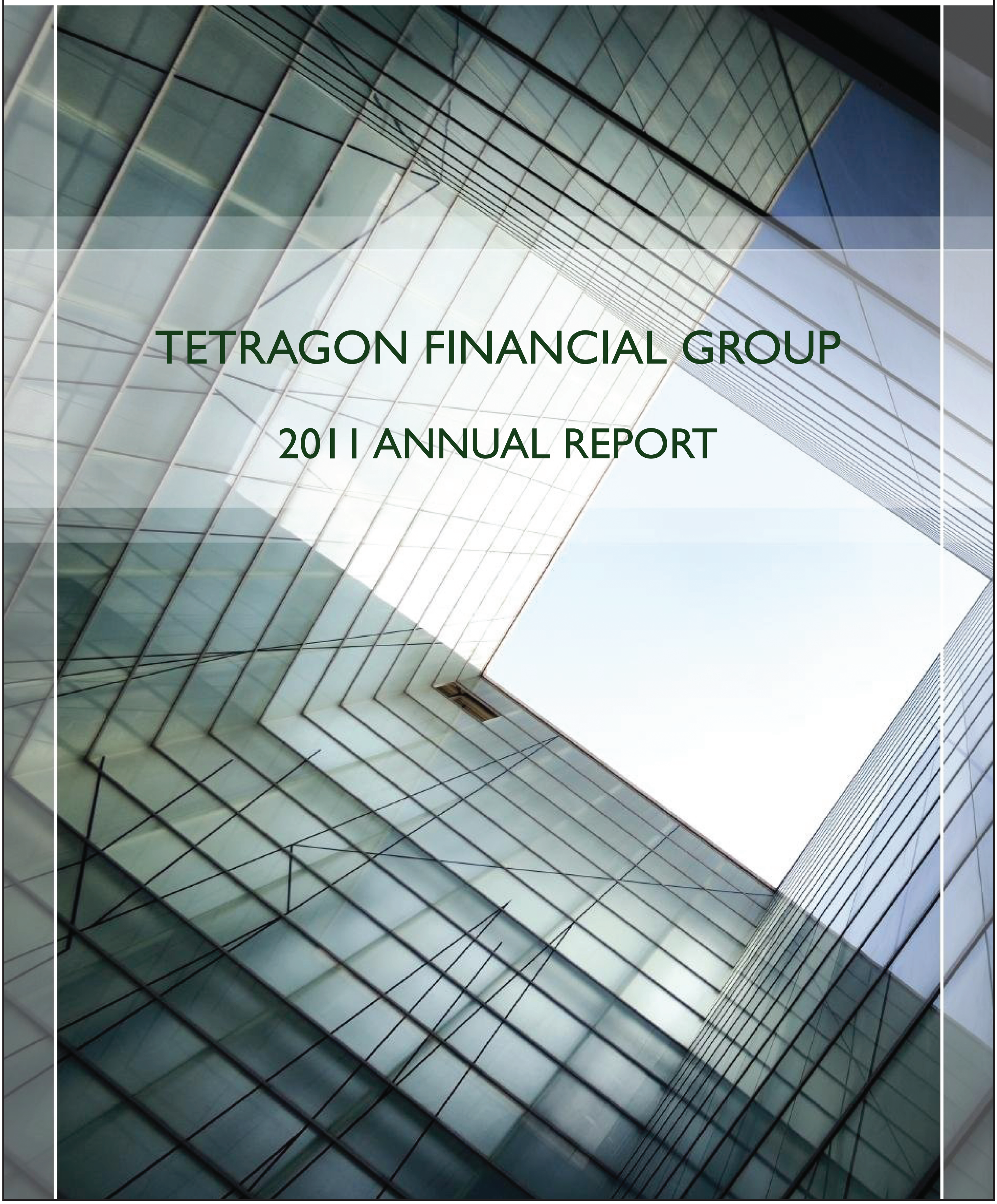
TETRAGON



TETRAGON FINANCIAL GROUP

2011 ANNUAL REPORT

TETRAGON

CORPORATE PROFILE

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

In this performance report, unless otherwise stated, we report on the consolidated business incorporating TFG and Tetragon Financial Group Master Fund Limited (the “Master Fund”).[i] 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 credit, equity, interest rate and real estate cycles, Tetragon Financial Management LP (the “Investment Manager”) seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

The Company maintains two key business segments: an investment portfolio and an asset-management platform.

(i) TFG invests substantially all its capital through the Master Fund, in which it holds a 100% share.

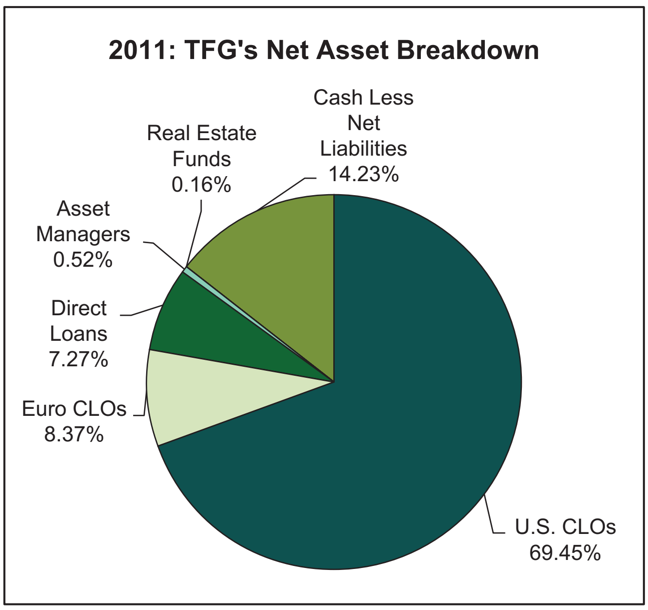
CONTENTS

TO OUR SHAREHOLDERS

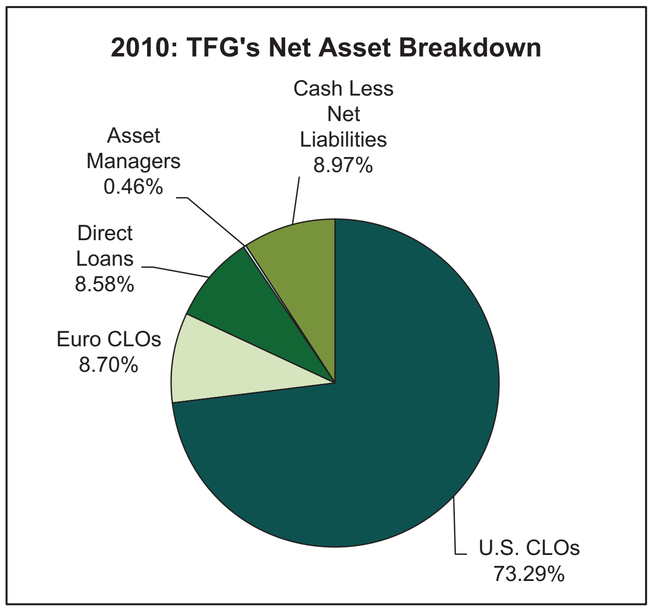
We are pleased to report that TFG posted strong results in 2011 despite mixed and often challenging market conditions. We believe the financial results for both of TFG's business segments (its investment portfolio and its growing asset management platform) reflect the underlying strength and positive momentum of the Company. Key financial metrics for TFG's consolidated businesses include:

- **Earnings per Share:** Increased to $3.46 in 2011, up 10% compared to 2010, mainly driven by the continued strong credit performance of the underlying U.S. loan portfolio, accessed via both CLOs and direct loan investments and supported by another strong year for LCM, TFG's loan management platform.
- **Distributions:** TFG paid or declared $0.395 per share in 2011, an increase of 27% over 2010. We also used over $35.0 million to buy back shares below NAV.
- **Net Asset Value ("NAV") per Share:** Grew to $12.71, an increase of 34% from Q4 2010 and 96% above the level at the end of 2009.

The following charts show the split of net assets by asset class at the end of 2011 ($1,474,355,249) and 2010 ($1,137,546,494), respectively.



2011: TFG's Net Asset Breakdown



2010: TFG's Net Asset Breakdown

Investment Portfolio Segment: Leveraging TFG's core strengths in corporate credit, accessed mainly via CLOs, while diversifying into other asset types.

TFG's U.S. CLO and direct loan portfolios performed well through the volatility of 2011.

- **Cash Flows:** TFG generated $411.6 million of cash flows from its CLO equity investments in 2011 versus $262.7 million in 2010, up 57% as net interest margins improved.
- **Collateral Performance:** U.S. CLO equity investments performed well in terms of defaults and CCC holdings, with 100% (2010: 100%) of such CLOs passing their junior-most O/C tests, although CLO equity investments in Europe did not fare as well.
- **CLO Returns:** Weighted-average IRRs on CLO equity investments rose to 17.6%, up from 15.1% at the end of Q4 2010. As of the end of 2011, TFG had indirect exposure to leveraged loans totaling approximately $18.4 billion via such CLOs.

By holding the majority of CLO equity tranches, TFG has added further opportunities to deliver value to shareholders in 2011.

TFG typically takes majority equity stakes in CLO structures. We believe that this approach has served shareholders well and that the CLO portfolio has been able to weather the financial storms of the past few years, in part because of our long-term focus. In addition, TFG has continued to actively explore opportunities arising out of reorganizations and other personnel changes affecting its CLO managers. In some cases, these opportunities have resulted in TFG receiving a portion of ongoing management fees from the affected CLO managers, which has been a tangible benefit to shareholders: in 2011 alone, such management fees totaled approximately $6.7 million (excluding fees earned by LCM Asset Management LLC, "LCM").

The performance of TFG's other loan investment assets has also been positive. The direct loan portfolio, which totaled approximately $107.1 million at the end of 2011, generated $0.9 million of net realized gains and $5.8 million of interest income and accrued discounts in 2011. The loan portfolio did not suffer any defaults during the year.

TFG has been among the market leaders in CLO new issuance as the primary market re-opened.

TFG continued to add CLO equity investments in 2011, investing approximately $47.2 million in two new issue CLOs (one of which is managed by LCM) and $15.7 million in four secondary CLOs, which were deals already represented in the CLO portfolio. In addition, as of the end of 2011, we had anticipated investing into two new issue CLOs (including an LCM-managed CLO), which have since closed in Q1 2012 (totaling $42.3 million of CLO equity investments).

TFG further diversified its investment portfolio during 2011 and early 2012.

- **Mezzanine Tranches:** TFG recently invested $1.1 million in a mezzanine debt tranche of a U.S. CLO already represented in TFG's CLO equity portfolio.[1] We see particular opportunities in mezzanine debt tranches where TFG controls the optional call rights.
- **Real Estate:** TFG sought to increase its holdings of real estate assets by investing in vehicles managed by GreenOak Real Estate, LP ("GreenOak"). Through the end of 2011, TFG held approximately $2.4 million of equity in commercial real estate assets in Japan and the United States and had committed to make further investments into both of GreenOak's U.S. fund and its Japan fund, which had its first closing early in 2012.

We will continue to seek to diversify the investment portfolio across asset classes and types, industries, geographies and investment duration.

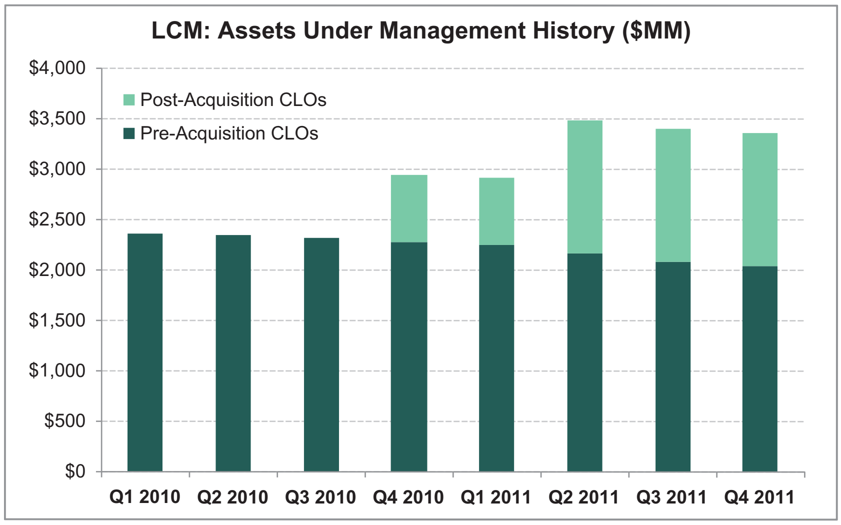
Asset Management Segment: Furthering the goal of building a broad-based financial services firm.

We remain committed to growing our asset management businesses. We believe that TFG owning or having stakes in asset management businesses may provide repeatable income streams and reduced fees paid to third-party managers.

In 2011 LCM again delivered strong performance and business growth.

LCM, TFG's loan management business, grew pre-tax income 41% year-over-year (ending 2011 at $8.2 million) and assets under management by nearly 15% (ending 2011 at $3.4 billion). To date, all senior and subordinated management fees on LCM Cash Flow CLOs (2) remain current.

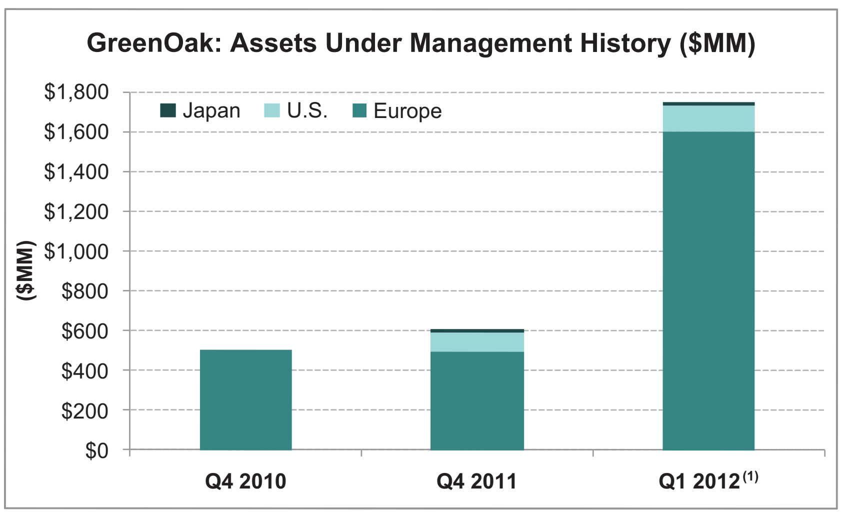
We note that the carrying value of this business on TFG's balance sheet is approximately $0.1 million.



GreenOak has gained significant momentum in recent months and we believe it is well-placed for accelerated growth in 2012.

GreenOak continues to build its real estate investment management and advisory business and has assembled a high-quality team of over 30 real estate professionals operating in London, Munich, Tokyo, New York and Los Angeles. During 2011 and early 2012, GreenOak:

- Had its first closing for both a U.S. and a Japanese real estate fund,
- Secured a significant number of high-quality advisory engagements with clients in the United States and Europe, and
- Identified and closed opportunistic transactions in the United States and Japan.



(1) Estimated as of the date of this report.

Based on GreenOak's planned growth in 2012 and 2013, we expect that TFG may invest in excess of the $100.0 million of co-investment capital into real estate that was anticipated under the GreenOak agreement.

Outlook: Continuing to invest in diverse and attractive asset classes while building a broad-based asset management firm.

As we look toward 2012, we are cautiously optimistic on the outlook for TFG's investments and asset management businesses. Barring another global recession or long-term disruption in financial markets, we expect that the Company's U.S. indirect and direct loan investments will continue to perform well and contribute to TFG's ability to:

- Deliver growing earnings per share,
- Build the NAV per share of the business by making new investments across multiple asset classes and by growing the asset management platform and
- Distribute capital to shareholders.

We have a positive view of TFG's U.S. CLOs given the expectation of continuing low defaults, healthy O/C cushions within the CLOs and the favorable net interest margin expansion that has occurred over the last few years. At the same time, we believe the gross cash flow potential of the Company's existing CLOs may decline somewhat over the medium term as more CLOs reach the ends of their reinvestment periods and rising U.S. LIBOR rates dampen the benefit of LIBOR floors. We expect the Company to continue to evaluate investment opportunities both within and beyond the leveraged loan asset class and to explore early call and/or refinancing opportunities for its existing CLO equity portfolio.

Our outlook for the performance of the European CLO portfolio remains closely linked to the condition of Euro-zone economies and, in particular, the resolution of Europe's sovereign debt issues, the nature of fiscal tightening in the region and the de-leveraging of European financial institutions, all of which will have an impact on the region's growth prospects and ability of loan issuers to adjust their capital structures in order to avoid default. Given the significant O/C and credit quality pressure under which many European CLOs remain, we therefore maintain a less positive view on the near-term prospects of these assets.

