF.

Note 2 Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in conformity with United States generally accepted accounting principles (“US GAAP”).

For financial statement reporting purposes, the Fund is an investment company and follows the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies (the “Guide”).

The accounting policies have been consistently applied by the Fund during the year ended 31 December 2008 and are consistent with those used in the previous year.

The financial statements are presented in United States Dollars.

Use of Estimates

The preparation of financial statements in conformity with US 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.

Note 2 Significant Accounting Policies (continued)

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 balance sheet 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 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 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 Statements of Operations.

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 equity “tranche” investments, forwards, credit default swaps and repurchase agreements are calculated on the identified cost basis. Interest income and expense is recognized in the Statements of Operations as it accrues. Interest income is recognized on an effective interest rate basis.

Financial Instruments

Investments in securities 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 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 income 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 defaults and recovery rates. The default rate, recovery rate and other assumptions are determined by reference to a variety of 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.

Note 2 Significant Accounting Policies (continued)

Investments in securities, at fair value (continued)

If over the lifetime of an individual deal, collateral losses diverge from the levels assumed in the model, then the actual returns may differ from the current levels projected by the model, which would impact the net asset value of the Fund.

The Fund recognizes interest income and any impairment pursuant to FASB Staff Position Emerging Issues Task Force Issue No. 99-20-1 (“ FSP EITF 99-20-1"), “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets” effective for reporting periods ending after 15 December 2008. FSP EITF 99-20-1 sets forth rules for recognizing interest income and determining when an investment’s amortized cost must be written down to fair value because of other than temporary impairments.

The Fund determines periodic interest income based on the principles of FSP EITF 99-20-1. 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 FSP EITF 99-20-1 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.

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 FSP EITF 99-20-1.

In determining permanent impairment, the present value of the future estimated remaining cash flows discounted at the last rate used to recognize the accretable yield on the investment is compared with the present value of the previously estimated remaining cash flows discounted at the last rate used to recognize accretable yield on the investment adjusted for the cash received during the intervening period. If the present value of the newly estimated cash flows has decreased then an adverse change and a temporary impairment has occurred. When an impairment is other than temporary, the investment is written down to fair value as of the reporting date and any previously unrealized loss is realized in the period such a determination is made. The Fund evaluates its impairment for investments on an investment by investment basis, not on an overall portfolio basis.

The Fund adopted the provisions of Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (FAS157), effective with the beginning of the Fund’s fiscal year. FAS 157 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.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active,” which was effective immediately. FSP FAS 157-3 clarifies the application of Statement 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Company has considered the guidance provided by FSP FAS 157-3 in its determination of estimated fair values during 2008.

Note 2 Significant Accounting Policies (continued)

Investments in securities, at fair value (continued)

FAS 157 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 2008 in valuing the Fund's assets carried at fair value:

	Investments in Securities at fair value US$	**Net Unrealised Appreciation / (Depreciation) on other financial instruments* US$**
Level 1 - Quoted prices	-	-
Level 2 - Other significant observable inputs	-	636,024
Level 3 - Significant unobservable inputs	1,082,495,071	-
	1,082,495,071	636,024

* Other financial instruments are derivative instruments not reflected in the Schedule of Investments, such as forward foreign currency contracts and fx call options, which are valued at the unrealized appreciation/depreciation of the instrument.

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 2008.

	US$
Balance at beginning of year	1,446,544,122
Total realised gains	322,349
Changes in unrealized appreciation	(97,672,886)
Accelerated loss fair value adjustment	(141,081,962)
Amortization	(125,616,552)
Balance at end of year	1,082,495,071

Total realized gains reflect cash received on an investment previously written off. The accelerated loss fair value adjustment is calculated on an individual investment basis against potential unrealized losses arising from, among other things, rating agency downgrades to the underlying collateral and forms part of the overall change in unrealized depreciation on investments in the Statement of Operations. The amortization of assets is a result of cash receipts in excess of interest accrued and hence reflects a repayment of principal.

