KPMG

KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

Independent Auditor's Report

The Board of Directors
Tetragon Financial Group Limited

We have audited the accompanying statements of assets and liabilities of Tetragon Financial Group Limited (the "Fund") as of December 31, 2012 and the related statements of operations, statements of changes in net assets and statements of cash flows for the year then ended. These financial statements are the responsibility of the Fund's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fund as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG

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February 27, 2013

AUDITED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2012

TETRAGON FINANCIAL GROUP LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2012

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TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2012

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

THE COMPANY

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

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

INVESTMENT OBJECTIVE

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

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

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

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

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

DIRECTORS

The Directors who held office during the year were:

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

* Independent non-executive Directors

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

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

SECRETARY

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

DIVIDENDS

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Company and adherence to applicable law including the satisfaction of a solvency test as stated under The Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Company's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Company, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Company's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.105 per share for the Quarter Ended 31 December 2011, US$ 0.105 per share for the Quarter Ended 31 March 2012, US$ 0.115 for the Quarter Ended 30 June 2012 and US$ 0.115 for the Quarter Ended 30 September 2012. The total dividend declared during the year ended 31 December 2012 amounted to US$ 50.3 million (31 December 2011: US$ 45.1 million). The Directors have declared a dividend US$ 0.135 for the Quarter Ended 31 December 2012. Total dividends paid during the year ended 31 December 2011 amounted to US$ 0.38 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

In preparing those financial statements the Directors are required to:

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

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

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

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITORS

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 27 February 2013

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

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

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Matters on which we are required to report by exception

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

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

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

Date: 27 February, 2013

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

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

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2012

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

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

27 February 2013

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2012

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

TETRAGON FINANCIAL GROUP LIMITED

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

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

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

TETRAGON FINANCIAL GROUP LIMITED

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

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

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

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2012

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

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

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS

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

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

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

* Net of Treasury Shares

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

Note 1 General Information

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

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

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

Note 2 Significant Accounting Policies

Basis of Presentation

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

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

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

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

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

Use of Estimates

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

Note 2 Significant Accounting Policies (continued)

Valuation of Investments

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

Expenses

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

Taxation

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

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

Share Options

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

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

Dividend expense

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

Note 2 Significant Accounting Policies (continued)

Share Based Payments

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

Treasury Shares

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

Note 3 Investment in Master Fund

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

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

Note 4 Share based payments

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

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

Note 5 Share options issued to GreenOak

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

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

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

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

Note 6 Incentive Fee

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

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

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

Note 6 Incentive Fee (continued)

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

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

Note 7 Share Capital

Authorized

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

Voting Shares

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

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

Shares

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

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

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

Note 7 Share Capital (continued)

Share Transactions

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

Optional Stock Dividend

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

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

Treasury Shares

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

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

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

Note 7 Share Capital (continued)

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

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

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

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

Note 8 Share Premium

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

Note 9 Related Party Transactions

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

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

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

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

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

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

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

Note 9 Related Party Transactions (continued)

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

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

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

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

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

Note 10 Dividends

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

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

Note 11 Earnings per Share

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

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

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

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

Note 12 Earnings

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

Note 13 Other Matters

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

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

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

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

Note 13 Other Matters (continued)

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

Note 14 Subsequent Events

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

Note 15 Recent Changes to US GAAP

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

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

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

Note 16 Approval of Financial Statements

The Directors approved the financial statements on 27 February 2013.

KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

Independent Auditor's Report

The Board of Directors
Tetragon Financial Group Master Fund Limited

We have audited the accompanying consolidated statements of assets and liabilities of Tetragon Financial Group Master Fund Limited (the "Fund") as of December 31, 2012 and the related consolidated statements of operations, consolidated statements of changes in net assets and consolidated statements of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Fund's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fund as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG

KPMG

February 27, 2013

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2012

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

CONTENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2012

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

THE FUND

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

INVESTMENT OBJECTIVE

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

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

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

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

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

DIRECTORS

The Directors who held office during the year were:

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

* Independent non-executive Directors

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

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

DIVIDENDS

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Fund and adherence to applicable law including the satisfaction of a solvency test as stated under The Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Fund's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Fund, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Fund's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.105 per share for the Quarter Ended 31 December 2011, US$ 0.105 per share for the Quarter Ended 31 March 2012, US$ 0.115 for the Quarter Ended 30 June 2012 and US$ 0.115 for the Quarter Ended 30 September 2012. The total dividend declared during the year ended 31 December 2012 amounted to US$ 50.3 million (31 December 2011: US$ 45.1 million). The Directors have declared a dividend US$ 0.135 for the Quarter Ended 31 December 2012. Total dividends paid during the year ended 31 December 2011 amounted to US$ 0.38 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