In 2012, LCM and GreenOak will continue their fund-raising as they seek to grow third-party assets under management and add new advisory mandates. Although it may take time to fully realize all of the benefits of building and integrating existing and potentially new asset management businesses into the platform, we believe that we are making good progress in that direction. We expect to continue to advance this effort throughout 2012, including by evaluating other asset managers for acquisition. We remain of the view that TFG's continued diversification to owning interests in multiple operating entities across a range of asset classes will ultimately create significant long-term value for our shareholders.

With regards,

Board of Directors

2 March 2012

2011 PERFORMANCE AT A GLANCE

Investment Manager's 2011 Highlights: [3]

In the context of mixed but improving fundamentals for U.S. corporate credit and periodically volatile capital markets, TFG achieved the following:

- **Cash Flow:** The Company experienced continued gains in cash generation in 2011, with CLO equity investment cash receipts of approximately $411.6 million (or $3.48 per weighted average share), up from approximately $262.7 million (or $2.16 per weighted average share) in 2010, due to general improvements in the excess interest margin available for distribution within TFG's U.S. CLOs and the resumption of distributions to the equity tranches of certain of TFG's European CLO equity investments. [4]

- **CLO Equity Investment Performance:** The Company's portfolio of CLO equity investments realized value through the Company's majority (or significant) equity positions and, as a whole, out-performed market-wide averages across several key performance metrics:

  - ***CLO Portfolio Management:*** The Company was able to realize value from its majority (or significant) equity positions in three specific CLO investments during 2011 due to opportunities arising out of certain manager consolidations, change of control transactions or other management company or personnel changes within those transactions, and in connection therewith increased our economics in such deals via upfront consent fees or long-term fee sharing arrangements.

  - ***Defaults:*** TFG's lagging 12-month corporate loan default rate fell to approximately 0.4% as of the end of Q4 2011, down from 1.7% recorded as of the end of Q4 2010.[5] TFG's 2011 corporate loan default rate was also approximately 82% below the 2.2% annual WARF-implied [6] default rate used as a historical average rate within TFG's cash flow modeling framework.

  - ***Collateral Coverage Test (O/C) Compliance:*** As of the end of 2011, 100% of TFG's U.S. CLOs and approximately 94% of TFG's CLO investments on a portfolio-wide basis were passing their junior most O/C tests, when measured on a number of transactions basis.[7] TFG's U.S. CLOs continued to perform particularly well during the year, increasing their O/C test cushions and reducing low-rated asset holdings.

  - ***Credit Quality:*** The weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in our 77 CLO investments ended the year at 7.0%.[8] For TFG's U.S. CLO equity investments, the weighted-average percentage of CCC assets was 5.5%, with a weighted-average maximum permitted level of 8.4%. In comparison, the market-wide median CCC asset holdings of U.S. CLOs were estimated to be approximately 7.7% as of the end of Q4 2011.[9]

- **Direct Loan Investments:** As of 31 December 2011, TFG owned liquid U.S. bank loans with an aggregate par amount of approximately $111.1 million and total fair value of $107.1 million. The underlying businesses performed well during the year, with no defaults registered in the direct loan portfolio. For the year, net realized gains totaled approximately $0.9 million. In addition, the direct loan portfolio earned $5.8 million of interest income and discount premium during the year.

- **Further Investment Portfolio Diversification:**

  - ***Mezzanine CLO Debt Tranches:*** The Company recently invested $1.1 million in a mezzanine debt tranche of a U.S. CLO already represented in TFG's CLO equity portfolio. We see particular opportunities in mezzanine debt tranches where TFG controls the call rights of the CLO.

  - ***Real Estate:*** TFG sought to increase its holdings of real estate assets by investing in vehicles managed by GreenOak. Through the end of 2011, TFG held approximately $2.4 million of commercial real estate assets in Japan and the United States and had committed to make further investments into both its U.S. fund and its Japan fund, which had their first closings early in 2012. Over the short/medium term, the Company may invest in excess of the $100.0 million of co-investment capital into real estate that was anticipated under the GreenOak agreement.

- **Cash Reserves and Corporate-Level Borrowings:** The Company had no outstanding corporate-level borrowings during all of 2011 and its net cash position stood at $211.5 million as of 31 December 2011.[10]

2011 PERFORMANCE AT A GLANCE (continued)

- **Asset Management Platform**

TFG's asset management operating businesses achieved strong performance outcomes during 2011.

- ***LCM Developments:*** LCM achieved solid operating and financial performance in 2011. Assets under management grew from approximately $3.0 billion at the end of 2010 to approximately $3.4 billion at year-end 2011. This growth was a result of the issuance of LCM IX, a new U.S. CLO, in which TFG acquired a majority position in the equity tranche. Early in 2012, the team closed another new issue CLO, LCM X, which totaled $410.0 million, bringing the assets under management to approximately $3.8 billion at February 2012 month-end. As of 31 December 2011, all senior and subordinated CLO management fees on LCM Cash Flow CLOs (11) were current and taking into account all LCM-managed vehicles, the gross fee income year-to-date for LCM totaled $16.4 million. Pre-tax profit for the entire LCM business, of which TFG owns 75%, reached approximately $8.2 million for the same period.
- ***GreenOak Developments:*** GreenOak is a real estate focused principal investing and advisory firm formed in 2010 to capitalize on opportunities in the rapidly changing landscape of real estate investing. TFG owns a 10% equity interest in GreenOak. Throughout 2011, GreenOak continued to build its real estate investment management and advisory business. They have assembled a high quality team of over 30 real estate professionals operating in London, Munich, Tokyo, New York and Los Angeles. During the year, GreenOak achieved a number of key milestones, including having first closings for its U.S. and Japanese real estate funds and securing a significant number of high-quality advisory engagements with clients in the United States and Europe. We believe that as of March 2012 month-end, assets under management will have grown to approximately $1.75 billion.

- **Capital Distributions, Dividends and Share Repurchases:** TFG declared a dividend of $0.105 per share for Q4 2011, after increasing it from $0.09 per share to $0.10 per share in each of the prior two quarters. TFG also announced the continuation of its share repurchase program in October 2011. Overall in 2011, TFG purchased 5,075,380 TFG shares at an average price of $6.94 per share for a total value of approximately $35.2 million.

Financial Results Summary:

- **Net Income:** Consolidated net income of $410.4 million was recorded in 2011 as compared with $385.2 million in 2010. This strong performance was driven by, among other things, significant improvements in the excess interest margins and structural strength of the Company's CLO equity investments. Value was captured through increased actual cash receipts versus projections and an increase, and greater confidence, in expected future cash flows.
- **Earnings per Share (EPS):** Consolidated EPS for 2011 was $3.46 compared to $3.15 for 2010.
- **Net Asset Value (NAV) per Share:** NAV per share at the end of 2011 was $12.71, up from $9.47 at the end of 2010, reflecting overall improvements in performance and distributions to shareholders.
- **Cash Flows from Operations:** Cash flows from operating activities increased by approximately $100.0 million, year-over-year, to $253.9 million as of 31 December 2011, primarily driven by the increase in cash from CLO equity detailed above.

Investment Portfolio Summary:

- **Investment Portfolio Size:** As of the end of 2011, the fair value of TFG's investment portfolio totaled approximately $1,264.4 million comprised mainly of approximately $1,147.4 million of CLO equity investments and $107.1 of direct loan investments. The CLO equity investments represented indirect exposure to approximately $18.4 billion of leveraged loans.
- **CLO Portfolio Composition:** As of the end of 2011, TFG's performing CLO portfolio consisted solely of 77 CLO investments managed by 27 external CLO managers and LCM. The number of external CLO managers fell to 27, owing to certain manager consolidations that were announced during the year.
- **IRRs:** The weighted-average IRR as of the end of 2011 was 17.6%, up from 15.1% at the end of 2010.
- **Performance Fee:** Performance fees of $55.5 million, $26.2 million, and $19.2 million were paid with respect to Q1, Q2 and Q3 2011, respectively. A performance fee of $23.2 million was accrued in Q4 2011 in accordance with TFG's investment management agreement and based on a "Reference NAV" with respect to Q3 2011. The hurdle rate for the Q1 2012 incentive fee has been reset at 3.2304% (Q4: 3.0255%) as per the process outlined in TFG's 2011 Audited Financial Statements and in accordance with TFG's investment management agreement.(12)

INVESTMENT MANAGER'S REPORT

PORTFOLIO OVERVIEW

As of the end of 2011, the fair value of TFG's investment portfolio totaled approximately $1,264.4 million, comprised mainly of TFG's indirect loan portfolio, accessed via its investments in CLO equity tranches, which totaled approximately $1,147.4 million, and the direct loan portfolio of $107.1 million. TFG's exposure to the loan asset class remained diversified, with approximately 74.9% (invested directly or indirectly via CLO equity investments) in U.S. broadly-syndicated senior secured loans, 15.3% in U.S. middle-market senior secured loans and 9.8% in European broadly-syndicated senior secured loans.(13)(14)

The corporate credit market in the United States was marked by significant volatility during 2011. Through the first seven months of the year, the S&P/LSTA Index saw average monthly market price gains of 0.39% as demand for leveraged loans soared, in part as a result of $26.3 billion of capital inflows into loan mutual funds.(15) This upward trend, however, quickly reversed itself. In August, concerns over the sovereign debt crisis in Europe and fears of a global double-dip recession, in addition to S&P's downgrade of the sovereign debt of the United States and the U.S. Federal Reserve's announcement that it would seek to keep short-term rates low through at least mid-2013, led to capital flight out of the leveraged loan market and a loss of 4.4% during the month for the S&P/LSTA Index.(16) In late 2011, investor sentiment improved once again and the loan index ended with a 1.5% gain for the year.(17)

We believe that notwithstanding these market price swings, U.S. credit fundamentals continued to improve. Since June 2009, publicly-filing S&P/LSTA Index issuers have generated average year-over-year EBITDA growth of 16%.(18) Capital market activity also remained strong, with 2011 U.S. institutional loan volumes up 46% from 2010, reaching $232.0 billion, and U.S. leveraged loan issuance similarly increasing by 60%.(19) High-yield bond issuance, on the other hand, fell 25% to $218.0 billion, as there was little need to refinance immediate maturities in 2011.(20) Though the pace of maturity schedule adjustment slowed towards the end of 2011, the size of the so-called "maturity wall" continued to be reduced through repayments and extensions. During 2011, issuers in the S&P/LSTA Index had reduced loan maturities due through 2014 by $131.5 billion, compared with $183.1 billion in 2010. Most of this activity occurred in the first half of 2011, as more issuers sought to defer extensions as the year progressed. Despite these positive credit trends there were some latent concerns. The percentage of obligors rated CCC+ or below in the S&P/LSTA Index ticked up to 9% as of the end of 2011, from 6% the prior year, and the percentage of constituents trading below a price of 70% of par likewise increased to 7%, from 2%, over the same period.(21) Notwithstanding the increase in certain measures of stress, the overall positive credit environment led to defaults for the S&P/LSTA Index hitting a 54-month low of 0.17%, by principal amount, for the year.(22)

The European leveraged loan market also experienced significant swings during the year with the S&P European Leveraged Loan Index ("ELLI") return ending close to flat with a 0.36% gain in 2011 (excluding currency effects).(23) Unlike in the United States, however, volumes in Europe never meaningfully recovered from a late summer lull, as European institutional loan volume fell to €2.6 billion in Q4 2011, the lowest level since the final quarter of 2009. Despite this slowdown, European institutional loan volume increased slightly from 2010, ending 2011 with €22.1 billion. Certain credit metrics in Europe also showed considerably more stress than in the United States. As of the end of 2011, 12% of the constituents of the ELLI were rated CCC+ or below, up from 7% at the end of the prior year, and 17% were trading below a price of 70%, compared with 10% at the end of 2010. Meanwhile, the lagging 12-month default rate for the ELLI ended 2011 at 4.1%, more than double the 2010 rate. (24)

As in the underlying loan markets, CLO performance in the United States and Europe evolved along diverging paths. We believe that U.S. CLOs generally benefitted from the benign default environment and expanding net interest margins, which were achieved through, among other things, amendment fees, investments into wider-spread loan assets and LIBOR floors. These positive factors contributed to strong cash flow distributions to CLO equity holders, such as TFG. For the year, the gross cash flow from TFG's U.S. CLO equity investments reached $378.6 million. TFG's direct bank loan portfolio also performed well, and generated $0.9 million of net realized gains and $5.8 million of interest income and accrued discounts in 2011.

As of the end of the year, 100% of TFG's U.S. CLOs by fair value and 100% by number were passing their junior-most O/C tests.(25) U.S. CLOs represented approximately 89.2% of the total fair value of TFG's CLO equity investment portfolio as of 31 December 2011. In comparison, the market-wide average of U.S. CLOs estimated to be passing their junior O/C tests as of the end of Q4 2011 was approximately 93.9% (when measured on a percentage of transactions basis).(26)

PORTFOLIO OVERVIEW (continued)

TFG's European CLOs, in contrast, continued to lag the performance of its U.S. CLO transactions as O/C test cushions remained stressed due to defaults and persistently high Caa1/CCC-rated assets, among other factors. At 31 December 2011, European CLOs represented approximately 10.8% of TFG's CLO equity investment portfolio. Approximately 75% of the fair value of TFG's European CLOs and 60%, when measured on a percentage of European transactions basis, were passing their junior-most O/C tests. We believe that this divergence in performance was due to, among other factors, slower growth in key European economies, more challenging capital market conditions, lower obligor diversification, as well as certain structural features of European CLOs which rendered them more sensitive to ratings migration.

New CLO issuance continued to pick up during 2011, although mainly in the United States and still not near the peak volumes of the 2006-2007 period. There were 28 U.S. arbitrage CLOs issued during 2011, putting the total annual primary volume at $12.3 billion, up from $3.6 billion in 2010.(27) The primary market for European arbitrage CLOs remained closed, however, as no such deals were issued during 2011. Including balance sheet deals, global CLO issuance stood at $101.8 billion for the 2011 year and was dominated by European balance sheet CLOs which totaled $89.6 billion.(28)

Although we expect European cash flow arbitrage CLO issuance to remain depressed in 2012, we anticipate U.S. arbitrage CLO issuance volumes to increase in the coming year, provided that liability spreads keep pace with tightening in underlying loan spreads so as to preserve attractive equity returns. With both U.S. interest rates and corporate default rates expected to remain low in the near to medium term, the relative yield pick-up of CLO debt and equity tranches may offer compelling risk-adjusted returns for certain investors. In addition, given the importance of CLOs as a provider of liquidity for the leveraged loan market, new CLOs, or other types of long-term loan investing vehicles, may need to be issued as older-vintage CLOs reach the end of their reinvestment periods and effectively withdraw a significant amount of capital from the loan market. Though down from its historic levels, we believe CLOs remain the largest type of buyer of new issue leveraged loans, making up over 40% of the overall market.(29) We also believe that when properly constructed, they may offer investors an attractive economic exposure to leveraged loans and will continue to be an important part of the loan market going forward.

TFG's direct U.S. bank loan portfolio totaled approximately $111.1 million in par amount and fair value of $107.1 million as of 31 December 2011 and performed well during the year, with no defaults registered. Net realized gains for the year totaled approximately $0.9 million and the portfolio earned $5.8 million of interest income and discount premium during 2011. Going forward, we expect to continue to maintain our direct exposure to bank loans and to take advantage of market opportunities to realize gains and/or acquire additional assets.

TFG also sought to increase its holdings of real estate assets by investing in vehicles managed by GreenOak Real. Through the end of 2011, TFG held approximately $2.4 million of commercial real estate assets in Japan and the United States and had committed to make further investments into both its U.S. fund and its Japan fund, which had its first closing early in 2012. Based on GreenOak's planned growth in 2012 and 2013, we expect that TFG may invest in excess of the $100.0 million of co-investment capital into real estate that was anticipated under the GreenOak agreement.

ASSET MANAGEMENT PLATFORM

The Company remains committed to expanding its asset management platform and its efforts to become more of a broad-based financial services firm that owns interests in multiple operating businesses.

LCM

LCM continued to perform well during 2011, as it grew assets under management and produced robust profits. As of the end of 2011, all of LCM Cash Flow CLOs continued to pay senior and subordinated management fees and enjoyed significant cushions to their junior-most O/C tests. Taking into account all LCM-managed vehicles, the gross income year-to-date for LCM totaled $16.4 million. 2011 pre-tax profit for the entire LCM business, of which TFG owns 75%, reached approximately $8.2 million.

LCM Asset Management Performance Snapshot								
	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Gross Fee Income ($MM)	$4.3	$4.4	$3.9	$3.8	$3.4	$3.0	$2.9	$3.3
Pre-tax Income ($MM)	$2.2	$2.2	$1.9	$1.9	$1.1	$1.4	$1.4	$1.9

LCM's assets under management grew from approximately $3.0 billion at the end of 2010 to approximately $3.4 billion at year-end 2011. During 2011, LCM closed a new issue CLO, LCM IX. A second new issue CLO, LCM X, was closed during Q1 2012. Both CLOs raised significant third-party capital, with TFG taking a majority stake of the equity tranche of both deals.

