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TETRAGON FINANCIAL GROUP LIMITED (TFG)

SUPPLEMENTAL INFORMATION TO THE MONTHLY UPDATE FOR DECEMBER 2012

January 31, 2013

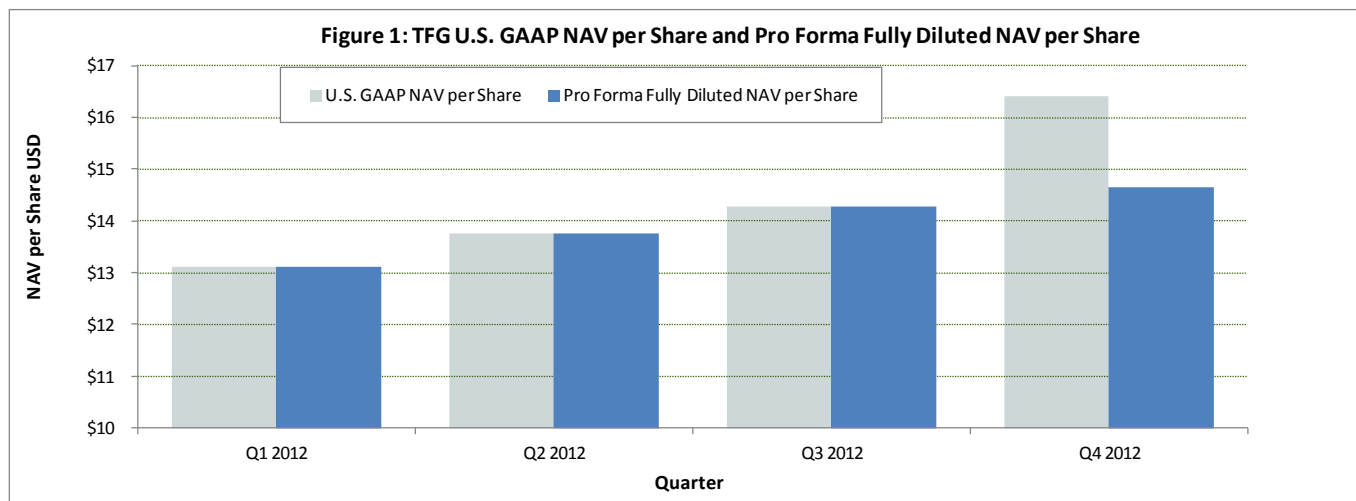
Tetragon Financial Group Limited (TFG) is a Guernsey closed-ended investment company traded on the NYSE Euronext in Amsterdam under the ticker symbol “TFG”.

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

In this update, we provide additional information on “U.S. GAAP NAV per Share” and a new metric, “Pro forma fully diluted NAV per Share”. We believe this new metric (described below in section 1.2) may be helpful in illustrating the potential impact of various share changes on Net Asset Value (“NAV”) per Share and we intend to include the item in future reporting. We also explain the recalibration of certain inputs used in the determination of the fair value of TFG’s CLO equity investments.

I NAV per Share movements

The figure below shows how U.S. GAAP NAV per Share and pro forma fully diluted NAV per Share metrics have evolved over the last four quarters.



I.1 U.S. GAAP NAV per Share movements:

NAV per Share calculated under U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) for TFG as at December 31, 2012 was \$16.41, up from \$14.91 as at November 30, 2012. Two events significantly contributed to the increase in U.S. GAAP NAV per Share in December. Firstly, as announced on December 7, 2012, in conjunction with a “modified Dutch auction” tender offer (the “Offer”), TFG purchased 15,384,615 TFG non-voting shares at a price of \$9.75 for \$150 million. As the purchase price of the Offer was significantly below the prevailing U.S. GAAP NAV per Share this had the impact of increasing U.S. GAAP NAV per Share by \$0.85.

⁽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.

TETRAGON

Secondly, as at December 31, 2012, certain inputs into the CLO valuation model were recalibrated, including forward-looking default assumptions and discount rates utilized in the determination of the applicable fair value of each deal. The net impact of these changes was to increase fair value and thus to increase the U.S. GAAP NAV per Share by \$0.50 on a net basis. A description of these changes is set forth below in section 2.