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

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITORS

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 27 February 2013

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

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

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

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

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

Matters on which we are required to report by exception

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

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

Chartered Accountants
Guernsey

Date: 27 February 2013

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

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2012

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

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

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys. Director

27 February 2013

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended 31 December 2012

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

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

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

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

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

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

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

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

CONSOLIDATED SCHEDULE OF INVESTMENTS
As at 31 December 2012

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

Financial Derivative Instruments

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

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

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

Financial Derivative Instruments

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

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

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

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

* Net of Treasury Shares

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

Note 1 General Information

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

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

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

Note 2 Significant Accounting Policies

Basis of Presentation

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

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

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

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

Use of Estimates

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

Foreign Currency Translation

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

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

Note 2 Significant Accounting Policies (continued)

Investment Transactions and Investment Income

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

Financial Instruments

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

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

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

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

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

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

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

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in leveraged loans, at fair value

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

Investments in CLO mezzanine tranche investments, at fair value

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

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

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

Investments in unlisted investment funds, at fair value

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

Forward currency contracts, at fair value

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

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

Interest rate swaptions, at fair value

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

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

Note 2 Significant Accounting Policies (continued)

Fixed assets

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

Cash and cash equivalents

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

Management contracts

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

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

Principles of Consolidation

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

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

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

Acquisitions of non-controlling interest

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

Note 2 Significant Accounting Policies (continued)

Business combinations

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

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

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

Share based employee compensation

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

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

Fee income

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

Other income

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

Expenses

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

Taxation

Income taxes, Fund

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

Note 2 Significant Accounting Policies (continued)

Income taxes, Corporate Entities

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

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

Dividend Expense

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

Note 3 ASC 820, fair value measurements

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

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

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

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

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

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

Note 3 ASC 820, fair value measurements (continued)

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

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

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

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

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

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

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

Note 3 ASC 820, fair value measurements (continued)

Quantitative information about Level 3 Fair Value Measurements

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

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

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

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

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

(1) CLO equity tranche investments

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

U.S. CLO equity tranche investments -

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

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

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

Note 3 ASC 820, fair value measurements (continued)

(1) CLO equity tranche investments(continued)

U.S. CLO equity tranche investments (continued)

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

European CLO equity tranche investments -

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

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

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

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

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

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

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

Note 4 Bargain Purchase

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

Note 4 Bargain Purchase (continued)

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

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

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

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

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

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

Vesting Schedule - Shares

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

Note 4 Bargain Purchase (continued)

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

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

Note 5 Management contracts

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

31 December 2012

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

31 December 2011

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

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

Note 6 GreenOak

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

Note 6 GreenOak (continued)

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

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

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

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

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

Note 7 Cash and Cash Equivalents

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

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

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

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

The Fund's assets include securities or other financial instruments or obligations which are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The valuation of the CLO equity tranche investments is determined using a third-party cash flow modeling tool.

The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of these CLO equity investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 9 Amounts Due From Brokers

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

Note 10 Other Receivables

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

Note 11 Other Payables and Accrued Expenses

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

Note 12 Share Capital

Authorized

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

Voting Shares

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

Note 12 Share Capital (continued)

Non-Voting Shares

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

Dividend Rights

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

Share Transactions

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

* Issued in lieu of Stock Dividend

Treasury shares

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

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

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

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

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

Note 12 Share Capital (continued)

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

Treasury Share Transactions

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

Noncontrolling Interest relating to LCM

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

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

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

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

Note 13 Share Premium

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

Note 14 Dividends

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

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

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

Note 15 Earnings

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

Note 16 Income and deferred tax expense

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

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

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

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

Note 16 Income and deferred tax expense (continued)

Tax Rate Reconciliation

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

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

Deferred Tax

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

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

Note 17 Interest Income

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

Note 18 Fee income

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

Note 18 Fee income (continued)

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

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

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

Note 19 Segmental reporting

Description of segments

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

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

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

Segment Data

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

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

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

Note 19 Segmental reporting (continued)

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

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

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

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

Note 20 Contingencies and commitments

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

Note 21 Related Party Transactions

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

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

Note 21 Related Party Transactions (continued)

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

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

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

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

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

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

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

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

Note 21 Related Party Transactions (continued)

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

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

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

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

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

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

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

Note 22 Other Matters

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

Note 22 Other Matters (continued)

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

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

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

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

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

Note 23 Subsequent Events

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

Note 24 Recent changes to US GAAP

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

Note 24 Recent changes to US GAAP (continued)

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

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

Note 25 Approval of Financial Statements

The Directors approved the financial statements on 27 February 2013.