LCM also continued to lend its expertise to TFG's direct U.S. loan investment program. No defaults were registered in the direct loan portfolio during 2011. As of the end of 2011, the direct loan portfolio had a fair value of $107.1 million.

Looking forward, we expect to continue to support the growth of LCM's business via primary CLO issuance, managed accounts and CLO manager consolidation, as well as other strategic opportunities. We anticipate that, market conditions permitting, LCM will be able to continue to grow its assets under management in a measured and disciplined manner that leverages LCM's expertise, investment style and performance track record.

GREENOAK

Throughout 2011, GreenOak continued to build its real estate investment management and advisory business. They have assembled a high quality team of real estate professionals operating in multiple geographies. During 2011, GreenOak achieved a number of key milestones. They had first closings for their United States and Japanese real estate funds and closed on opportunistic transactions in both of those countries. GreenOak also secured a significant number of high-quality advisory engagements with clients in the United States and Europe. We believe that as of March 2012 month-end, assets under management will have grown to approximately $1.75 billion.

In 2012, LCM and GreenOak will continue their fund-raising efforts as they seek to grow third-party assets under management and add new advisory mandates. Although it may take time to fully realize all of the benefits of building and integrating existing and potentially new asset management businesses into TFG's asset management platform, we believe that we are making good progress in such efforts. We expect to continue to advance this effort throughout 2012, including by evaluating other asset managers for acquisition. We continue to believe that TFG owning or having stakes in asset management businesses may provide repeatable income streams and reduced fees paid to third-party managers.

PORTFOLIO CORPORATE ACTIONS

TFG and the Investment Manager continued to leverage the Company's majority (or significant) ownership positions in certain CLO transactions to monitor the performance of its CLO investments and to affect the outcome of certain manager consolidations, change of control transactions, or other management company or personnel changes within the CLO portfolio so as to protect or enhance the value of those investments. During 2011, TFG realized value in three CLO transactions by leveraging its ownership positions and entering into long-term fee sharing arrangements. Such management fees totaled approximately $6.7 million in 2011 (excluding fees earned by LCM). We expect to continue to utilize these strategic assets to take advantage of similar opportunities to enhance and protect the value of TFG's CLO equity investments and/or TFG's asset management platform.

FINANCING SOURCES, HEDGING ACTIVITY AND OTHER MATTERS

As of the end of 2011, TFG had no outstanding debt and the net cash on its balance sheet stood at $211.5 million, compared to $140.6 million at the end of 2010. In addition, the Company owned a direct bank loan portfolio, with a fair value of approximately $107.1 million as of the end of Q4 2011.

TFG had no direct credit hedges in place at the end of 2011, but employed certain foreign exchange rate and “tail risk” interest rate hedges to seek to mitigate its exposure to Euro-USD foreign exchange risk and a potential significant increase in U.S. inflation and/or nominal interest rates, respectively. We review our hedging strategy on an on-going basis as we seek to address identified risks to the extent practicable and in a cost-effective manner.

The Investment Manager continues to examine ways to improve liquidity for TFG shares through, for example, improved analyst and broker coverage, investor communication and “non-deal” road shows. In 2011, the average daily trading volume for TFG shares on NYSE Euronext in Amsterdam fell to approximately 206,000 from approximately 235,000 in 2010. TFG currently expects to continue to publicly list its shares solely on NYSE Euronext in Amsterdam as it believes that exchange is favorably suited to address relevant legal, regulatory, liquidity and other commercial considerations. TFG has recently appointed Singer Capital Markets Ltd. to act as its corporate broker.

CAPITAL DISTRIBUTIONS 2011: DIVIDENDS AND SHARE REPURCHASES

The Company has sought to continue to return value to its shareholders. During 2011 TFG paid a dividend of $0.09 per share with respect to Q1 2011, followed by an increased dividend of $0.10 per share paid with respect to each of Q2 and Q3 2011. The dividend was $0.105 per share with respect to Q4 2011, and will be paid on 28 March 2012. This will result in a total dividend of $0.395 per share for the year.[30]

During 2011, the Company repurchased 5,075,380 TFG shares at an average price of $6.94 per share for a total value of $35.2 million, which brought the total number of shares purchased under the share repurchase program to 16,100,542 at an average price of $5.09 per share. On 28 October 2011, TFG announced the continuation of its share repurchase program. 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 NAV, represent an attractive use of TFG’s free cash.

Finally, TFG remains focused on returning capital to its shareholders in a manner consistent with protecting the prospects of the Company and pursuing other investment opportunities whether in respect of its investment portfolio or asset management platform as well as both within and beyond the leveraged loan asset class.

SUMMARY, OUTLOOK AND STRATEGY

Despite mixed macro-economic conditions and significant financial market volatility, TFG posted strong results in 2011. We believe the financial results for both of TFG's business segments (its investment portfolio and its growing asset management platform) reflect the underlying strength and positive momentum of the Company. We will seek to build on such success and strength in 2012.

2011 witnessed broad improvement in U.S. credit conditions as leveraged loan defaults reached historical lows and significant progress was made in addressing the "maturity wall". TFG's U.S. CLOs equity investments continued to benefit from a favorable environment of low credit losses in the context of widening loan spreads, growing prevalence of LIBOR floors, and above-average prepayment rates. This environment allowed CLO managers with vehicles in active reinvestment periods (which represent the majority of TFG's CLO portfolio) to reinvest such proceeds into wider spread or below par assets, thereby increasing the deals' O/C cushions and excess interest margins distributable to equity holders (such as TFG). In addition, certain of TFG's U.S. CLOs benefitted from upgrades of their liabilities resulting in a termination of so called "restricted trading" conditions and the reinstatement of managers' trading flexibility both during and after the end of the reinvestment period. TFG's European CLOs, on the other hand, registered modest and generally short-lived improvement during the year, with European corporate credit performance overshadowed by continued systemic sovereign and fiscal problems in the region, resulting in persistently elevated Caa1/CCC+ asset holdings, defaults, and constrained capital markets.

We believe that the value of arbitrage cash flow CLOs' ability to capture the benefit of loan spreads (including expected default losses and liquidity/other non-credit related risk premia) while mitigating certain of these risk components has been demonstrated this year as TFG's CLO equity cash flows rose 57% year-over-year. With match-funded liabilities and limited exposure to loan market value risk compared to other investment vehicles, [31] arbitrage cash flow CLOs, and the equity tranche in particular, were able to benefit from the share of loan spread in excess of realized credit losses. Furthermore, both TFG's U.S. and European CLOs outperformed certain key market-wide performance metrics, such as default rates and average junior O/C test cushions, reflecting the value-added by collateral managers represented within the portfolio. In addition, TFG's majority (or significant) equity position and buy-and-hold strategy has allowed the Company to continue to protect or enhance the value of TFG's investments via consent rights on certain management changes as well as the negotiation of upfront consent fees or long term fee-sharing arrangements.

TFG's direct U.S. bank loan portfolio, which totaled approximately $111.1 million in par amount and fair value of $107.1 million as of 31 December 2011, continued to perform well during the year. The portfolio experienced no defaults during the year and generated net realized gains of approximately $0.9 million as well as $5.8 million of interest income and discount premium for 2011. We expect to continue to maintain our direct exposure to bank loans in the future.

During 2011, the Company continued to seek to diversify its investment portfolio across various asset classes and types (with different investment durations) as well as across a multitude of geographies. To this end, TFG invested $1.1 million in a mezzanine debt tranche of a U.S. CLO already represented in TFG's CLO equity portfolio. We believe that certain mezzanine debt tranches may offer attractive risk-adjusted returns given their credit enhancement levels, potential for price appreciation in light of improving credit quality, end of CLOs' reinvestment periods, and rating upgrades, as well as the favorable impact of early optional redemptions. Although we have previously focused exclusively on the equity tranches of CLOs, we may seek to make similar opportunistic mezzanine debt investments if and when appropriate. TFG also began growing its exposure to real estate assets by investing in vehicles managed by GreenOak. Through the end of 2011 TFG held approximately $2.4 million of commercial real estate assets in Japan and the United States. Based on GreenOak's planned growth in 2012 and 2013, we expect that TFG may invest in excess of the $100.0 million of co-investment capital into real estate that was anticipated under the GreenOak agreement.

SUMMARY, OUTLOOK AND STRATEGY (continued)

The Company also continued to make progress on the growth of its asset management platform. During 2011, the asset management businesses in which TFG holds ownership stakes achieved solid financial and operating results. LCM, of which TFG owns 75%, was able to raise significant third-party capital via new issue CLOs, including LCM IX and LCM X (which closed in February 2012) despite volatile loan prices and CLO liability spreads. Throughout the year, all of LCM's Cash Flow CLOs remained current on their senior and subordinated management fees and the team oversaw strong performance of TFG's direct loan portfolio, with the total business generating pre-tax profits of $8.2 million for the year. LCM also expanded its team by adding two investment professionals and we believe is well-positioned to capitalize on further capital-raising opportunities in 2012.

GreenOak, of which TFG owns 10%, also experienced strong positive momentum as it continued to build its real estate investment management and advisory business. The firm established a global footprint with a high-quality team of real estate professionals across multiple offices and regions. Key GreenOak operating milestones in 2011 and early 2012 included the first closing for a U.S. and a Japanese real estate fund, delivery of several advisory projects to clients in the United States and Europe as well as the sourcing and closing of opportunistic transactions in the United States and Japan.

We maintain a cautiously positive outlook for TFG in 2012 both in terms of its investment portfolio and asset management platform. In regards to TFG's investment portfolio, our view remains bifurcated with respect to TFG's U.S. and European leveraged loan holdings. Although we expect that, absent a global recession or financial markets disruption, U.S. CLOs and direct loan portfolio will perform well, we anticipate that TFG's European CLOs may continue to face both fundamental and technical headwinds.

As mentioned in our previous reports, 100% of TFG's U.S. CLOs remain compliant with their junior O/C tests and have built significant cushion to those tests as well as credit quality limits such as Caa1/CCC+ asset holdings. Furthermore, we share the consensus view that near-term U.S. leveraged loan default rates will remain below their historical average in 2012, given the significant reduction in "maturity wall" achieved over the past few years, the general strength of U.S. corporate balance sheets as well as continued strong earnings and cash flows of U.S. leveraged loan borrowers. All of these factors would be expected to contribute to continued strong U.S. CLO equity cash flows, although we expect that total receipts may be lower than in 2011 due to potential loan spread tightening, rising LIBOR rates which reduce the value of LIBOR floors, and a greater number of transactions reaching the end of their reinvestment periods as well as reaching certain CLO manager incentive fee IRR hurdles. In addition, we believe that further CLO liability ratings upgrades may create positive momentum for TFG's CLO portfolio by allowing a greater number of TFG's CLOs to potentially extend the benefits of their historically-tight liabilities beyond their reinvestment periods.

We anticipate that European CLOs, on the other hand, will remain more exposed to negative macro-economic conditions and financial markets volatility in the region due to the generally lower (or negative) cushion of their junior O/C tests, significant excess Caa1/CCC+ asset holdings, higher obligor concentrations and generally more punitive treatment of stressed asset haircuts in O/C ratios.

We are also optimistic on the outlook for TFG's real estate assets accessed *via* investments in certain GreenOak entities as we view GreenOak as a superior manager capable of accessing solid investment opportunities and achieving strong return outcomes.

Finally, we are excited about the prospects for our asset management businesses. Although the risk-on/risk-off investment pattern which characterized 2011 may continue to pose challenges in 2012, we believe that the groundwork laid by the GreenOak team since inception as well as the quality of its advisory work and investment performance will generate returns in 2012. Similarly, given the increase in CLO new issuance volumes and LCM's demonstrated ability to access these capital markets even during challenging times, we anticipate that LCM will be able to continue to grow its assets under management via the addition of new CLO vehicles as well as other loan investment products. In addition to outside capital, both LCM and GreenOak will continue to manage a portion of TFG's own capital and we will look to support both asset managers by, among other things, supporting new investment funds (such as CLOs or real estate funds) and providing working capital when needed.

SUMMARY, OUTLOOK AND STRATEGY (continued)

Although it may take time to fully realize all of the benefits of building and integrating existing and potentially new asset management businesses into the platform, we believe that we are making good progress in that direction. We expect to continue to advance this effort throughout 2012, including by evaluating other asset managers for acquisition. We remain of the view that TFG's continued diversification to owning interests in multiple operating entities across a range of asset classes will ultimately create significant long-term value for our shareholders. We believe that TFG is well-positioned to capitalize on future opportunities in this space and to gain from potential synergies across the investment and asset management businesses.

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 TFG's website at: www.tetragoninv.com.

FINANCIAL REVIEW 2011

OVERVIEW

TFG posted strong results in 2011 despite mixed and often challenging market conditions. Year-on-year net income increased by approximately 7% to $410.4 million and as in 2010 the main driver of earnings continued to be the performance of the CLO equity portfolio, particularly the U.S. deals. Importantly, the non-CLO portfolio components of income continued to grow as well with the combined management fees from LCM and other fee sharing arrangements increasing by more than 50% to $23.1 million.

Costs and expenses broadly scaled up in line with performance and were only marginally higher when expressed as a percentage of gross income, at approximately 29%, due to an increase in legal expenses in the other expenses line.

CONSOLIDATED INCOME COMPARISON 2011 vs. 2010

The quarter-on-quarter and annual comparison of consolidated net income (see table below) shows the relative stability of the performance from the second quarter onwards.

TFG Quarterly Statement of Operations						
Statement of Operations	**Q4 2011 ($MM)**	**Q3 2011 ($MM)**	**Q2 2011 ($MM)**	**Q1 2011 ($MM)**	**2011 Consolidated ($MM)**	**2010 Consolidated ($MM)**
Interest income from Investments	55.1	53.6	52.0	48.4	209.1	178.9
CLO Management Fee Income	4.3	4.4	3.9	3.8	16.4	12.6
Other Income	2.9	0.8	1.5	1.5	6.7	2.5
Investment Income	**62.3**	**58.8**	**57.4**	**53.7**	**232.2**	**194.0**
Management and Performance Fees	(28.6)	(24.3)	(31.2)	(59.9)	(144.0)	(133.5)
Other Expenses	(7.6)	(9.0)	(4.1)	(5.7)	(26.4)	(10.7)
Total Operating Expenses	**(36.2)**	**(33.3)**	**(35.3)**	**(65.6)**	**(170.4)**	**(144.2)**
Net Investment Income	**26.1**	**25.5**	**22.1**	**(11.9)**	**61.8**	**49.8**
Net Change in Unrealized (Depreciation) / Appreciation on Investments	58.5	50.5	65.0	184.6	358.6	336.0
Net Realized Gain / (Loss) on Investments	0.3	-	-	0.6	0.9	1.1
Realized / Unrealized Gains / (Losses) From Hedging and FX	(3.3)	(7.1)	2.4	2.9	(5.1)	2.1
Realized / Unrealized Gains / (Losses) from Investments and FX	**55.5**	**43.4**	**67.4**	**188.1**	**354.4**	**339.2**
Income Taxes	(0.7)	(1.1)	(1.0)	(1.0)	(3.8)	(2.4)
Noncontrolling Interest	(0.6)	(0.5)	(0.4)	(0.5)	(2.0)	(1.4)
Net Increase / (Decrease) in Net Assets from Operations	**80.3**	**67.3**	**88.1**	**174.7**	**410.4**	**385.2**

EPS ATTRIBUTION

EPS Performance Attribution		
Component	**2011**	**2010**
CLOs	$4.76	$4.18
Direct Loans	$0.03	$0.05
LCM – Fee Income	$0.14	$0.10
Other Income	$0.06	$0.02
Hedging Derivatives and Options	($0.04)	$0.01
Expenses and Taxes	($1.47)	($1.20)
Noncontrolling Interest	($0.02)	($0.01)
Total EPS	$3.46	$3.15
Weighted Average Shares	118,444,858	122,165,663

FINANCIAL HIGHLIGHTS TABLE

Financial Highlights								
	Q4 2011	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**Q3 2010**	**Q2 2010**	**Q1 2010**
Net Income ($MM)	$80.3	$67.3	$88.1	$174.7	$132.0	$125.0	$55.6	$72.6
EPS ($)	$0.69	$0.57	$0.74	$1.46	$1.09	$1.03	$0.45	$0.58
Cash Receipts ($MM)[32]	$113.2	$105.1	$102.4	$90.9	$78.9	$71.8	$60.9	$51.1
Cash Receipts per Share ($)	$0.97	$0.89	$0.86	$0.76	$0.66	$0.59	$0.50	$0.41
Net Cash Balance ($MM)	$211.5	$155.6	$67.7	$147.0	$140.6	$187.9	$156.2	$172.6
Net Assets ($MM)	$1,474	$1,414	$1,368	$1,298	$1,138	$1,019	$909	$867
Number of Shares Outstanding (million)	116.0	117.2	118.8	119.6	120.1	120.8	122.2	123.6
NAV per Share ($)	$12.71	$12.06	$11.52	$10.85	$9.47	$8.43	$7.44	$7.02
DPS ($)	$0.105	$0.10	$0.10	$0.09	$0.09	$0.08	$0.08	$0.06
Weighted Average IRR on Completed Transactions (%)	17.6%	16.8%	16.3%	15.8%	15.1%	13.7%	13.1%	12.3%
Number of Investments[33]	77	75	75	74	70	68	68	68
ALR Fair Value Adjustment ($MM)	$(128.7)	$(118.0)	$(133.8)	$(155.7)	$(258.0)	$(274.7)	$(330.7)	$(339.5)

CASH FLOW FROM OPERATIONS

2011 cash flows from operating activities increased by 65% year-over-year to almost $254.0 million, primarily reflecting the strong performance from the CLO equity portfolio, but assisted by a growth in management fee income from LCM and other fee-sharing arrangements. Of this $95.0 million was used in the net purchase of new investments across CLOs, direct loans and real estate related investments. A further $73.1 million was returned to shareholders in the form of either dividends or share buybacks.