Gross Impact on Fair Value	U.S. CLOs \$ (millions)	EUR CLOs \$ (millions)	Total \$ (millions)
Recalibration of Default Assumptions	20.1	-1.1	19.0
Recalibration of Discount Rates	45.3	7.1	52.4
Total	65.4	6.0	71.4

1.2 Pro Forma Fully Diluted NAV per Share:

We have also included in the December 2012 monthly update the calculation of a “Pro forma fully diluted NAV per Share” to seek to reflect certain potential changes to the total non-voting shares over the next few years, which may be utilized in the calculation of NAV per Share. Specifically, the number of shares used to calculate U.S. GAAP NAV per Share has been adjusted to incorporate:

- Shares which have been used as consideration for the acquisition of Polygon Management L.P. and applicable stock dividends relating thereto, and which are held in escrow and are expected to be released and incorporated into the U.S. GAAP NAV per Share over a five year period.⁽²⁾
- The number of shares corresponding to the applicable intrinsic value of the options issued to the Investment Manager at the time of the company’s IPO with a strike price of \$10.00, to the extent such options are in the money at period end. As of December 31, 2012, the TFG share price was \$9.67 and therefore such options were out of the money.⁽³⁾

The Pro forma fully diluted NAV per Share was \$14.65 at 2012 year-end based on 110.64 million shares outstanding in respect of such calculation as outlined in the table below. As at December 31, 2012, the U.S. GAAP NAV per Share is \$16.41 based on 98.80 million shares outstanding. As of December 31, 2012 TFG had approximately 133.75 million shares legally issued and outstanding.

The table below illustrates the three measures of shares described above – legal shares issued and outstanding, U.S. GAAP shares outstanding and pro forma fully diluted shares. Legal shares issued and outstanding is used, for example, in TFG’s monthly reporting, including to applicable regulatory authorities.

⁽²⁾ Please see the press release of October 29, 2012 noting TFG’s acquisition of Polygon Management L.P. and certain of its affiliates.

⁽³⁾ The intrinsic value of the options will be calculated as the excess of (x) the closing price of the shares as of the final trading day in the relevant period over (y) \$10.00 (being the exercise price per share) times (z) 12,545,330 (being a number of shares subject to the options before the application of potential anti-dilution). The terms of exercise under the options allow for exercise using cash, as well as, with the consent of the board of the Company, certain forms of cashless exercise. Each of these prescribed methods of exercise may give rise to the issuance of a different number of shares than the approach described herein. If the options were to be surrendered for their intrinsic value with the board’s consent, rather than exercised, the number of shares issued would equal the intrinsic value divided by the closing price of the shares as of the final trading day in the relevant period. This approach has been selected because we currently believe it is more reasonably illustrative of a likely outcome if the options are exercised. The options are exercisable until April 26, 2017.

TETRAGON

Shares Reconciliation	Dec 31 2012 Shares (millions)
Legal Shares Issued and Outstanding	133.75
Less: Shares Held In Subsidiary	16.60
Less: Shares Held In Treasury	6.50
Less: Escrow Shares	11.84
U.S. GAAP Shares Outstanding	98.80
Add: Manager (IPO) Share Options	0.00
Add: Escrow Shares	11.84
Pro Forma Fully Diluted Shares	110.64

2 Fair Value Determination for TFG's CLO Equity Investments:

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

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of TFG's portfolio, the company seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Please refer to the 2011 Annual Report for a more detailed description of the cash flow projection and discounting process.

TETRAGON

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

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

U.S. CLOs – default assumptions recalibrated

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

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

European CLOs – default assumptions recalibrated

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

TETRAGON

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

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

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

2.2 Application of Discount Rate to Projected CLO Equity Cash Flows: 2005 – 2007 vintage deals:

In determining the applicable rates to use to discount projected cash flows, an analysis of observable risk premium data is undertaken. Observable risk premia such as BB and BBB CLO tranche spreads decreased late in Q3 2012 and we noted in TFG's Q3 2012 performance report that we would continue to monitor closely over the course of Q4 2012 whether these reductions were sustained, before considering a reduction in applicable discount rates. In Q4 2012 observable data has confirmed the re-rating of CLO risk, albeit the trend has continued at a slower pace. For example, according to Citibank research, the spread on originally BB-rated U.S. CLO tranches decreased from approximately 11% at the end of Q2 2012 to 8% as of the end of September 2012 and further reduced to approximately 7% at the end of December.⁽⁴⁾

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

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

⁽⁴⁾ Citi Global Structured Credit Strategy 22 January 2013

TETRAGON

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

2.3 2010–2012 vintage deals

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

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

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