TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG)

TENDER OFFER ANNOUNCEMENT AND SUPPLEMENTAL INFORMATION TO THE MONTHLY UPDATE FOR DECEMBER 2013

January 31, 2014

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

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

Tender Offer

TFG announces its intention to repurchase TFG non-voting shares up to a maximum value of $50 million. Deutsche Bank will act as dealer manager in the tender offer, which will use a modified Dutch auction structure. Details of this planned tender offer will be announced shortly.

Supplemental Information to the Monthly Update for December 2013

Set forth below, we provide additional information explaining the recalibration of certain inputs used in the determination of the fair value of TFG's CLO equity investments.

Fair Value Determination for TFG's CLO Equity Investments:

In accordance with the valuation policies set forth on TFG's website, the values of its CLO equity investments are determined using a third-party cash flow modeling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of TFG's CLO equity investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of TFG's portfolio, the company seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Please refer to the 2012 Annual Report for a more detailed description of the cash flow projection and discounting process.

([1]) TFG invests substantially all its capital through a master fund, Tetragon Financial Group Master Fund Limited ("TFGMF") in which it holds a 100% share.

Forward-looking CLO Equity Cash Flow Modeling Assumptions Recalibrated in Q4 2013:

The Investment Manager reviews and, when appropriate, adjusts in consultation with TFG's audit committee, the CLO equity investment portfolio's modeling assumptions as described above. At the end of Q4 2013, certain key assumptions relating to defaults were recalibrated. Those relating to recoveries, prepayments and reinvestment prices were unchanged from the previous quarter.

U.S. CLOs – default assumptions recalibrated

For the U.S. deals, near-term default assumptions were unchanged but medium-term default multiples were reduced to base case to reflect, among other things, the effective resolution of the so-called "maturity wall" issue as well as the perceived return to a more normalized credit cycle after the financial crisis. These changes, which are detailed in the table below, result in base case default assumptions being applied for all future periods. This had a positive impact on the undiscounted future projected cash flows of the U.S. deals.

Variable	Year	Current Assumptions	Prior Assumptions
CADR			
	2013-14	1.0x WARF-implied default rate (2.2%)	1.0x WARF-implied default rate (2.2%)
	2015-17	1.0x WARF-implied default rate (2.2%)	1.25x WARF-implied default rate (2.7%)
	Thereafter	1.0x WARF-implied default rate (2.2%)	1.0x WARF-implied default rate (2.2%)
Recovery Rate			
	Until deal maturity	73%	73%
Prepayment Rate			
	Until deal maturity	20.0% p.a. on loans; 0.0% on bonds	20.0% p.a. on loans; 0.0% on bonds
Reinvestment Price			
	Until deal maturity	100%	100%

European CLOs – default assumptions recalibrated

For the European deals, elevated default multiples were previously maintained in the near and medium term. In light of some positive developments, such as more optimistic default projections by rating agencies and the perception of progress towards a more normalized credit cycle in Europe, the medium term multiple was reduced to base case and the very near term multiple to 1.25x base case. This had a positive impact on the undiscounted future projected cash flows of the European deals.

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

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

The reinvestment price, assumptions about reinvestment spread and reinvestment life are also input into the model to generate an effective spread over LIBOR. Newer vintage CLOs may have a higher weighted-average reinvestment spread over LIBOR or shorter reinvestment life assumptions than older deals. Across the entire CLO portfolio, the reinvestment price assumption of 100% for U.S. deals and European deals with their respective assumed weighted-average reinvestment spreads, generates an effective spread over LIBOR of approximately 289 bps on broadly syndicated U.S. loans, 272 bps on European loans, and 328 bps on middle market loans.

Application of Discount Rates to Projected CLO Equity Cash Flows:

Pre-crisis U.S. CLO Equity – discount rates reduced from 15% to 13%

In determining the applicable rates to use to discount projected cash flows, an analysis of observable risk premium data is undertaken. As had been noted over a number of prior quarters, observable risk premia such as BB and BBB CLO tranche spreads have been reducing with BB spreads on U.S. deals, for example, edging down to 5.3% in December 2013.[2]

[2] Citi Global Structured Credit Strategy – 13 December 2013

Since the end of Q1 2013, BB and BBB spreads on U.S. deals have both reduced by approximately 1.0% [3] and have exhibited a relatively low level of volatility at these reduced levels. Accordingly, TFG's U.S. discount rates on pre-crisis transactions have been reduced to 13% from 15%, also reflecting compression of equity discount rates over mezzanine tranches as well as other observable factors. The future movement of mezzanine tranche spreads as well as the likely range of spreads of equity discount rates over such spreads, among other factors, will continue to be monitored in coming quarters.

European CLO Equity – discount rates reduced from 20% to 17%

European BB-rated tranche yields have also continued to follow a downward trajectory, reaching approximately 7.5% in December 2013.[4] This is now just over 2% higher than the U.S. equivalent (see above), and notwithstanding the potential higher risks connected with the ongoing Eurozone issues, is reflective of certain other observable data (such as improving deal performance) and anecdotal evidence pointing to a reduction in the differential between discount rates in the two geographies. Consequently, the discount rate applied to European deal projected cash flows has been reduced to 17% from 20%. As a result, the differential between the discount rates used on U.S. pre-crisis deals and European deals has fallen from 4% to 3%. The observable range of European risk premia over the U.S. equivalent, among other factors, will continue to be monitored in coming quarters.

Historically, we have characterized the difference arising where fair value is lower than the amortized cost for the portfolio, which can occur when the discount rates used to discount future cash flows when determining fair value are higher than the modeled IRRs, as the "ALR Fair Value Adjustment" or "ALR". For European deals at the end of Q4 2013, the ALR stood at $38.9 million, compared to $51.0 million at the end of Q3 2013. As explained in prior releases, the ALR is now zero for U.S. deals.

2010 – 2013 CLO Equity – discounted using deal IRR

The applicable discount rate for newer vintage deals is determined with reference to each deal's specific IRR, which, in the absence of other observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the end of Q4 2013, the weighted-average discount rate (and IRR) on these deals was 11.6%. Such deals represented approximately 17.7% of the CLO equity portfolio by fair value (up from 16.9% at the end of Q3 2013). We will continue to monitor observable data on these newer vintage transactions to determine whether the IRR remains the appropriate discount rate.

Effect on fair value and net income of recalibration of certain inputs into the CLO model:

Overall, the net impact of the recalibration of certain forward-looking default assumptions and discount rates described above led to an overall increase in fair value of the total CLO equity portfolio of approximately $68.2 million, or $51.1 million in bottom line net income.

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[3] Citi Global Structured Credit Strategy – 9 April 2013

[4] Citi Global Structured Credit Strategy – 13 December 2013