Cash Flow From Operations	2011	2010
	$MM	$MM
Operating Activities		
Operating Cash Flows Before Movements in Working Capital, after Dividends paid to Guernsey Feeder	251.3	151.6
Increase / (Decrease) in Payables	2.6	2.3
Cash Flows from Operating Activities	**253.9**	**153.9**
Investment Activities		
Proceeds on Sales of Investments	122.3	71.0
Purchase of Investments	(217.3)	(205.7)
Cash Flows from Operating and Investing Activities	**158.9**	**19.2**
Amounts Due from Brokers	(11.6)	1.6
Net Purchase of Shares	(28.0)	(20.3)
Dividends Paid to Shareholders	(45.1)	(34.2)
Distribution to Noncontrolling Interest	(3.2)	(0.1)
Cash Flows from Financing Activities	**(87.9)**	**(53.0)**
Net (Decrease) / Increase in Cash and Cash Equivalents	71.0	(33.8)
Cash and Cash Equivalents at Beginning of Period	140.6	174.4
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	(0.1)	-
Cash and Cash Equivalents at End of Period	**211.5**	**140.6**

NET ASSETS

Consolidated Balance Sheet Summary	2011	2010
	$MM	$MM
Investments in CLO Equity	1,147.4	932.7
Investments in Bank Loans	107.1	97.6
Other Investments	10.0	5.2
Cash and Cash Equivalents	211.5	140.6
Other Assets/Liabilities	(1.5)	(37.2)
Net Assets Before Noncontrolling Interest	**1,474.5**	**1,138.9**
Noncontrolling Interest	0.1	1.4
Total Equity Attributable to TFG	**1,474.4**	**1,137.5**

FAIR VALUE DETERMINATION OF TFG's CLO EQUITY INVESTMENTS

In accordance with the Company's valuation policies as 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.

Fundamentally, the valuation process involves two stages:

(1) In stage one, future cash flows for each transaction in the CLO equity portfolio are modeled, using a market-standard modeling tool into which the applicable latest transaction details are loaded, and to which the base case assumptions are added.

(2) In stage two, a discount rate reflecting the perceived level of risk is applied to those future cash flows to generate a fair value for each transaction. Prior to the financial crisis, with TFG's CLO equity portfolio performing well in a generally benign credit environment, the IRRs on TFG's CLO equity investments were considered to adequately reflect the relative risk to their applicable cash flows and therefore, amortized cost reflected fair value. Due to elevated market risk premia observable in the marketplace during and since the financial crisis, among other factors, this effective discount rate used to derive fair value has typically been higher than each transaction's IRR and therefore, in such instances, has resulted in a fair value which is lower than the transaction's amortized cost. The difference between these two figures, on an aggregate basis across the CLO equity portfolio, has been characterized as the "ALR Fair Value Adjustment" or "ALR."

During Q4 2011, evidence of widening differences in expectations for performance outcomes of U.S. and European CLOs continued to mount, reflecting, among other factors, diverging economic outlooks for the U.S. and Europe, elevated market volatility and corresponding differences in investor appetite with respect to certain investment risks. As a result, it was deemed appropriate to reflect these differences *via*:

(1) adjustments to certain of the forward looking average modeling assumptions for U.S. CLO deals, and

(2) adjustments to the discount rates applied to the modeled cash flows for European deals.

FORWARD-LOOKING CASH FLOW MODELING ASSUMPTIONS

The Investment Manager reviews, and adjusts in consultation with the Company's audit committee, as appropriate, the CLO equity investment portfolio's modeling assumptions to factor in historic, current and potential market developments on the performance of TFG's CLO equity investments as described above. At the end of Q4 2011, certain assumptions for U.S. deals were recalibrated, based on, among other factors, certain observable data with respect to defaults and reinvestment prices.[34]

The key average assumption variables have been summarized in the table below and discussed on the following pages. The modeling assumptions disclosed below are a weighted average (by U.S. dollar amount) of the individual deal assumptions, aggregated by geography (*i.e.*, U.S. and European). Each individual deal's assumptions may differ from this geographical average and vary across the portfolio. Previously, these modeling assumptions had been shown on an average aggregated portfolio level (again with individual deals varying across the portfolio).

FORWARD-LOOKING CASH FLOW MODELING ASSUMPTIONS (continued)

U.S. CLOs – Default and Reinvestment Prices Recalibrated

Variable	Year	Current Assumptions	Prior Assumptions
CADR			
	2012-2013	1.0x WARF-implied default rate (2.2%)	1.5x WARF-implied default rate (3.3%)
	2014	1.5x WARF-implied default rate (3.3%)	1.5x WARF-implied default rate (3.3%)
	2015-2016	1.5x WARF-implied default rate (3.3%)	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	72%	72%
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			
	2012	98%	100%
	Thereafter	100%	100%

European CLOs - Unchanged

Variable	Year	Current Assumptions	Prior Assumptions
CADR			
	2012-2014	1.5x WARF-implied default rate (3.1%)	1.5x WARF-implied default rate (3.1%)
	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%

Constant Annual Default Rate ("CADR"):

- ***U.S. CLOs:*** The average CADR applied to U.S. CLOs for 2012 and 2013 was reduced to 1.0x the WARF-implied default rate or approximately 2.2%, down from 1.5x or 3.3% under the previous assumption set. During the course of 2011, multiple research sources expressed the view that near-term defaults would remain at levels well-below the long-term average. In light of these market expectations, as well as low realized 2011 U.S. defaults, we believe that adjusting TFG's default assumptions in 2012-2013 to 1.0x the long-term WARF-implied average was appropriate. Beyond 2013 through 2016, the default assumption of 1.5x the WARF-implied default rate has been applied to reflect, among other factors, continued significant macro-economic and systemic risks as well as the remaining size of the "maturity wall" between 2014 and 2016.

- ***European CLOs:*** The average CADR applied to European CLOs for 2012-2014 has remained unchanged at 1.5x the WARF-implied default rate or approximately 3.1%. Beyond 2014, the default assumption has also remained unchanged at a reduced rate of 1.0x the WARF-implied default rate. These levels reflect, among other things, observable market data regarding the significant level of near-term uncertainty surrounding Euro-zone economies.

FORWARD-LOOKING CASH FLOW MODELING ASSUMPTIONS (continued)

- **Recovery Rate:** The U.S. and European average recovery rates remain unchanged at their long-term average for the life of each CLO transaction.[35]

- **Prepayment Rate:** While observable loan prepayment rates remained elevated during 2011, the pace of repayments decelerated during the second half of 2011, as described earlier in this letter. In light of the significant inter-period volatility of observed quarterly prepayment rates, we have therefore maintained our long-term assumption of a 20% p.a. prepayment rate on loans and 0% p.a. on bonds throughout the life of each transaction.

- **Reinvestment Price and Spread:** In order to better reflect recently observable reinvestment prices the assumed reinvestment price for U.S. CLOs in 2012 has been reduced to 98%, a level that generates an effective spread over LIBOR of approximately 343 bps on broadly syndicated U.S. loans, and 417 bps on middle market loans. From 2013, the reinvestment price assumption remains at par until the maturity of the investment. For European CLOs an assumed reinvestment price of 100% has been maintained for the life of each of these deals.

- **Effect of Assumption Changes on Fair Value:** The input assumption recalibrations for U.S. CLO equity investments outlined above, had the impact of increasing future projected cash flows on an aggregate portfolio level, which when discounted at TFG's applicable discount rates (see below), resulted in an increase in fair value of approximately $39.4 million or 4.0% relative to the immediately preceding assumptions utilized.

APPLICATION OF DISCOUNT RATE TO PROJECTED CASH FLOWS AND ALR

In determining the applicable discount rates to use, an analysis of observable risk premium data is undertaken. Over the course of the second half of 2010 and beginning of 2011, certain observable data and research, covering both CLO equity and more senior tranches (including BB and BBB-rated debt tranches), suggested that the risk premium for CLOs in general and CLO equity in particular had been declining. The remainder of Q1 2011 witnessed further reductions in CLO risk premia as evidenced by, among other things, the reduction in spreads on originally BB and BBB-rated CLO tranches and further spread compression between such tranches. There was also market evidence that CLO equity was trading at yields in the mid-to-high teens during this period. Given the magnitude of those reductions and the developments over the preceding six months, at the end of Q1 2011 the discount rates applied to TFG's future cash flows were reduced from 23% to 20% for the stronger deals and from 30% to 25% for the remainder of the CLO portfolio.

The second half of 2011 saw a notable divergence in the way that spreads on BB and BBB originally rated tranches performed, depending on whether they referenced U.S. or European CLOs. For example, U.S. BBs as reflected by Citibank research, tightened during Q4 2011 to end the year at a yield to maturity of approximately 11.5%. By contrast, European BBs moved significantly wider to a yield to maturity of 23.5%, ending the year approximately 10.0% wider than where they had been six months earlier.

This growing disparity between U.S. and European mezzanine CLO spreads was also reflected, we believe, in the risk premium attached by investors to U.S. and European CLO equity. Various investment bank research reports, for example, indicated that for the United States, strong current cash flows provided support for CLO equity prices and we believe that the previous discount rates of 20% for strong deals, and 25% for the rest of the U.S. CLO portfolio, remained appropriate as of year-end 2011. By contrast, for European deals we believe that the widening of mezzanine spreads was also indicative of changing attitudes to the European risk premium in general and in particular, higher discount rates and lower carrying values on European CLO equity. In order to better reflect this, the discount rate for all European deals was increased to 30%, which restored a reasonable spread over European BB CLO spreads and reflected the divergence from the risk premium on U.S. deals.

The impact of the changes to the discount rates were separately disclosed in the Q1 2001 and Q4 2011 financial results, but taken together increased the fair value of the CLO portfolio by approximately $67.0 million. Through the process described above, as of the end of Q4 2011, the total ALR stands at $128.7 million, consisting of $20.4 million for U.S. deals and $108.3 million for European deals, as compared to $258.0 million at the end of Q4 2010 (split $150.1 million for U.S. deals and $107.9 million for European deals).

DESCRIPTION OF BUSINESS

TFG (company number 43321) is a Guernsey closed-ended investment company that currently invests primarily in selected securitized asset classes and aims to provide stable returns to investors across various credit, equity, interest rate and real estate cycles. 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 objective, and to aim to provide stable returns to investors across various credit, equity, interest rate and real estate cycles, Tetragon Financial Management LP (the “Investment Manager”) seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

The Company maintains two key business segments: an investment portfolio and an asset-management platform.

Investment Portfolio:

The Company seeks to invest in a variety of assets and asset classes (potentially with different investment durations) across multiple geographies.

To date, senior secured bank loans represent the substantial majority of assets of the Company with such assets underlying the Company’s CLO equity portfolio. The Company currently gains exposure to these assets primarily through investments in the residual tranches or equity 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”).

From inception through 31 December 2011, the Master Fund (company number 43322) has acquired investments with an end-of-year fair value of approximately $1,264.6 million.

The Company currently invests in a broad range of CLO products, utilizing 27 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).

Asset Management Platform:

The Company remains committed to expanding its asset management platform and its efforts to become more of a broad-based financial services firm that owns interests in multiple operating businesses.

The Company owns a 75% interest in LCM, an asset manager with approximately $3.4 billion of loan assets under management as of year-end 2011 that yielded positive results for the Company’s investment performance.

The Company also owns a 10% an equity interest in GreenOak, a real estate asset manager.

The Company is seeking to realize the benefits of building and integrating existing and potentially new asset management businesses into the platform. In turn, the Company will continue to advance this effort throughout 2012, including by evaluating other asset managers for acquisition.

Other Matters:

On 22 February 2011, TFG and the Master Fund and their six directors were served with proceedings in the Royal Court of Guernsey (the “Proceedings”) instigated by one of Company’s former directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a director on 24 January 2011.[36]

On 12 July 2011, a shareholder derivative action was filed against the current and former directors of the Company and the Master Fund, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the “Action”).[37] On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice.

CERTAIN CORPORATE BACKGROUND

Shares of TFG (the "Shares") are publicly traded solely on the NYSE Euronext in Amsterdam under the ticker symbol "TFG". The Shares do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The voting shares of TFG are owned by Polygon Credit Holdings II Limited, which is a non-U.S. affiliate of the Investment Manager and the Service Providers (as defined below). Polygon Credit Holdings II Limited is controlled by Reade Griffith, Alexander Jackson and Paddy Dear. The voting shares are not entitled to receive dividends.

The current exchange listing, corporate structure and governance and investment management arrangements of TFG were established to help foster the achievement of the Company's investment objective. In particular, at the time of its initial public offering and in consultation with the Company's underwriters and its legal and financial advisors, the Investment Manager concluded, and continues to believe, after analyzing various listing alternatives within the United States and Europe, that Euronext Amsterdam is favorably suited to facilitate the Company's pursuit of its investment objective and to address relevant legal, regulatory, liquidity and other commercial considerations. Similarly, TFG's corporate structure and governance were designed to seek to position the Company to best serve its investment objective as well as to address a variety of relevant considerations, including applicable legal requirements. For example, the TFG corporate structure and governance combined with the Investment Manager's actions in addressing financing risk helped the Company effectively execute a buy-and-hold strategy that yielded positive results for the Company's investment performance.

INVESTMENT MANAGEMENT

Tetragon Financial 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, Tetragon Financial Management GP LLC (the "General Partner"), which is responsible for all actions of the Investment Manager. The General Partner is directly or indirectly controlled by Reade Griffith, Alexander Jackson and Paddy Dear. 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") which is controlled by Reade Griffith and Paddy Dear. As the General Partner is responsible for all actions of the Investment Manager, any references to the Investment Manager in this Annual Report or in any of our disclosure shall be deemed to include a reference to the General Partner to the extent applicable. Mr. Griffith acts as the authorized representative of the General Partner and the Investment Manager.

In February 2012, the Investment Manager filed the relevant materials with the U.S. Securities and Exchange Commission to become registered as an investment adviser under the U.S. Investment Advisers Act of 1940.

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

The risk committee of the Investment Manager (the "Risk Committee") has the same composition as the Investment Committee. The Risk Committee is currently responsible for the risk management of the portfolio and the business and performs active and regular oversight and risk monitoring.

Polygon 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 26 April 2007. The Service Providers also provide operating, infrastructure and administrative services to LCM and GreenOak and to various Polygon managers pursuant to applicable services agreements.

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

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

HISTORICAL APPROACH TO INVESTMENTS

The Investment Manager has sourced investment opportunities both within and beyond the leveraged loan market 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 investment portfolio is composed mainly of substantial positions in the Residual Tranches of a broad range of CLO products and direct loan investments as well as cash and certain real estate investments.

The Investment Manager believes by taking majority or 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. Residual Tranches will in most cases be unrated and represent the "equity" or "first loss" position of a CLO.

ASSET CLASS SELECTION

The Investment Manager has to date focused primarily on utilizing CLO Securitization Vehicles to achieve its investment objective and has sought to employ a multiple asset class investment strategy, including through such Securitization Vehicles.

As previously described, the asset class primarily represented in the Company's current CLO equity 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.

Notwithstanding the Investment Manager's primary focus to date on the leveraged loan asset class (whether accessed through Securitization Vehicles or *via* direct loan investments), the Investment Manager has and may continue to seek to achieve its investment objective through investments in other opportunities, assets or asset classes, which may be unrelated to the leveraged loan asset class (including, for example, real estate investments).

ASSET MANAGER SELECTION

In selecting asset managers (whether to acquire, or invest in or with, or to partner), the Investment Manager has sought to take advantage of the significant experience of the members of the Investment Committee. 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.

The Investment Manager has sought to select asset managers (including, LCM and GreenOak) that it believes to be superior and has looked to select asset managers with a demonstrated strength in the applicable market, fundamental analysis and the management of assets on a long-term basis consistent with its buy-and-hold strategy. Notwithstanding the acquisition of LCM, the Company expects to continue to seek and enjoy diversification of CLO asset managers.