Note 2 Significant Accounting Policies (continued)

Investments in securities, at fair value (continued)

The fourth quarter of 2008 evidenced dramatic market developments, including, a marked deterioration in economic outlook exhibited by poor employment reports, declining corporate earnings, increased bankruptcies and rising defaults. Furthermore, the quarter also exhibited an increasingly negative default outlook by various market participants, including rating agencies, with an associated significant increase in ratings agency downgrades and credits rated Caa1/CCC+ or below. As a result of market conditions, adjustments have been made to modeling assumptions as follows:

- Constant Annual Default Rate: the Fund has increased the assumed constant annual default rate to approximately 6.4%, which is 3.0x the original base-case default rate, for the next three years, followed by a return to 1.0x the original base-case default level thereafter. This amount has been determined by reference to the deals collateral and rating agencies researches.

- Recovery Rate: the Fund has reduced assumed recovery rates to approximately 55c, or approximately 0.8x of the original base-case assumed weighted-average recovery rate, for the next three years, followed by a return to 71c the original base-case recovery rate thereafter.

- Prepayment Rate: the Fund has reduced assumed loan prepayments to 7.5% p.a. for the next three years, followed by a return to the 20% p.a. the original base-case prepayment rate thereafter; TFG has also assumed a 0% prepayment rate on bonds throughout the life of the transaction as in the original base-case assumptions.

- Reinvestment Price and Spread: the Fund has reduced the assumed reinvestment price to 87%, a level that generates an effective spread over LIBOR of approximately 735 bps on broadly U.S. syndicated loans, 745 bps on European loans, and 805 bps on middle market loans, for the next three years, followed by a return to par reinvestment price the original base case reinvestment price thereafter until maturity.

In addition to the above, the Fund established a balance sheet fair value adjustment calculated on a deal-by-deal basis against potential unrealized losses arising from, among other things, rating agency downgrades to the Fund 's investments' underlying collateral (the " Accelerated Loss Fair Value Adjustment"). The Investment Manager believes that negative loan migration, specifically migration to Caa1/CCC+ or below, may place pressure on the performance of certain of the Fund's investments. Caa1/CCC+ or below rated asset exposure over pre-defined limits in such investments may temporarily cause cash diversion away from CLO equity tranches (the Fund's investments) and into the reinvestment of new collateral, and, if significant enough, potential deleveraging of the CLO.

The Accelerated Loss Fair Value Adjustment seeks to address the impact this risk and other potential unrealized losses may have on the fair value of Fund's investments. For the quarter ending December 31, 2008, the Accelerated Loss Fair Value Adjustment totaled approximately $141.1 million (2007: nil) .

Credit default swaps

Credit default swaps are contracts in which the Fund pays or receives premium flows in return for the counterparty accepting or selling all or part of the risk of default or failure to pay of a reference entity on which the swap is written. Where the Fund has bought protection the maximum potential loss is the value of the premium flows the Fund is contracted to pay until maturity of the contract. Where the Fund has sold protection the maximum potential loss is the nominal value of the protection sold.

Note 2 Significant Accounting Policies (continued)

Credit default swaps (continued)

Credit default swaps are stated at 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. The net income or expense on the swap agreements entered into by the Fund is reflected in the Statements of Operations. Unrealized gains are reported as an asset and unrealized losses are reported as a liability in the Statements of Assets and Liabilities. Changes in the fair value are reflected in the Statements of Operations in the period in which they occur.

Forward currency contracts

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 Statements of Operations.

Repurchase agreements, reverse repurchase agreements and swap agreements

Securities sold subject to a simultaneous agreement to repurchase those securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and are measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and swap agreements and interest incurred on repurchase agreements and swap agreements is recognized as interest income or interest expense, over the life of each agreement using the effective interest method.

Options

When the Fund purchases or writes an option, an amount equal to the premium paid or received by the Fund is reflected as an asset or an equivalent liability. The amount of the asset or liability is subsequently marked-to-market to reflect the current market value of the option. When a security is purchased or sold through the exercise of an option, the related premium paid (or received) is added to (or deducted from) the cost of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realises a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

The best evidence of fair value of a derivative at initial recognition is the transaction price. Subsequent changes in the fair value of any derivative instrument are recognized immediately in the statement of operations.

Note 2 Significant Accounting Policies (continued)

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.

Expenses

Expenses, including management fees, incentive fees, administration fees and custodian fees, 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 GBP600 per annum.

Capital expenses

The preliminary expenses of the Fund directly attributable to the global offering were charged to the share premium account.

Dividends payable

Dividends payable on shares are recognized in the Statements of Changes in Net Assets.