The Company believes that, as a result of (among other things) the reduction in CLO issuance volumes in recent years, the CLO asset manager industry may continue to face some consolidation pressures as was evidenced in years past as several managers exited the market or otherwise reorganized, including certain of the Company's CLO managers. The Company realized value on several of its CLO investments in connection with such activity in 2011.

The Company continues to selectively explore strategic business opportunities in asset management, both within and beyond the leveraged loan market as such opportunities may offer, among other benefits, high-quality, repeatable, income streams that diversify the Company's current income.

ASSET DIVERSIFICATION

The Investment Manager has sought to diversify its investment portfolio, including across asset classes, industry sectors, geographies, investment horizons and asset managers. The Investment Manager may dispose of investment portfolio positions from time to time and may reallocate investments in the portfolio within and among asset classes on a discretionary basis.

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. For example, 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.

The substantial majority of the Company's current investments are in CLOs. Notwithstanding the efforts of the Investment Manager to diversify its CLO investments across underlying assets, the Company's investments (including, LCM) 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. Similarly, the fee revenue earned by LCM, in its capacity as collateral manager to certain CLOs, may be negatively impacted by the performance of such CLOs underlying assets.

BUY-AND-HOLD STRATEGY

The emphasis of the Investment Manager's current CLO investment strategy for the Company has been on the selection and structuring of investment positions that are then intended to be held for returns based on cash flows and other revenues to provide a stable stream of income for the Company. The Investment Manager believes, for example, that its buy-and-hold strategy has allowed the Company to take a long-term view on the expected cash flows from a CLO or other Securitization Vehicle. Market developments, however, have and may continue to, impact the fair value of a Securitization Vehicle and/or its underlying assets.

The Company believes the Investment Manager's asset liability management and its strategy of taking majority (or substantial) positions in its CLO investments has made a CLO buy-and-hold strategy more attractive, as the Investment Manager may in certain cases influence the performance of a CLO investment through, among other things, the support of amendments to the CLO structure or the collateral management agreement.

VALUATION

State Street (Guernsey) Limited serves as the Company's independent administrator and values the investments of the Master Fund on an ongoing basis. The NAV per Share is expected to fluctuate over time with the performance of TFG's investments. The NAV of TFG and the Master Fund and the NAV per Share are determined as at the close of business on the last business day of each fiscal quarter for purposes of calculating incentive fees. As TFG makes all of its investments through the Master Fund, TFG's NAV will equal the NAV of the Master Fund before 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.

CAPITAL DISTRIBUTIONS

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

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of TFG and adherence to applicable law, including the satisfaction of a solvency test as required pursuant to the Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Company's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Company, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Company's investments and financial position to other investment opportunities. TFG has and may continue to also pay scrip dividends currently conducted through an optional dividend reinvestment program. If the Board of Directors declares a cash dividend payable by TFG, they will also (in their capacity as directors of the Master Fund) declare an equal dividend per share payable concurrently by the Master Fund. TFG has and may also continue to engage in share repurchases in the market from time to time. Such purchases may at appropriate price levels below NAV represent an attractive use of TFG's excess cash and an efficient means to return cash to Shareholders. Any decision to engage in share repurchases will be made by the Investment Manager, upon consideration of relevant factors, and will be subject to, among other things, applicable law and profits at the time. The Company also continues to explore methods of improving the liquidity of its shares.

REPORTING

In accordance with applicable regulations under Dutch law, TFG publishes monthly statements on its website for the benefit of its investors containing the following information: the total value of the investments of the Master Fund; a general statement of the composition of the investments of the Master Fund; and the number of outstanding shares of TFG.

In addition, in accordance with the requirements of NYSE Euronext in Amsterdam and applicable regulations under Dutch law, TFG provides annual and semi-annual reports to its shareholders, including year-end financial statements, which in the case of the financial statements provided in its annual reports, will be reported in accordance with U.S. GAAP and audited in accordance with international auditing standards. TFG also provides interim management statements to investors in accordance with section 5:25e of the FMSA. The NAV of TFG is available to investors on a monthly basis on the Company's website at www.tetragoninv.com.

DIRECTORS STATEMENTS

The Directors of TFG confirm that (i) this Annual Report constitutes the TFG management review for the twelve month period ended 31 December 2011 and contains a fair review of that period and (ii) the 2011 audited financial statements accompanying this Annual Report for TFG have been prepared in accordance with applicable laws and in conformity with accounting principles generally accepted in the United States of America.

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 during the period from the third quarter of 2008 through the first half of 2009.

RISK FACTORS (continued)

- 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.
- Shares of TFG (the "Shares") do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The holder of the voting shares of TFG will be able to control the composition of the Board of Directors and exercise extensive influence over TFG's and the Master Fund's business and affairs. Additional information on the organizational structure and corporate governance of TFG may be found on TFG's website at www.tetragoninv.com.
- The performance of many of the Company's investments may depend to a significant extent upon the performance of its asset managers (internal and external).
- The Company is subject to concentration risk in its investment portfolio, which may increase the risk of an investment in TFG.
- The Company's CLO investments are subject to (i) interest rate risk, which could cause the Company's cash flow, fair value of its assets and operating results to decrease and (ii) currency risk, which could cause the value of the Company's CLO investments in U.S. Dollars to decrease regardless of the inherent value of the underlying investments.
- TFG's principal source of cash will be the investments that it makes through the Master Fund. TFG's ability to pay dividends will depend on it receiving distributions from the Master Fund.
- The ability of Securitization Vehicles in which the Company invests to sell assets and reinvest the proceeds may be restricted, which may reduce the yield from the Company's investment in those Securitization Vehicles.
- The shares of TFG may continue to trade below NAV. The NAV per Share will change over time with the performance of the Company's investments and will be determined by the Company's valuation principles. The fees payable to the Investment Manager will be based on NAV and changes in NAV, which will not necessarily correlate to changes in the market value of the shares of TFG.
- TFG and the Master Fund have approved a very broad investment objective and the Investment Manager will have substantial discretion when making investment decisions. In addition, the Investment Manager's strategies may not achieve the Company's investment objective.

RISK FACTORS (continued)

- Shareholders will not be able to terminate the Company's investment management agreement. None of the Investment Manager or the Service Providers owe fiduciary duties to the shareholders of TFG.
- The Company may become involved in litigation that adversely affects the Company's business, investments and results of operations.
- If the Company's relationship with the Investment Manager and its principals were to end or such principals or other key professionals were to depart, it could have a material adverse effect on the Company.
- The Investment Manager's compensation structure may encourage the Investment Manager to invest in high-risk investments.
- The liability of the Investment Manager to the Company is limited and the Company's indemnity of the Investment Manager may lead the Investment Manager to assume greater risks when making investment related decisions than it otherwise would.
- The Shares are subject to legal and other restrictions on resale and the NYSE Euronext in Amsterdam trading market is less liquid than other major exchanges, which could affect the price of the Shares. TFG may decide in the future to list the Shares on a stock exchange other than NYSE Euronext in Amsterdam. There can be no assurance that an active trading market would develop on such an exchange.
- The performance of LCM and, in turn, the Company's operating results, may be negatively influenced by various factors, including the (i) performance of LCM-managed CLOs, which in general are subject to the same risks as the Company's CLO investments and are currently the primary source of LCM's revenues and (ii) ability of LCM to retain key personnel, the loss of whom may negatively affect LCM's ability to provide asset and collateral management services in a fashion, and of a quality, consistent with its prior practice. Furthermore, the Company's ownership of LCM may negatively impact certain aspects of the Company's CLO investment strategy and as a result the Company's performance as well as the Company's ability to diversify its investments across multiple asset managers.
- GreenOak is a newly-formed entity with no prior operating history and it may be unable to successfully operate its business or achieve its investment objectives. In connection with the transaction with GreenOak, the Company will invest its capital, directly and indirectly, in certain real estate investments. Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond the Company's control.
- As the Company invests in new asset classes and as its asset mix changes, its revenues and profitability could be reduced.
- As the Company becomes more of a financial services firm that functions as a company that owns operating companies, it may face difficulties as it invests in asset classes in which it does not have substantial experience.
- Direct investments in asset managers will expose the Company's business to additional risks, including: a decline in the price of securities, a more complex regulatory environment and competition.
- The Company may issue additional securities that dilute existing holders of Shares, including as a result of the exercise of the Investment Management Options.

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

ENDNOTES

(1) Please note that the TFG portfolio-wide statistics presented in this report do not reflect the purchase of this mezzanine tranche as it was acquired after 31 December 2011.
(2) The LCM I, LCM II, LCM III, LCM IV, LCM V, LCM VI, LCM VIII, and LCM IX CLOs are referred to as the “LCM Cash Flow CLOs.” The LCM VII CLO was a market value CLO previously managed by LCM, which was liquidated commencing in 2008, and is not included in the mentioned statistics. In addition, these statistics do not include the performance of certain transactions that were developed and previously managed by a third-party prior to being assigned to LCM, some of which continue to be managed by LCM.
(3) Throughout this report, except within the Letter to Shareholders, references to “we” are to Tetragon Financial Management LP, TFG’s investment manager.
(4) Based on a weighted-average share count, excluding treasury shares, of 116.0 million for 2011 and 120.1 million for 2010.
(5) The calculation of TFG’s lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a “Selective Default” rating by one or more of the applicable rating agencies. Such Selected Defaults are included the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG’s CLO equity investment portfolio includes approximately 10.8% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s corporate default rate.
(6) 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 31 December 2008 for additional information.
(7) Based on the most recent trustee reports available for both our U.S. and European CLO investments as of 31 December 2011.
(8) Excess Caa/CCC+ or below rated assets above transaction-specific permitted maximum holding levels are generally haircut in our transactions at market value in U.S. CLOs and recovery rate in European CLOs for purposes of the O/C or interest reinvestment test ratios.
(9) Morgan Stanley CDO Market Tracker, 9 January 2012; based on the lower of Moody’s and S&P rating. Furthermore, TFG’s CLO equity investment portfolio includes approximately 10.8% of CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s average CCC asset holdings.
(10) The net cash position is calculated as total cash less net liabilities.
(11) The LCM I, LCM II, LCM III, LCM IV, LCM V, LCM VI, LCM VIII and LCM IX CLOs are referred to as the “LCM Cash Flow CLOs”. The LCM VII CLO was a market-value CLO previously managed by LCM, which CLO was liquidated commencing in 2008, and is not included in the mentioned statistics. In addition, these statistics do not include the performance of certain transactions that were developed and previously managed by a third party prior to being assigned to LCM, some of which continue to be managed by LCM.
(12) The hurdle rate is reset each quarter using three-month USD LIBOR plus a spread of 2.647858% in accordance with TFG’s investment management agreement. Please see the TFG website, www.tetragoninv.com, for more details.
(13) The CLO asset characterizations referenced above reflect the primary asset focus of the vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, or structured finance securities.
(14) As of the end of 2011, TFG continued to hold three non-performing CDO investments, all of which were in the form of securitization vehicles other than CLOs. We do not expect to collect any additional cash flows from these investments.
(15) S&P/LCD Quarterly Review, Q4 2011
(16) S&P/LCD Quarterly Review, Q4 2011
(17) S&P/LCD Quarterly Review, Q4 2011
(18) S&P/LCD Quarterly Review, Q4 2011
(19) S&P/LCD Quarterly Review, Q4 2011
(20) S&P/LCD Quarterly Review, Q4 2011
(21) S&P/LCD Quarterly Review, Q4 2011
(22) S&P/LCD Quarterly Review, Q4 2011
(23) LCD News, “(EUR) S&P ELLI: 2011 — The good, the bad and the flat,” 10 January 2012.
(24) LCD News, “(EUR) S&P ELLI: Default rate rises to 4.1% in December,” 6 January 2012.
(25) As O/C tests are breached, CLO structures may divert excess interest cash flows away from the equity tranche holders, such as TFG, to pay down the CLO’s debt thereby curing the O/C breach via deleveraging. Accordingly, the affected investments ceased to generate cash flows to TFG or are expected to cease generating cash flows on the next applicable payment date. Once enough debt has been repaid to cure the O/C test breach, distributions of excess interest cash to equity holders may resume to the extent not precluded by the investments’ realized or unrealized losses.
(26) Morgan Stanley CDO Market Tracker, 9 January 2012; based on a sample of 461 U.S. CLO transactions.
(27) Morgan Stanley CDO Market Tracker, 9 January 2012; based on a sample of 195 U.S. CLO transactions.
(28) Morgan Stanley CDO Market Tracker, 9 January 2012; based on a sample of 195 U.S. CLO transactions.
(29) S&P/LCD Leveraged Lending Review, Q4 2011.
(30) For additional information, please refer to the Company’s website at www.tetragoninv.com.
(31) Cash flow CLOs are not fully insulated from price declines in the underlying assets as a number of “stressed” asset categories, including excess Caa1/CCC+ and defaulted assets are typically carried at the lower of market value and rating-agency assigned recovery rate for O/C test purposes.

ENDNOTES (continued)

(32) Gross cash receipts from CLO portfolio.
(33) Excludes CDO-squared and ABS CDO transactions written off in October 2007. TFG continues to hold the economic rights to 3 of these written-off transactions.
(34) Please note that TFG undertakes no obligation to update public disclosure with respect to these or other modeling assumptions, except as required by law.
(35) 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.
(36) By the Proceedings, Mr. Jackson seeks to impugn TFG's decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak Real Estate (the "GreenOak Transaction"). The Proceedings are confined to claims for damages and other relief against the Company's directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010. The Company and its directors believe that there is no merit whatsoever in the Proceedings and will take all necessary steps to ensure the Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Company and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.
(37) The Action made a series of allegations with respect to performance fees charged by the Investment Manager. TFG and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit.

BOARD OF DIRECTORS

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

*Independent Director

SHAREHOLDER INFORMATION

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TETRAGON

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2011

TETRAGON FINANCIAL GROUP LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2011

CONTENTS

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2011

The Directors present to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2011.

THE COMPANY

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

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

INVESTMENT OBJECTIVE

The Company's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various credit, equity, interest rate and real estate cycles, Tetragon Financial Management LP (the "Investment Manager") seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favourable transactions. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

The Company maintains two key business segments: an investment portfolio and an asset-management platform.

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
Alex Jackson (ceased to be a Director effective 24 January 2011)
David Jeffreys*
Byron Knief*
Greville Ward*

*Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. The Directors' annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund, which is paid by the Master Fund. Patrick Dear and Reade Griffith 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.

Alex Jackson ceased to be a Director of the Company effective 24 January 2011, having been given notice by all of the other Directors to vacate office.

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2011

SECRETARY

State Street (Guernsey) Limited replaced State Street Fund Services (Guernsey) Limited as Secretary on 1 August 2011.