Principles of Consolidation

The Fund has determined that it does not have control over the significant operating, financial and investing decisions of the securities that it invests in, or over the investment managers of those securities.

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, consolidation of these entities is not required.

Note 3 Cash and Cash Equivalents

	31 Dec 2008 US$	31 Dec 2007 US$
Cash and current deposits with banks*	42,821,107	209,237,922
Foreign currency cash (cost: US$ 18,926,293 (2007: (US$ 13,067,264)))	20,221,715	(13,092,191)
	63,042,822	196,145,731

* At 31 December 2007, US$ 159,096,991 of the deposits were held in a two week fixed term account with the purpose of earning a higher interest return. At 31 December 2008, no lock ups were in place.

Note 4 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 equity tranche investments in securitization vehicles is determined utilizing a financial model that reflects numerous variables including, among other things, the Investment Manager's assessment of the nature of the investment and the relevant collateral, security position, risk profile, expected default rates and the originator and servicer of the position. As each of these factors involves subjective judgments and forward-looking determinations by the Investment Manager, the Investment Manager's 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.

Note 4 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

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’s repurchase, swap agreements and options result in exposure to counterparty credit risk. The counterparties to these instruments are major financial institutions.

Details of the Fund’s investment portfolio at the balance sheet date are disclosed in the Schedule of Investments on pages 28 to 29.

Forward contracts

The following foreign exchange forward contract was unsettled at 31 December 2008.

Maturity Date	Amount Bought	Amount Sold	Unrealized Loss US$
09 January 2009	US$ 260,609,950	EUR 191,000,000	(4,841,576)
			(4,841,576)

The following foreign exchange forward contracts were unsettled at 31 December 2007.

Maturity Date	Amount Bought	Amount Sold	Unrealized Gain US$
03 January 2008	EUR 12,929,603	US$ 8,865,000	31,471
14 March 2008	US$ 69,053,340	EUR 47,000,000	286,261
			317,732

Maturity Date	Amount Bought	Amount Sold	Unrealized Loss US$
18 January 2008	US$ 70,967,500	EUR 50,000,000	(2,154,455)
04 February 2008	US$ 16,730,829	EUR 11,465,000	(41,091)
31 March 2008	US$ 33,529,170	EUR 23,000,000	(122,425)
			(2,317,971)

Note 4 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

Credit Default Swaps

The Fund does not have any open credit default swap agreements as of December 31 2008.

As at 31 December 2007:

Maturity Date Range	Description	Notional US$	Fair Value US$
Buy			
December 2011 - December 2012	CDS Index	280,000,000	9,088,810
December 2011 - December 2012	CDS Single Name	44,386,150	2,108,824
Sell			
December 2012	CDS Index	(50,000,000)	70,084
			11,267,718
Sell			
December 2012	CDS Index	(175,000,000)	(1,481,131)
			(1,481,131)

Options

The following foreign exchange options were unsettled at 31 December 2008.

Maturity	Description	Notional EUR	Fair Value US$
06 October 2009	Call EUR / USD Option	91,000,000	2,602,600
22 October 2009	Call EUR / USD Option	100,000,000	2,875,000
			5,477,600

Note 5 Amounts Due From Brokers

The amounts due from brokers is made up of cash pledged as collateral on the repurchase agreements, forward contracts and coupons not yet received from repurchase agreement counterparties. At 31 December 2008 the collateral cash balance with Deutsche Bank AG was US$ 94,230,566 (2007: US$ 28,281,347), UBS AG was US$ 17,362,861 (2007: Nil) and Lehman Brothers was US$ Nil (2007: US$ 6,316,373). US$ 2,780,686 is due to coupons not yet received as at 31 December 2008 (2007: US$ 2,263,048).

Note 6 Other Receivables

	31 Dec 2008 US$	31 Dec 2007 US$
Bank interest receivable	42,559	887,031
Prepaid insurance	133,633	48,531
	176,192	935,562

Note 7 Payables under Repurchase and Swap Agreements

	31 Dec 2008 US$	31 Dec 2007 US$
Payable under repurchase agreement - Morgan Stanley	-	160,342,579
Payable under repurchase agreement - Lehman Brothers	-	73,021,197
Payable under repurchase agreement - JP Morgan	9,548,264	65,537,316
Payable under swap agreement - Deutsche Bank	108,009,228	120,104,036
	117,557,492	419,005,128

The average interest rate payable during the year was 4.92% (2007: 5.95%). The average amount of borrowings under repurchase and swap agreements during the year was US$ 267,356,029 (2007: US$ 368,659,892). Securities sold under repurchase agreements are included in investments in securities, at fair value. The fair value of these securities held under repurchase agreements at 31 December 2008 was US$ 108,006,367 (31 December 2007: US$ 609,397,534). The outstanding repurchase agreement will terminate on 7 April 2009.