DIVIDENDS

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Company and adherence to applicable law including the satisfaction of a solvency test as stated under The Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Company's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Company, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Company's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.09 per share for the Quarter Ended 31 December 2010, US$ 0.09 per share for the Quarter Ended 31 March 2011, US$ 0.10 for the Quarter Ended 30 June 2011 and US$ 0.10 for the Quarter Ended 30 September 2011. The Directors have declared a dividend US$ 0.105 for the Quarter Ended 31 December 2011. Total dividends paid during the year ended 31 December 2010 amounted to US$ 0.28 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

In preparing those financial statements the Directors are required to:

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

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

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

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

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2011

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITORS

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 2 March 2012

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF TETRAGON FINANCIAL GROUP LIMITED

We have audited the consolidated financial statements of Tetragon Financial Group Limited (the “Company” or “Group”) for the year ended 31 December 2011 which comprise the Consolidated Statements of Assets and Liabilities, the Consolidated Statements of Operations, the Consolidated Statements of Changes in Net Assets, the Consolidated Statements of Cash Flows, the Financial Highlights and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s affairs as at 31 December 2011 and of its net increase in net assets resulting from operations for the year then ended;
- are in conformity with accounting principles generally accepted in the United States of America; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

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

Date: 2 March 2012

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

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

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2011

	Note	31 Dec 2011 US$	31 Dec 2010 US$
Assets			
Investment in Master Fund	3	1,499,159,218	1,180,537,381
Amounts receivable from Master Fund		460,009	-
Total assets		1,499,619,227	1,180,537,381
Liabilities			
Accrued incentive fee	5	23,224,939	41,532,519
Amounts payable on Share options	4	1,579,030	1,458,368
Amounts payable on Treasury Shares	6	460,009	-
Total liabilities		25,263,978	42,990,887
Net assets		1,474,355,249	1,137,546,494
Equity			
Share capital	6	115,968	120,134
Share premium	7	1,128,567,096	1,157,051,372
Capital reserve in respect of share options	8	11,789,336	11,789,336
Earnings	11	333,882,849	(31,414,348)
		1,474,355,249	1,137,546,494
Shares outstanding		**Number**	**Number**
Shares	6	115,967,737	120,133,690
Net Asset Value per Share		US$ 12.71	US$ 9.47

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

2 March 2012

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 US$
Investment income allocated from the Master Fund			
Interest income		209,053,837	178,932,970
CLO management fee income		16,404,271	12,631,564
Other income		6,701,548	2,503,561
Investment income allocated from the Master Fund		232,159,656	194,068,095
Direct expenses			
Incentive fee	5	(124,114,892)	(119,537,655)
Total direct expenses		(124,114,892)	(119,537,655)
Operating expenses allocated from the Master Fund			
Management fees	8	(19,958,908)	(14,001,647)
Legal and professional fees		(15,673,332)	(1,452,041)
Employee costs		(6,381,123)	(5,365,486)
Administration and custodian fees		(1,009,414)	(813,287)
Directors' fees	8	(300,000)	(225,317)
Audit fees		(220,023)	(241,400)
Market data fees		(175,883)	(277,339)
Other operating and administrative expenses		(2,605,793)	(2,316,516)
Total operating expenses allocated from the Master Fund		(46,324,476)	(24,693,033)
Total operating expenses		(170,439,368)	(144,230,688)
Net investment income		61,720,288	49,837,407
Net increase in unrealized depreciation on:			
Share options		(120,662)	(1,458,368)
Net increase in unrealized depreciation arising from direct operations		(120,662)	(1,458,368)

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 US$
Net realized and unrealized gain from investments and foreign currency allocated from the Master Fund			
Net realized gain from:			
Investments		948,627	1,124,072
Foreign currency transactions		5,174,434	1,764,624
		6,123,061	2,888,696
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		358,754,487	337,424,241
Forward foreign exchange contracts		3,809,515	1,288,378
Interest rate swaptions		(10,612,114)	-
Translation of assets and liabilities in foreign currencies		(3,510,927)	(919,233)
		348,440,961	337,793,386
Net realized and unrealized gain from investments and foreign currencies allocated from the Master Fund		354,564,022	340,682,082
Net increase in net assets resulting from operations before tax		416,163,648	389,061,121
Income and deferred tax expense		(3,804,408)	(2,501,950)
Net income		412,359,240	386,559,171
Less net income attributable to noncontrolling interest		(1,979,486)	(1,388,434)
Net increase in net assets resulting from operations		410,379,754	385,170,737
Earnings per Share			
Basic	10	US$ 3.46	US$ 3.15
Diluted	10	US$ 3.46	US$ 3.15
Weighted average Shares outstanding		**Number**	**Number**
Basic	10	118,444,858	122,165,663
Diluted	10	118,444,858	122,165,663

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

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 US$
Total investment income		232,159,656	194,068,095
Total operating expenses		(170,439,368)	(144,230,688)
Net unrealized depreciation on share options		(120,662)	(1,458,368)
Net realized gain from investments and foreign currency allocated from the Master Fund		6,123,061	2,888,696
Net unrealized gain from investments and foreign currency allocated from the Master Fund		348,440,961	337,793,386
Income and deferred tax expense		(3,804,408)	(2,501,950)
Income attributable to noncontrolling interest		(1,979,486)	(1,388,434)
Net increase in net assets resulting from operations		410,379,754	385,170,737
Dividends paid to shareholders	9	(45,082,557)	(34,186,171)
Issue of Shares	6	6,728,996	5,240,598
Purchase of Treasury Shares	6	(35,217,438)	(25,525,475)
Decrease in net assets resulting from net Share transactions		(28,488,442)	(20,284,877)
Total increase in net assets		336,808,755	330,699,689
Net assets at start of year		1,137,546,494	806,846,805
Net assets at end of year		1,474,355,249	1,137,546,494

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

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2011

	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 US$
Operating activities		
Net increase in net assets resulting from operations	410,379,754	385,170,737
Adjustments for:		
Net unrealized depreciation on share options	120,662	1,458,368
Net unrealized appreciation on investments in Master Fund	(318,621,837)	(343,908,704)
Operating cash flows before movements in working capital	91,878,579	42,720,401
(Increase) / decrease in receivables	-	212,635
(Decrease) / increase in payables	(18,307,580)	11,538,012
Net cash provided by operating activities	73,570,999	54,471,048
Financing activities		
Issue of Shares	6,728,996	5,240,598
Purchase of Treasury Shares	(35,217,438)	(25,525,475)
Dividends paid to shareholders	(45,082,557)	(34,186,171)
Net cash used in financing activities	(73,570,999)	(54,471,048)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

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

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2011 and the year ended 31 December 2010

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 2011 and the year ended 31 December 2010.

	31 Dec 2011 US$	31 Dec 2010 US$
Per Share operating performance		
Net Asset Value at the start of the year	9.47	6.47
Net investment income (excluding performance fee)	1.79	1.54
Performance fee	(1.19)	(1.09)
Net realized and unrealized gain from investments and foreign currencies	3.41	3.08
Dividends paid to shareholders	(0.43)	(0.31)
Income and deferred tax expense and noncontrolling interest	(0.06)	(0.04)
Other capital transactions	(0.28)	(0.18)
Net Asset Value at the end of the year	12.71	9.47
Total return (NAV change excluding dividends and other capital transactions) before performance fee	54.28%	70.79%
Performance fee	(12.57)%	(16.85)%
Total return (NAV change excluding dividends and other capital transactions) after performance fee	41.71%	53.94%
Ratios and supplemental data		
Ratio to average net assets:		
Operating expenses allocated from the Master Fund	3.43%	2.59%
Total operating expenses	3.43%	2.59%
Performance fee	9.19%	12.56%
Net investment income	4.57%	5.24%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2011

Note 1 General Information

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

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

The Company's shares are listed on the NYSE Euronext Amsterdam Exchange.

Note 2 Significant Accounting Policies

Basis of Presentation

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

The Company's investment in the Master Fund is valued based on the Net Asset Value per share obtained from the Master Fund's Administrator, which is the Company's interest in the Net Assets of the Master Fund. The performance of the Company is directly affected by the performance of the Master Fund. The Company's Statements of Operations includes its allocated share of each type of gain, loss, income and expense of the Master Fund's Statements of Operations. Attached are the audited consolidated financial statements of the Master Fund, which are an integral part of these consolidated financial statements. As at 31 December 2011, the Company had 100% (31 December 2010: 100%) ownership interest in the Master Fund. As the Company owns 100% of the Master Fund and the audited consolidated financial statements of the Master Fund are attached, a separate Consolidated Schedule of Investments for the Company has not been included.

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

The accounting policies have been consistently applied by the Company during the year ended 31 December 2011 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. Actual results could differ materially from these estimates.

Valuation of Investments

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

Expenses

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

Note 2 Significant Accounting Policies (continued)

Taxation

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP600 per annum.

Share Options

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

The fair value of options issued to GreenOak Real Estate, LP ("GreenOak") (see note 4) were recognized as a liability in the Statements of Assets and Liabilities, as the options contain certain other performance conditions. Any subsequent change in the fair value will be recognized through the Statements of Operations.

Dividend expense

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

Treasury Shares

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

Shares may also be transferred out of the Treasury Account and into a wholly owned subsidiary. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

Note 3 Investment in Master Fund

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

As at 31 December 2011, the Company had an investment of US$ 1,499,159,218 in the Master Fund (31 December 2010: US$ 1,180,537,381).

Note 4 Share options issued to GreenOak

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

Note 4 Share options issued to GreenOak (continued)

Under the terms of the transaction, the Company granted to the GreenOak founders options to purchase 3,908,241 Shares (exercisable after 5 years and subject to further conditions) at a strike price of US$ 5.50. The aggregate fair value of the options granted at the transaction date was US$ 482,285. In order to reflect some key vesting requirements of the options which are not captured by the Black-Scholes model a 50% haircut was applied to the initial calculated valuation. This was derived as follows: restriction on transferability — 25%; requirement to repay working capital loan — 10%; exclusivity of founders — 15%. These have been reviewed on a regular basis and as at 31 December 2011, the restriction on transferability was reduced to 20%, reflecting the fact that the options are a year closer to their exercise dates. After this adjustment the haircut stands at 45%.

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

At 31 December 2011, the fair value of the options was US$ 1,579,030 (31 December 2010: US$ 1,458,368).

As the Company owns 100% of the Master Fund, and therefore receives the benefit of the investments held by the Master Fund, no consideration was transferred to the Company in lieu of the options issued.

Note 5 Incentive Fee

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

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

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

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 2011, was US$ 124,114,892 (31 December 2010: US$ 119,537,655). As at 31 December 2011 US$ 23,224,939 was outstanding (31 December 2010: US$ 41,532,519).

Note 6 Share Capital

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 in accordance with applicable law.

Voting Shares

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

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

Shares

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

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

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

Share Transactions

	Voting Shares No.	Shares No.	Shares US$
Shares in issue at 31 December 2009	10	124,768,684	124,769
Issued	-	1,107,125	1,107
Treasury Shares	-	(5,742,119)	(5,742)
Shares in issue at 31 December 2010	10	120,133,690	120,134
Issued	-	909,427	909
Treasury Shares	-	(5,075,380)	(5,075)
Shares in issue at 31 December 2011	10	115,967,737	115,968

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.

Note 6 Share Capital (continued)

Optional Stock Dividend (continued)

During the year a total dividend of US$ 45,082,557 (31 December 2010: US$ 34,186,171) was declared, of which US$ 38,353,561 (31 December 2010: US$ 28,945,573) was paid out as a cash dividend, and the remaining US$ 6,728,996 (31 December 2010: US$ 5,240,598) was reinvested under the Optional Stock Dividend Plan.

Treasury Shares

On 30 November 2007, the Company announced the implementation of a share repurchase program of their outstanding Shares. This program was subsequently updated and will now continue from 1 November 2011 until 31 October 2012 or until 5% of the Company's outstanding Shares have been repurchased under the updated program or until terminated by the Board. The Company purchases its Shares in the open market which are then held in a Treasury Account or in a subsidiary (as described below) allowing them to potentially be resold at a later date. Whilst they are held by the Company (whether directly or via subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

On 15 November 2010, the Company transferred 3,908,241 Shares from the Treasury Account to a wholly owned subsidiary, TFG Holdings I. Additionally, on 11 November 2011, a further 4,615,000 Shares were transferred from the Treasury Account to TFG Holdings I. After giving effect to this transfer as at 31 December 2011, the Company held 7,577,301 shares in the Treasury Account (31 December 2010: 7,116,921).

Note 7 Share Premium

	31 Dec 2011 US$	31 Dec 2010 US$
Balance at start of year	1,157,051,372	1,177,331,614
Discount arising from transaction of shares	(28,484,276)	(20,280,242)
Balance at end of year	1,128,567,096	1,157,051,372

Note 8 Related Party Transactions

The Investment Manager is entitled to receive management fees equal to 1.5% per annum of the Net Asset Value of the Company payable monthly in advance prior to the deduction of any accrued incentive fee. All fees and expenses of the Company including the Management and Administration fees, but excluding incentive fees from the Investment Manager, are paid by the Master Fund and allocated fully to the Company. An incentive fee may be paid to the Investment Manager as disclosed in Note 5.

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

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. The Directors' annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund. The Master Fund will pay the Directors' fees. Patrick Dear and Reade Griffith 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 8 Related Party Transactions (continued)

The Voting Shareholder is an affiliate of Polygon Investment Partners LLP and Polygon Investment Partners LP (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 the Investment Manager 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%.

Byron Knief, Patrick Dear, Reade Griffith and Rupert Dorey, all Directors of the Company and Master Fund, were shareholders in the Company as at 31 December 2011, with holdings of 110,000, 296,902, 1,036,209 and 84,041 shares, respectively (31 December 2010: 110,000, 285,195, 1,036,209 and 79,778 shares respectively).

The Master Fund owns a 10% equity interest in GreenOak, a multi-jurisdictional real estate venture, in which it also provides a US$ 10.0 million working capital loan and a US$ 100.0 million co-investment commitment. Polygon Management LP (“PM”), an affiliate of the Voting Shareholder, also owns a noncontrolling equity interest, as well as provides a similar working capital loan. The Service Providers have an agreement with GreenOak to provide certain operating, infrastructure and administrative services to the business. As part of the transaction the Company has issued 3,908,241 share options to the GreenOak founders.

Note 9 Dividends

	31 Dec 2011 US$	31 Dec 2010 US$
Quarter ended 31 December 2009 of US$ 0.06 per share	-	7,442,348
Quarter ended 31 March 2010 of US$ 0.06 per share	-	7,373,866
Quarter ended 30 June 2010 of US$ 0.08 per share	-	9,731,417
Quarter ended 30 September 2010 of US$ 0.08 per share	-	9,638,540
Quarter ended 31 December 2010 of US$ 0.09 per share	10,792,152	-
Quarter ended 31 March 2011 of US$ 0.09 per share	10,752,769	-
Quarter ended 30 June 2011 of US$ 0.10 per share	11,846,626	-
Quarter ended 30 September 2011 of US$ 0.10 per share	11,691,010	-
	45,082,557	34,186,171

The fourth quarter dividend of US$ 0.105 per share was approved by Directors on 2 March 2012 and has not been included as a liability in these consolidated financial statements.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2011

Note 10 Earnings per Share

	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 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	410,379,754	385,170,737
Weighted average number of Shares for the purposes of basic earnings per share	118,444,858	122,165,663
Effect of dilutive potential Shares:		
Share options	-	-
Weighted average number of Shares for the purposes of diluted earnings per share	118,444,858	122,165,663

There is no dilution as at 31 December 2011 or 31 December 2010, as the conditions on the options at the date of these financial statements have not been met.

Note 11 Earnings

	31 Dec 2011 US$	31 Dec 2010 US$
Balance at start of year	(31,414,348)	(382,398,914)
Net increase in net assets resulting from operations for the year	410,379,754	385,170,737
Dividends paid	(45,082,557)	(34,186,171)
Balance at end of year	333,882,849	(31,414,348)

Note 12 Other Matters

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

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

Note 12 Other Matters (continued)

On 12 July 2011, a shareholder derivative action was filed in United States District Court — Southern District of New York — against the current and former Directors of the Company and the Master Fund, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the "Action"). The Action made a series of allegations specifically with respect to performance fees charged by the Investment Manager. TFG and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit. Accordingly, the defendants had sought dismissal of the Action. On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice.

On 19 December 2011, Mr. Jackson filed a claim against Patrick Dear and Reade Griffith in the High Court in London regarding Mr. Jackson's removal in January 2011 from the Board of Directors of the Company and the Master Fund. Each of the Company and the Master Fund take an interest in the proceedings given that they purport to impact the Company's constitution and matters that are already the subject of the Guernsey proceedings. The defendants are of the view that Mr. Jackson's claim is without merit and will resist the new proceedings.

Note 13 Subsequent Events

The Directors have evaluated subsequent events up to 2 March 2012, which is the date that the financial statements were approved, and have concluded that there are not any material events, other than described above under Note 12, that require disclosure or adjustment to the financial statements.

Note 14 Recent Changes to US GAAP

Reconsideration of Effective Control for Repurchase Agreements. In April 2011, the FASB issued ASU No. 2011-03, "Transfers and Servicing (Topic 860) — Reconsideration of Effective Control for Repurchase Agreements." ASU No. 2011-03 changes the assessment of effective control by removing (i) the criterion that requires the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for periods beginning after 15 December 2011. The adoption of ASU No. 2011-03 will not affect the Company's financial condition, results of operations or cash flows.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (FASB Accounting Standards Codification (ASC) 820). In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurements and Disclosures (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after 15 December 2011. The Company is currently evaluating the impact of adoption.

Note 15 Approval of Financial Statements

The Directors approved the financial statements on 2 March 2012.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2011

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2011

CONTENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2011

The Directors present to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2011.

THE FUND

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

INVESTMENT OBJECTIVE

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various credit, equity, interest rate and real estate cycles, Tetragon Financial Management LP (the "Investment Manager") seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favourable transactions. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

The Fund maintains two key business segments: an investment portfolio and an asset-management platform.

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
Alex Jackson (ceased to be a Director effective 24 January 2011)
David Jeffreys*
Byron Knief*
Greville Ward*

*Independent non-executive Directors

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

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

Alex Jackson ceased to be a Director of the Fund effective 24 January 2011, having been given notice by all of the other Directors to vacate office.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2011

SECRETARY

State Street (Guernsey) Limited replaced State Street Fund Services (Guernsey) Limited as Secretary on 1 August 2011.