The Fund has entered into a Structured Total Return Swap agreement with Deutsche Bank AG. By year end the Fund delivered to Deutsche Bank AG securities with a face value of US$ 207,221,623 (2007: US$ 209,597,650) in exchange for US$ 108,009,228 (2007: US$ 120,104,036). At the conclusion of the Contract the same securities will be delivered back to the Fund and the outstanding loan will be repaid. During the term of the Contract interest will be paid to Deutsche Bank AG on the amount borrowed at a floating rate of the 3 month USD-LIBOR-BBA plus a spread of 0.85% on a quarterly basis and the Fund will receive all cash payments received by Deutsche Bank AG from the underlying securities. In addition, the Fund maintains the voting rights on the securities. The fair value of these securities held under the swap agreements at 31 December was US$ 134,610,339 (31 December 2007: US$ 202,899,433). The swap will terminate on 9 November 2009.

Note 8 Other Payables and Accrued Expenses

	31 Dec 2008 US$	31 Dec 2007 US$
Audit fee accrual	276,328	264,315
Legal and professional fees accrual	106,120	30,000
Directors' fee accrual	49,996	49,995
Transfer agent fee accrual	-	17,890
Public relations fee accrual	-	112,000
Technology expense accrual	-	60,000
Custodian fee accrual	43,750	-
	476,194	534,200

Note 9 Share Capital

On 22 March 2007, the shareholders of the Fund passed a resolution amending its articles of association to modify, among other things, its capital structure.

Redeemable Preference Shares, which were in issue prior to the resolution, converted into Non-Voting Shares on 26 April 2007.

Authorized

After the change in the capital structure the Fund has an authorized share capital of US$ 1,000,000 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.

Voting shares and non-voting shares

All of the Funds Voting Shares are issued at par and are beneficially owned by the Voting Shareholder, a non-U.S. affiliate of the Investment Manager. During the year the Fund's Non-Voting Shares were beneficially owned by Tetragon Financial Group Limited (the "Guernsey Feeder") and Tetragon Financial Group LP (the "U.S. Feeder") in proportion to their relative capital. As at 31 December 2008 the Non-Voting shares were 100% owned by the Guernsey Feeder. All shares are in registered form and no share certificates will be issued. 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.

Note 9 Share Capital (continued)

Dividend Rights

Dividends may be paid to the holders of Non-Voting Shares at the sole and at the absolute discretion of the Directors. The Voting Shares carry no rights to dividends. Through the optional stock dividend plan, Non-Voting shareholders can elect to receive dividends in the form of new Non-Voting shares in the Fund instead of cash dividends. The new shares are of the same class and type and will rank equally with the existing issued Non-Voting shares in all respects.

Share transactions

	Voting Shares No.	Non- Voting Shares No.	Non- Voting Shares US$
Shares in issue at 31 December 2006	-	-	-
Issued	10	30,912,197	30,912
Treasury shares	-	(311,895)	(311)
Converted*	-	95,453,305	95,453
Shares in issue at 31 December 2007	10	126,053,607	126,054
Issued	-	2,476,782	2,477
Treasury shares	-	(2,550,506)	(2,551)
Shares in issue at 31 December 2008	10	125,979,883	125,980

* Following the listing of the Guernsey Feeder on the NYSE Euronext Amsterdam Exchange, Redeemable Preference Shares were converted into Non-Voting Shares. The movement on Redeemable Preference Shares has not been captured in the above table.