DIVIDENDS

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Fund and adherence to applicable law including the satisfaction of a solvency test as stated under The Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Fund's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Fund, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Fund's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.09 per share for the Quarter Ended 31 December 2010, US$ 0.09 per share for the Quarter Ended 31 March 2011, US$ 0.10 for the Quarter Ended 30 June 2011 and US$ 0.10 for the Quarter Ended 30 September 2011. The Directors have declared a dividend US$ 0.105 for the Quarter Ended 31 December 2011. Total dividends paid during the year ended 31 December 2010 amounted to US$ 0.28 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2011

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITORS

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 2 March 2012

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

We have audited the consolidated financial statements of Tetragon Financial Group Master Fund Limited (the “Company” or “Group”) for the year ended 31 December 2011 which comprise the Consolidated Statements of Assets and Liabilities, the Consolidated Statements of Operations, the Consolidated Statements of Changes in Net Assets, the Consolidated Statements of Cash Flows, the Consolidated Schedule of Investments, the Financial Highlights and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s affairs as at 31 December 2011 and of its net increase in net assets resulting from operations for the year then ended;
- are in conformity with accounting principles generally accepted in the United States of America; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

KPMG Channel Islands Limited
Chartered Accountants
Guernsey

Date: 2 March 2012

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2011

	Note	31 Dec 2011 US$	31 Dec 2010 US$
Assets			
Investments, at fair value (cost US$ 1,590,685,823 (31 Dec 2010: US$ 1,510,475,221))	2	1,264,444,768	1,035,278,679
Intangible assets – CLO management contracts	4	109,357	210,301
Cash and cash equivalents	5	211,513,043	140,625,333
Amounts due from brokers	7	15,847,630	4,285,552
Amounts receivable on sale of investments		-	8,848,210
Derivative financial assets – forward contracts	6	6,693,494	2,883,979
Derivative financial assets – interest rate swaptions	6	7,207,886	-
Other receivables	8	2,753,856	1,737,490
Total assets		1,508,570,034	1,193,869,544
Liabilities			
Amounts payable for purchase of investments		-	7,422,999
Amounts payable to Feeder		460,009	-
Other payables and accrued expenses	9	6,999,100	4,150,673
Income tax payable	14	1,112,347	296,854
Deferred tax liability	14	686,036	92,995
Total liabilities		9,257,492	11,963,521
Net assets		1,499,312,542	1,181,906,023
Equity			
Share capital	10	115,968	120,134
Share premium	11	1,087,790,180	1,116,274,456
Earnings	13	411,253,070	64,142,791
Total equity attributable to Master Fund		1,499,159,218	1,180,537,381
Noncontrolling interest	10	153,324	1,368,642
Total shareholders equity		1,499,312,542	1,181,906,023
Shares outstanding		**Number**	**Number**
Shares	10	115,967,737	120,133,690
Net Asset Value per Share*		US$ 12.93	US$ 9.83

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

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

2 March 2012

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 US$
Interest income	15	209,053,837	178,932,970
CLO management fee income	16	16,404,271	12,631,564
Other income	17	6,701,548	2,503,561
Investment income		232,159,656	194,068,095
Management fees	18	(19,958,908)	(14,001,647)
Legal and professional fees	19	(15,673,332)	(1,452,041)
Employee costs	18	(6,381,123)	(5,365,486)
Administration and custodian fees		(1,009,414)	(813,287)
Directors' fees	18	(300,000)	(225,317)
Audit fees		(220,023)	(241,400)
Market data fees	18	(175,883)	(277,339)
Other operating and administrative expenses	18	(2,605,793)	(2,316,516)
Operating expenses		(46,324,476)	(24,693,033)
Net investment income		185,835,180	169,375,062
Net realized and unrealized gain from investments and foreign currency			
Net realized gain from:			
Investments		948,627	1,124,072
Foreign currency transactions		5,174,434	1,764,624
		6,123,061	2,888,696
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		358,754,487	337,424,241
Forward foreign exchange contracts		3,809,515	1,288,378
Interest rate swaptions		(10,612,114)	-
Translation of assets and liabilities in foreign currencies		(3,510,927)	(919,233)
		348,440,961	337,793,386
Net realized and unrealized gain from investments and foreign currency		354,564,022	340,682,082
Net increase in net assets resulting from operations before tax		540,399,202	510,057,144
Income and deferred tax expense	14	(3,804,408)	(2,501,950)
Net income		536,594,794	507,555,194
Less net income attributable to noncontrolling interest	10	(1,979,486)	(1,388,434)
Net increase in net assets resulting from operations		534,615,308	506,166,760

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 US$
From operations –			
Net investment income		185,835,180	169,375,062
Net realized gain from investments and foreign currency		6,123,061	2,888,696
Net unrealized appreciation on investments and translation of assets and liabilities in foreign currencies		348,440,961	337,793,386
Income and deferred tax expense	14	(3,804,408)	(2,501,950)
Income attributable to noncontrolling interest	10	(1,979,486)	(1,388,434)
Net increase in net assets resulting from operations		534,615,308	506,166,760
Dividends paid to Feeder	12	(142,422,472)	(107,787,008)
Dividends paid to other shareholders	12	(45,082,557)	(34,186,171)
Total distributions		(187,505,029)	(141,973,179)
Issue of Shares	10	6,728,996	5,240,598
Purchase of Treasury Shares	10	(35,217,438)	(25,525,475)
Decrease in net assets resulting from Capital transactions		(28,488,442)	(20,284,877)
Total increase in net assets		318,621,837	343,908,704
Net assets at start of year		1,181,906,023	836,628,677
Net assets before noncontrolling interest		1,500,527,860	1,180,537,381
(Decrease) / increase of noncontrolling interest	10	(1,215,318)	1,368,642
Net assets at end of year		1,499,312,542	1,181,906,023

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2011

	Year ended 31 Dec 2011 US$	Year ended 31 Dec 2010 US$
Operating activities		
Net income	536,594,794	507,555,194
Adjustments for:		
Realized gains on investments	(948,627)	(1,124,072)
Cash received on investments in excess of interest income	205,785,451	90,563,882
Amortization on intangible assets	100,944	92,533
Unrealized gains	(348,440,961)	(337,793,386)
Deferred tax	593,041	92,995
Operating cash flows before movements in working capital	393,684,642	259,387,146
Increase in receivables	(1,016,366)	(1,551,097)
Increase in payables	3,663,920	3,836,466
Cash flows from operations	396,332,196	261,672,515
Proceeds from sale/prepayment/maturity of investments	122,311,147	71,049,470
Purchase of investments	(217,365,569)	(205,376,231)
Purchase of CLO management contracts	-	(302,834)
Net cash provided by operating activities	301,277,774	127,042,920
Financing activities		
Amounts due from brokers	(11,562,078)	1,585,045
Proceeds from issue of Shares	6,728,996	5,240,598
Treasury Shares	(34,757,429)	(25,525,475)
Dividends paid to shareholders	(45,082,557)	(34,186,171)
Dividends paid to Feeder	(142,422,472)	(107,787,008)
Distributions to noncontrolling interest	(3,194,804)	(95,500)
Net cash used in financing activities	(230,290,344)	(160,768,511)
Net increase / (decrease) in cash and cash equivalents	70,987,430	(33,725,591)
Cash and cash equivalents at beginning of year	140,625,333	174,352,827
Effect of exchange rate fluctuations on cash and cash equivalents	(99,720)	(1,903)
Cash and cash equivalents at end of year	211,513,043	140,625,333

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS
As at 31 December 2011

Security Description	Nominal	Cost US$	Fair Value US$	% of Net Assets
US Dollar				
Cayman Islands – CLO equity				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	1,069,820,746	943,269,596	832,598,570	55.52%
CDOs Squared	17,250,000	16,640,250	-	-
Middle Market Senior Secured Loans	245,249,000	227,357,145	191,418,117	12.77%
	1,350,719,746	1,204,838,991	1,024,016,687	68.29%
Euro				
Ireland – CLO equity				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	78,118,458	5.21%
	127,400,000	155,916,581	78,118,458	5.21%
Luxembourg – CLO equity				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	28,195,453	1.88%
	65,100,000	80,651,697	28,195,453	1.88%
Netherlands – CLO equity				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	17,049,930	1.14%
	24,000,000	31,758,532	17,049,930	1.14%
US Dollar – Loans				
Broadly Syndicated Senior Secured Loans	111,089,027	107,743,582	107,122,589	7.15%
Unsecured Loan	6,875,000	6,875,000	7,050,974	0.47%
	117,964,027	114,618,582	114,173,563	7.62%
US Dollar – Unlisted Stock				
Financial Real Estate Manager		482,285	482,285	0.03%
		482,285	482,285	0.03%
US Dollar – Investment Funds				
Real Estate – United States		1,940,764	1,920,530	0.13%
Real Estate – Japan		478,391	487,862	0.03%
		2,419,155	2,408,392	0.16%
Total Investments		1,590,685,823	1,264,444,768	84.33%

Financial Derivative Instruments

	Fair Value US$	% of Net Assets
Interest rate swaptions	7,207,886	0.48%
Forward foreign currency exchange contracts	6,693,494	0.45%
Total Financial Derivative Instruments	13,901,380	0.93%
Cash and Cash Equivalents	211,513,043	14.11%
Other Assets and Liabilities	9,453,351	0.63%
Net Assets	1,499,312,542	100.00%

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2010

Security Description	**Nominal**	**Cost US$**	**Fair Value US$**	**% of Net Assets**
US Dollar				
Cayman Islands – CLO equity				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	999,942,986	880,357,435	665,982,025	56.34%
CDOs Squared	17,250,000	16,640,250	-	-
Middle Market Senior Secured Loans	245,249,000	227,357,145	167,713,294	14.19%
	1,280,841,986	1,141,926,830	833,695,319	70.53%
Euro				
Ireland – CLO equity				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	73,832,615	6.25%
	127,400,000	155,916,581	73,832,615	6.25%
Luxembourg – CLO equity				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	12,974,610	1.10%
	65,100,000	80,651,697	12,974,610	1.10%
Netherlands – CLO equity				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	12,174,195	1.03%
	24,000,000	31,758,532	12,174,195	1.03%
US Dollar – Loans				
Broadly Syndicated Senior Secured Loans	99,976,284	95,239,296	97,598,898	8.26%
Unsecured Loans	4,500,000	4,500,000	4,520,757	0.38%
	104,476,284	99,739,296	102,119,655	8.64%
US Dollar – Unlisted Stock				
Financial Real Estate Manager		482,285	482,285	0.04%
		482,285	482,285	0.04%
Total Investments		1,510,475,221	1,035,278,679	87.59%

Financial Derivative Instruments

	Fair Value US$	**% of Net Assets**
Forward foreign currency exchange contracts	2,883,979	0.25%
Total Financial Derivative Instruments	2,883,979	0.25%
Cash and Cash Equivalents	140,625,333	11.90%
Other Assets and Liabilities	3,118,032	0.26%
Net Assets	1,181,906,023	100.00%

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS
For the years ended 31 December 2011 and 31 December 2010

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 2011 and the year ended 31 December 2010.

	31 Dec 2011 US$	31 Dec 2010 US$
Per Share operating performance		
Net Asset Value at start of year	9.83	6.71
Net investment income	1.81	1.53
Net realized and unrealized gain from investments, derivatives and foreign currencies	3.45	3.09
Dividends paid to shareholders	(1.82)	(1.29)
Income and deferred tax expense and noncontrolling interest	(0.06)	(0.03)
Other capital transactions	(0.28)	(0.18)
Net Asset Value at the end of the year	12.93	9.83
Return (NAV change excluding dividends and other capital transactions)	52.90%	68.55%
Ratios and supplemental data		
Ratio to average net assets:		
Total operating expenses	(3.37%)	(2.54%)
Net investment income	13.53%	17.41%

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 MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2011

Note 1 General Information

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

The Fund currently owns 75% of LCM Asset Management LLC (“LCM”) through a 100% owned U.S. subsidiary, Tetragon Capital Management LLC (“TCM”) and consolidates the income and expenses and assets and liabilities of that entity in these accounts.

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

Note 2 Significant Accounting Policies

Basis of Presentation

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

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

The accounting policies have been consistently applied by the Fund during the year ended 31 December 2011 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.

Foreign Currency Translation

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

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

Note 2 Significant Accounting Policies (continued)

Investment Transactions and Investment Income

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

Financial Instruments

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

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

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

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

As at 31 December 2011, some of the modeling assumptions used are as follows:

US CLO equity tranche investments —

- Constant Annual Default Rate (“CADR”): This is approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor (“WARF”) derived base-case default rate for 2012-13 before changing to 3.3% or 1.5x the original base-case for 2014-16 and returning to 1.0x the base case thereafter.

- Recovery Rate: The assumed recovery rate is 72%, or 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.

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

- Reinvestment Price and Spread: The assumed reinvestment price is 98 cents on the Dollar for 2012, returning to par thereafter, with an effective spread over LIBOR of approximately 343 bps on broadly U.S. syndicated loans and 417 bps on middle market loans for the life of the transaction.

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

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

European CLO equity tranche investments —

- Constant Annual Default Rate ("CADR"): This is approximately 3.1%, which is 1.5x the original WARF derived base-case default rate for 2012-14, changing to 2.1% or 1.0x the original base-case thereafter.

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

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

- Reinvestment Price and Spread: The assumed reinvestment price is par for the life of the transactions with an effective spread over LIBOR of approximately 288 bps.

When determining the fair value of the equity tranches a discount rate is applied to the expected future cash flows derived from the third party valuation model. The discount rate applied to those future cash flows reflects the perceived level of risk that would be used by another market participant in determining fair value. In determining the discount rates to use the Investment Manager reviews, among other things, the observable yield on mezzanine CLO tranches as well as the individual deal's structural strength and credit quality.

As at 31 December 2011, for the US equity tranches, the Fund applies a 20% discount rate to those equity tranches adjudged to be relatively stronger in terms of structure and credit quality and 25% to the remainder. The European equity tranches are all discounted at 30%. For both US and Europe the aforementioned discount rates represent a significant spread over observed yields on the applicable BB-rated CLO tranches for each geography at that date.

Due to, among other factors, the elevated market risk premiums since the financial crisis, this effective discount rate has typically been higher than the deal's IRR and therefore, in such instances, has resulted in a fair value which is lower than the deal's amortized cost. The difference between these two figures, on an aggregate basis across the CLO portfolio, has been characterized as the "ALR Fair Value Adjustment" or "ALR". At 31 December 2011, the ALR totaled approximately US$ 128.7 million (31 December 2010: US$ 258.0 million).

The Fund recognizes interest income and any impairment pursuant to "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" (ASC 325). ASC 325 sets forth rules for recognizing interest income and determining when an investment's amortized cost must be written down to fair value because of other than temporary impairments.

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

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

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in leveraged loans, at fair value

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

Interest income on leveraged loans, including amortization of premium and accretion of discount, is recorded on an effective interest rate basis to the extent that such amounts are expected to be collected.

Investments in securities, unlisted common stock, at fair value

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

Investments in unlisted investment funds, at fair value

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

Forward currency contracts, at fair value

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

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

Interest rate swaptions, at fair value

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

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

ASC 820, Fair Value Measurements

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

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

ASC 820, Fair Value Measurements (continued)

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

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

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

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

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
CLO Equity Tranches	-	-	1,147,380,528	1,147,380,528
Broadly Syndicated Senior Secured Loans	-	107,122,589	-	107,122,589
Unsecured Loan	-	-	7,050,974	7,050,974
Interest rate swaptions	-	7,207,886	-	7,207,886
Forward foreign exchange contracts	-	6,693,494	-	6,693,494
Common Stock	-	-	482,285	482,285
Collective Investment Schemes	-	-	2,408,392	2,408,392
	-	121,023,969	1,157,322,179	1,278,346,148

There were no transfers of the Fund's assets between Level 1 and 2 during the year ended 31 December 2011 or during the year ended 31 December 2010.

The following is a summary of the inputs used as of 31 December 2010 in valuing the Fund's assets carried at fair value:

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
CLO Equity Tranches	-	-	932,676,739	932,676,739
Broadly Syndicated Senior Secured Loans	-	97,598,898	-	97,598,898
Unsecured Loan	-	-	4,520,757	4,520,757
Forward foreign exchange contracts	-	2,883,979	-	2,883,979
Common Stock	-	-	482,285	482,285
	-	100,482,877	937,679,781	1,038,162,658

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

ASC 820, Fair Value Measurements (continued)

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

	31 Dec 2011 US$	31 Dec 2010 US$
Balance at start of year	937,679,781	655,234,320
Purchases of investments	67,706,316	34,071,852
Change in unrealized appreciation	358,120,883	338,465,221
Amortisation	(206,184,801)	(90,091,612)
Balance at end of year	1,157,322,179	937,679,781

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.

Intangible assets, CLO management agreements

Intangible assets represent CLO management agreements and are amortized over its useful life. Intangible assets are stated at cost less accumulated amortisation and impairment.

Amortisation is recognized in profit or loss on a straight-line basis over the useful life of the agreements. The estimated useful life for the purposes of amortizating management agreements relating to LCM is three years.

Income from CLO Management

Income from CLO management comprises discretionary portfolio management income generated by LCM, split between senior management fees and subordinated management fees. Senior management fee income is recognized on an accruals basis. For the subordinated management fee income, the Fund makes estimated interim accruals of such subordinated income based on recent historical distributions and the CLO's performance and adjusts such accruals on a quarterly basis to reflect actual distributions.

Other income

Other income, such as income and fees derived from consent given in connection with corporate actions in CLO vehicles in which the Fund has an investment, are recognized on an accruals basis.

Expenses

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

Note 2 Significant Accounting Policies (continued)

Taxation

Income taxes, Fund

The Fund is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 600 per annum. The Fund has however consolidated a US operating business which is subject to US federal, state and city taxes.