Treasury shares

On 30 November 2007, Tetragon Financial Group Limited ("the Guernsey Feeder"), an investor in the Fund, announced the implementation of a share repurchase program of up to 5% of their outstanding non-voting shares over the following 12 months. The share repurchase program will continue, on the same terms as previously announced on 30 November 2007, through 3 June 2009, until 5% of the Company's outstanding shares 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 Guernsey Feeder as and when it makes these repurchases in the open market. The Fund will match the price per share paid by the Guernsey Feeder. The shares are held in a Treasury Account which allows them to be resold back to the Guernsey Feeder if it resells its own shares back into the market at a later date. Whilst they are held in the Treasury Account the shares are neither eligible to receive dividends nor are they included in the shares outstanding on the Statements of Assets and Liabilities.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

Note 10 Share Premium

	31 Dec 2008 US$	31 Dec 2007 US$
Balance at start of year	1,141,737,834	556,669,989
Premium arising from net issue of shares	(282,295)	604,948,979
Global offering expenses	-	(19,881,134)
Balance at end of year	1,141,455,539	1,141,737,834

Note 11 Dividends

The following dividends were declared during the period:	31 Dec 2008 US$	31 Dec 2007 US$
Period ended 30 June 2007 of US $0.18 per share	-	23,190,989
Quarter ended 30 September 2007 of US $0.20 per share	-	25,675,358
Quarter ended 31 December 2007 of US $0.15 per share	18,833,387	-
Quarter ended 31 March 2008 of US$ 0.17 per share	21,232,802	-
Quarter ended 30 June 2008 of US$ 0.23 per share	28,552,822	-
Quarter ended 30 September 2008 of US $0.23 per share	29,235,568	-
	97,854,579	48,866,347

The fourth quarter dividend of US$ 0.03 cents was proposed by directors on 25 February 2009 and has not been included as a liability in these financial statements.

The Fund pays a dividend to the Guernsey Feeder that is sufficient to pay their incentive fee liability and also to cover their dividend liability.

Note 12 Earnings

	31 Dec 2008 US$	31 Dec 2007 US$
Balance at start of year	122,574,068	49,448,357
Net increase in net assets resulting from operations for the year	(24,350,814)	121,992,058
Dividends paid	(97,854,579)	(48,866,347)
Balance at end of year	368,675	122,574,068

Note 13 Interest Income

	31 Dec 2008 US$	31 Dec 2007 US$
Debt securities	217,096,526	201,529,634
Cash and short-term funds	4,305,294	12,432,671
	221,401,820	213,962,305

Note 14 Related Party Transactions

Polygon Credit Management LP, a Delaware limited partnership (the "Investment Manager"), has been appointed as investment manager. The investment activities of the investment manager are subject to the overall supervision, control and policies of the Directors.

Tetragon Financial Group Limited (the "Guernsey Feeder"), a Guernsey based closed-ended investment company, invests substantially all of its assets in the Fund. The Guernsey Feeder has the same Investment Manager as the Fund.

Tetragon Financial Group Fund LP (the "U.S. Feeder"), invests substantially all of its assets in the Fund. The U.S. Feeder has the same investment manager as the Fund. As at 31 December 2008, the U.S. Feeder no longer held an investment in the Fund.

From 1 July 2006 management fees were charged directly to the Guernsey Feeder and U.S. Feeder. After the closing of the global offering of the Guernsey Feeder on 26 April 2007 the management fees are paid by the Fund and allocated pro rata between the Guernsey Feeder and the U.S. Feeder, based on the respective Feeder's percentage ownership of the Fund.

Prior to 25 April 2007, expenses which related wholly and specifically to the individual feeders were charged to the feeder to which they related. After 26 April 2007, all fees and expenses of the Guernsey Feeder, the U.S. Feeder and the Fund, except for the incentive fees for the Investment Manager, are paid by the Fund and allocated pro rata between the Guernsey Feeder and the U.S. Feeder, based on the respective feeder's percentage ownership of the Fund. An incentive fee may be paid to the Investment Manager by each of the Guernsey Feeder and the U.S. Feeder.

Note 14 Related Party Transactions (continued)

The global offering of the Guernsey Feeder closed on 26 April 2007. 30 million non-voting shares in the Guernsey Feeder were offered at a price of US$ 10.0 per share. The shares of the Guernsey feeder are listed on NYSE Euronext Amsterdam Exchange in the Netherlands.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Initially, the Directors' annual fee shall be US$ 50,000, in compensation for service on the Boards of Directors of both the Guernsey Feeder and the Fund. The Fund will pay the Directors' fees. Patrick Dear, Reade Griffith, David Wishnow and Alex Jackson 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 Guernsey Feeder or the Fund providing for benefits upon termination of employment.

The Voting Shareholder is an affiliate of Polygon Investment Partners LLP and Polygon Investment Partners LLP (the "Service Providers") and 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 Guernsey Feeder's Directors. Affiliates of the Service Providers also control the Investment Manager and, accordingly, control the Company's business and affairs.

Note 15 Recent changes to US GAAP

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of Statement 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after 15 November 2008. The Company is currently evaluating the impact of Statement 161 on the disclosures about its hedging activities and use of derivatives.

In February 2008, the FASB issued FASB Staff Position FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The objective of the FSP is to provide guidance on accounting for a transfer of a financial asset and repurchase financing. The FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under Statement 140. However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under Statement 140. FSP FAS 140-3 is effective for annual and interim periods beginning after November 15, 2008 and early adoption is not permitted. The Company is currently evaluating the provisions of this standard, but does not expect adoption to have a material impact on its financial position and results of operations.

Note 16 Approval of Financial Statements

The Directors approved the financial statements on 27 February 2009.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS
For the years ended 31 December 2008 and 31 December 2007

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 2008 and the year ended 31 December 2007.

	Participating Shares	**Participating Shares***	**Redeemable Preference Shares***
	1 Jan 2008 to 31 Dec 2008	**25 Apr 2007 to 31 Dec 2007**	**1 Jan 2007 to 25 Apr 2007**
			US$
Per share operating performance			
Net asset value at start of year	10.03	9.84	123.86
Net investment income	1.46	0.96	7.26
Net realized and unrealized (loss) from investments and foreign currencies	(1.66)	(0.40)	(0.21)
Dividends paid to shareholders	(0.77)	(0.37)	-
Net asset value at the end of the year	9.06	10.03	130.91
Return (NAV change excluding dividends)	(1.99%)	1.94%	5.69%
Ratios and supplemental data			
Ratio to average net assets:			
Total operating expenses	(2.74%)	(2.46%)	(0.64%)
Net investment income	14.3%	10.19%	5.65%

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

* The ratios and returns have not been annualized.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

SCHEDULE OF INVESTMENTS
As at 31 December 2008

Security Description	**Nominal**	**Cost US$**	**Fair Value US$**	**% of Net Assets**
US Dollar				
Cayman Islands - CLO debt equity security				
ABS and Structured Finance	18,400,000	17,572,000	-	0.00%
Broadly Syndicated Senior Secured Loans	940,375,986	858,664,741	643,866,418	56.39%
CDOs Squared	62,250,000	52,156,250	-	0.00%
Middle Market Senior Secured Loans	236,249,000	219,797,145	179,546,952	15.72%
	1,257,274,986	1,148,190,136	823,413,370	72.11%
Euro				
Ireland - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	150,227,269	13.16%
	127,400,000	155,916,581	150,227,269	13.16%
Luxembourg - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	76,880,132	6.73%
	65,100,000	80,651,697	76,880,132	6.73%
Netherlands - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	31,974,300	2.80%
	24,000,000	31,758,532	31,974,300	2.80%
Total Investments			1,082,495,071	94.80%
Cash and Cash Equivalents			63,042,822	5.52%
Other Assets and Liabilities			(3,587,699)	(0.32)%
Net Assets			1,141,950,194	100.00%

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2007

Security Description	Nominal	Cost US$	Fair Value US$	% of Net Assets
US Dollar				
Cayman Islands - CLO debt equity security				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	940,375,986	858,664,741	904,202,585	71.51%
CDOs Squared	62,250,000	52,156,250	-	-
Middle Market Senior Secured Loans	236,249,000	219,797,145	228,571,357	18.08%
	1,257,274,986	1,148,190,136	1,132,773,942	89.59%
Euro				
Ireland - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	185,324,517	14.66%
	127,400,000	155,916,581	185,324,517	14.66%
Luxembourg - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	92,176,023	7.28%
	65,100,000	80,651,697	92,176,023	7.28%
Netherlands - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	36,269,640	2.87%
	24,000,000	31,758,532	36,269,640	2.87%
Total Investments			1,446,544,122	114.40%
Cash and Cash Equivalents			209,237,922	16.55%
Bank overdraft			(13,092,191)	(1.04%)
Other Assets and Liabilities			(378,251,897)	(29.91%)
Net Assets			1,264,437,956	100.00%