Income taxes, LCM and TCM

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

Following the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (included in FASB ASC Subtopic 740-10 — Income Taxes — Overall), the Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There are no uncertain tax positions recognized at 31 December 2011.

Dividend Expense

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

Principles of Consolidation

The Fund owns 100% of a US subsidiary, TCM which owns 75% of an asset manager, LCM. The Fund has determined that it has control over LCM for the purposes of consolidation and therefore consolidates 100% of the income and expenses and assets and liabilities on a line by line basis. The remaining 25% is reflected through the Noncontrolling interest line.

The Fund owns 100% of a US subsidiary, TFG RE 1 LLC, through which it holds investments in alternative investment vehicles focusing on US Real Estate. The subsidiary is consolidated by the Fund.

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

The Fund is the primary beneficiary of some securities which are considered variable interest entities (“VIE”). As the Fund is accounting for its investments at fair value in accordance with the accounting guidance in the AICPA Audit and Accounting Guide: Investment Companies and has determined that it does not have control over the significant operational and financial decisions of these securities, consolidation of these entities is not required. At 31 December 2011 the Fair value of these VIEs is approximately $1,147,380,535. These are non-recourse securities with no contingent liabilities where the Fund’s maximum loss exposure is capped at the current carrying value.

Note 3 GreenOak Loan

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

	31 Dec 2011 US$	31 Dec 2010 US$
Working capital advanced to GreenOak	6,875,000	4,500,000
Interest receivable on facility	175,974	20,757
	7,050,974	4,520,757

Note 4 Intangible Assets

	Gross carrying amount US$	31 December 2010 Weighted average outstanding amortization period	Accumulated amortization US$
CLO management contracts	210,301	2 year 1 month	(92,533)
Total	210,301		(92,533)

	Gross carrying amount US$	31 December 2011 Weighted average outstanding amortization period	Accumulated amortization US$
CLO management contracts	109,357	1 year 1 month	(193,477)
Total	109,357		(193,477)

Aggregate amortization expense for amortizing intangible assets was US$ 100,944 for the year ended 31 December 2011. Estimated amortization expense for the next two years is US$ 100,945 in 2012, US$ 8,412 in 2013.

Note 5 Cash and Cash Equivalents

	31 Dec 2011 US$	31 Dec 2010 US$
Cash and current deposits with banks	205,652,374	140,405,829
Foreign currency cash with banks (cost: US$ 6,078,272 (31 December 2010: US$ 206,128))	5,860,669	219,504
	211,513,043	140,625,333

Note 6 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

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

The Fund's assets include securities or other financial instruments or obligations which are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The valuation of the CLO equity tranche investments is determined using a third-party cash flow modeling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of these CLO equity investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

Subject to the foregoing, when determining the US GAAP-compliant fair value of the CLO equity investments, the Fund seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Although seeking to utilise, where possible, observable market data, for certain assumptions the Investment Manager may be required to make subjective judgements and forward-looking determinations, and it'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. This may lead to interruptions in the income stream that the Fund anticipates receiving from its investment portfolio. To the extent that actual losses on the underlying collateral exceed the level of assumed losses used to determine the fair value of the investment, the value of the investment may be reduced.

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

As part of the Fund's current investment strategy it may employ hedging strategies and leverage in seeking to provide attractive returns from the portfolio while managing risk. The hedging strategy may include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges and interest rate swaptions. This is reviewed on an on-going basis in order to seek to address identified risks to the extent practicable and in a cost effective manner. As at 31 December 2011 and 31 December 2010 there were no credit hedges in place.

The Fund's investments in leveraged loans through equity tranche investments in securitization vehicles generate LIBOR plus returns and are sensitive to interest rate levels and volatility. Although these vehicles are structured to hedge interest rate risk through the use of matched funding, there may be some difference between the timing of LIBOR resets on the liabilities and assets, which could have a negative effect on the amount of funds distributed to equity tranche holders. Furthermore, in the event of a significant rising interest rate environment and/or economic downturn, loan defaults may increase and result in credit losses that may be expected to affect the Fund's cash flow, fair value of its assets and operating results adversely. The Fund may utilise hedging instruments, such as interest rate swaptions, to try and mitigate interest rate tail risks.

Note 6 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

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

Note 7 Amounts Due from Brokers

The amounts due from brokers is cash pledged as collateral on the forward contracts. At 31 December 2011 the collateral cash balance with UBS AG was US$ 15,847,630 (31 December 2010: US$ 4,285,552).

Note 8 Other Receivables

	31 Dec 2011 US$	31 Dec 2010 US$
Accrued CLO management fee income	2,477,180	1,460,150
CLO coupon receivable	175,373	-
Bank interest receivable	497	802
Prepaid insurance	-	163,239
Other receivables	100,806	113,299
	2,753,856	1,737,490

Note 9 Other Payables and Accrued Expenses

	31 Dec 2011 US$	31 Dec 2010 US$
Employee costs	3,576,130	3,452,051
Legal and professional fees accrual	1,613,554	67,000
Audit fee accrual	231,081	283,473
Directors' fee accrual	75,000	75,000
Custodian fee accrual	-	10,000
Other operating and administrative expenses	1,503,335	263,149
	6,999,100	4,150,673

Note 10 Share Capital

Authorized

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 (which are the "Shares" referred to herein), having a par value of US$ 0.001 each.

Voting Shares

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

Note 10 Share Capital (continued)

Non-Voting Shares

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

Dividend Rights

Dividends may be paid to the holders of Shares at the sole and at the absolute discretion of the Directors. The Voting Shares carry no rights to dividends. Through the Optional Stock Dividend Plan, shareholders can elect to receive dividends in the form of new 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 Shares in all respects.

Share Transactions

	Voting Shares No.	Shares No.	Shares US$
Shares in issue at 31 December 2009	10	124,768,684	124,769
Issued	-	1,107,125	1,107
Treasury Shares	-	(5,742,119)	(5,742)
Shares in issue at 31 December 2010	10	120,133,690	120,134
Issued	-	909,427	909
Treasury Shares	-	(5,075,380)	(5,075)
Shares in issue at 31 December 2011	10	115,967,737	115,968

Treasury Shares

On 30 November 2007, the Feeder announced the implementation of a share repurchase program of their outstanding Shares. This program was subsequently updated and will now continue from 1 November 2011 until 31 October 2012 or until 5% of the Feeder's outstanding shares have been repurchased under the updated program or until terminated by the Board. In conjunction with this, the Fund has undertaken to repurchase an identical number of its own Shares from the Feeder as and when it makes these repurchases in the open market. The Fund will match the price per share paid by the Feeder. The Shares are held in a Treasury Account or in a subsidiary (as described below) allowing them to potentially be resold back to the Feeder if it resells its own shares back into the market at a later date. Whilst they are held by the Fund (whether directly or via subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Consolidated Statements of Assets and Liabilities.

On 15 November 2010, the Fund transferred 3,908,241 shares from the Treasury Account to a wholly owned subsidiary, TFG Holdings I. Additionally, on 11 November 2011, a further 4,615,000 Shares were transferred from the Treasury Account to TFG Holdings I. After giving effect to this transfer as at 31 December 2011, the Fund held 7,577,301 shares in the Treasury Account (31 December 2010: 7,116,921).

Note 10 Share Capital (continued)

Noncontrolling Interest relating to LCM

The Fund adopted “Noncontrolling Interests in Consolidated Financial Statements” which requires noncontrolling interests to be classified in the Consolidated Statements of Operations as part of consolidated net earnings (US$ 1,979,486 for the year ended 31 December 2011, US$ 1,388,434 for the year ended 31 December 2010) and to include the accumulated amount of noncontrolling interests in the Consolidated Statements of Assets and Liabilities as part of shareowners’ equity (US$ 153,324 at 31 December 2011, US$ 1,368,642 at 31 December 2010). Any distributions to the noncontrolling interest will be recorded in the Consolidated Statements of Cash Flows (US$ 3,194,804 for the year ended 31 December 2011, US$ 95,500 for the year ended 31 December 2010). If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.

Note 11 Share Premium

	31 Dec 2011 US$	31 Dec 2010 US$
Balance at start of year	1,116,274,456	1,136,554,698
Discount arising from net transactions of Shares	(28,484,276)	(20,280,242)
Balance at end of year	1,087,790,180	1,116,274,456

Note 12 Dividends

	31 Dec 2011 US$	31 Dec 2010 US$
Quarter ended 31 December 2009 of US$ 0.06 per share	-	7,442,348
Quarter ended 31 March 2010 of US$ 0.06 per share	-	7,373,866
Quarter ended 30 June 2010 of US$ 0.08 per share	-	9,731,417
Quarter ended 30 September 2010 of US$ 0.08 per share	-	9,638,540
Quarter ended 31 December 2010 of US$ 0.09 per share	10,792,152	-
Quarter ended 31 March 2011 of US$ 0.09 per share	10,752,769	-
Quarter ended 30 June 2011 of US$ 0.10 per share	11,846,626	-
Quarter ended 30 September 2011 of US$ 0.10 per share	11,691,010	-
	45,082,557	34,186,171

The fourth quarter dividend of US$ 0.105 per share was approved by the Directors on 2 March 2012 and has not been included as a liability in these financial statements.

The Fund also pays a dividend to the Feeder that is sufficient to pay their incentive fee liability which in the year ended 31 December 2011 was US$ 142,422,472 (31 December 2010: US$ 107,787,008).

Note 13 Earnings

	31 Dec 2011 US$	31 Dec 2010 US$
Balance at start of year	64,142,791	(300,050,790)
Net increase in net assets resulting from operations for the year	534,615,308	506,166,760
Dividends paid to shareholders	(45,082,557)	(34,186,171)
Dividends paid to Feeder	(142,422,472)	(107,787,008)
Balance at end of year	411,253,070	64,142,791

Note 14 Income and Deferred Tax Expense

Income tax for the years ended 31 December 2011 and 31 December 2010 consists of:

Year ended 31 December 2011:	Current US$	Deferred US$	Total US$
US federal (TCM)	2,036,943	593,041	2,629,984
State and local (TCM)	844,510	-	844,510
State (LCM)	329,914	-	329,914
	3,211,367	593,041	3,804,408

Year ended 31 December 2010:	Current US$	Deferred US$	Total US$
US federal (TCM)	1,419,589	92,995	1,512,584
State and local (TCM)	704,366	-	704,366
State (LCM)	285,000	-	285,000
	2,408,955	92,995	2,501,950

LCM is a partnership for US tax purposes and it only incurs certain state taxes. TCM is a corporation for US tax purposes and has federal, state and city taxes levied upon its taxable income.

US$ 1,112,347 of current tax was outstanding at the end of the year (31 December 2010: US$ 296,854).

Tax Rate Reconciliation

Income tax expense was US$ 3,804,408 for the year ended 31 December 2011, and differed from the amounts computed by applying the U.S. federal income tax of 34% to pretax increase in the net assets as a result of the following:

	31 Dec 2011 US$	31 Dec 2010 US$
Net increase in net assets resulting from operations before tax	540,399,202	510,057,144
Computed “expected” tax expense at 34%	183,735,729	173,419,429
Increase / (reduction) in income taxes resulting from:		
Income not subject to US tax	(181,104,745)	(171,905,845)
State and local income taxes	1,174,424	989,366
Other exemptions net	(1,000)	(1,000)
Total income and deferred tax expense	3,804,408	2,501,950

Note 14 Income and Deferred Tax Expense (continued)

Deferred Tax

	31 Dec 2011 US$	31 Dec 2010 US$
Deferred tax liability brought forward at start of year	92,995	-
Change in deferred tax liability	593,041	92,995
Deferred tax liability brought forward at start of year	686,036	92,995

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

Note 15 Interest Income

	31 Dec 2011 US$	31 Dec 2010 US$
Debt securities – CLO equity tranches	202,964,670	176,015,028
Debt securities – Leveraged loans	5,778,672	2,678,035
Cash and short term funds	155,278	219,150
Debt securities – Unsecured loans	155,217	20,757
	209,053,837	178,932,970

Note 16 CLO Management Fee Income

	31 Dec 2011 US$	31 Dec 2010 US$
Senior fees	5,180,358	3,995,470
Subordinated fees	11,223,913	8,636,094
	16,404,271	12,631,564

Senior fees range from 0 bps to 20 bps per annum of collateral under management and subordinated fees range from 30 bps to 50 bps per annum of collateral under management.

Note 17 Other Income

	31 Dec 2011 US$	31 Dec 2010 US$
Fee and fee sharing from consent on CLO corporate actions	6,701,548	2,503,561
	6,701,548	2,503,561

Note 18 Related Party Transactions

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

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

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

The Voting Shareholder, which holds all of the Voting Shares, is an affiliate of Polygon Investment Partners LLP and Polygon Investment Partners LP (the "Service Providers") and the Investment Manager. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Feeder's Directors. Affiliates of the Service Providers also control the Investment Manager and, accordingly, control the Fund's business and affairs.

The Service Providers have an agreement to provide certain operating, infrastructure and administrative services to LCM. For the year ended 31 December 2011, the Service Providers recharged LCM US$ 8,059,967 (31 December 2010, US$ 6,700,295). This includes invoices from third parties with respect to services such as market data. At 31 December 2011, US$ 4,887,393 was payable (31 December 2010 US$ 3,659,245).

On 22 June 2011, LCM IX (the "Issuer"), a US$ 666.3 million CLO managed by LCM, was issued, in which the Fund purchased US$ 33.5 million equity tranche at a cost of US$ 32.7 million. Prior to the closure of this transaction, the Fund purchased and warehoused broadly syndicated US leveraged loans with a notional of US$ 65.7 million and a cost of US$ 65.4 million for the Issuer. These loans were purchased at market prices at the direction of the Issuer's manager, LCM, and subsequently sold to the Issuer at original cost. The Fund earned interest on these loans during the relevant period.

The Fund owns a 10% equity interest in GreenOak Real Estate, LP ("GreenOak"), a multi-jurisdictional real estate venture, in which it also provides a US$ 10.0 million working capital loan commitment and a US$ 100.0 million co-investment commitment. Polygon Management LP ("PM"), an affiliate of the Voting Shareholder, also owns a noncontrolling equity interest, as well as provides a similar working capital loan. The Service Providers have an agreement with GreenOak to provide certain operating, infrastructure and administrative services to the business. As part of the transaction the Feeder has issued 3,908,241 share options to the GreenOak founders.

The Fund has made investments across three real estate investment vehicles managed by GreenOak. As at 31 December 2011, these investments referenced real estate in the United States and Japan with a net asset value of US$ 2.4 million. These investments are typically illiquid where the Fund will only receive distributions on liquidation of the investment vehicle's underlying assets and in some cases this may not be for several years. In addition, based on projected capital raised (subject to change), the Fund had estimated unfunded commitments of up to US$ 16.6 million with respect to one of the investment vehicles.

Note 19 Other Matters

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

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

On 12 July 2011, a shareholder derivative action was filed in United States District Court – Southern District of New York – against the current and former Directors of the Fund and the Feeder, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the "Action"). The Action made a series of allegations specifically with respect to performance fees charged by the Investment Manager. TFG and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit. Accordingly, the defendants had sought dismissal of the Action. On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice.

During 2011 an amount of US$ 15,317,560 was charged to the Fund relating to legal expenses in connection with the aforementioned Proceedings and Action, which includes amounts paid under applicable indemnification provisions with respect to the Directors, the Investment Manager and principals of the Investment Manager. No adjustment has been made for amounts that may be recoverable under relevant insurance policies held by the Fund and the Feeder. At 31 December 2011, US$ 1,613,554 was accrued in the Consolidated Statements of Assets and Liabilities.

On 19 December 2011, Mr. Jackson filed a claim against Patrick Dear and Reade Griffith in the High Court in London regarding Mr. Jackson's removal in January 2011 from the Board of Directors of the Fund and the Feeder. Each of the Fund and the Feeder take an interest in the proceedings given that they purport to impact the Feeder's constitution and matters that are already the subject of the Guernsey proceedings. The defendants are of the view that Mr. Jackson's claim is without merit and will resist the new proceedings.

Note 20 Subsequent Events

The Directors have evaluated subsequent events up to 2 March 2012, which is the date that the financial statements were approved, and have concluded that there are not any material events, other than described above under Note 19 that require disclosure or adjustment to the financial statements other than disclosed below.

Note 21 Recent Changes to US GAAP

Reconsideration of Effective Control for Repurchase Agreements. In April 2011, the FASB issued ASU No. 2011-03, “Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements.” ASU No. 2011-03 changes the assessment of effective control by removing (i) the criterion that requires the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for periods beginning after 15 December 2011. The adoption of ASU No. 2011-03 will not affect the Fund’s financial condition, results of operations or cash flows.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (FASB Accounting Standards Codification (ASC) 820). In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurements and Disclosures (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after 15 December 2011. The Fund is currently evaluating the impact of adoption.

Note 22 Approval of Financial Statements

The Directors approved the financial statements on 2 March 2012.