HDFC BANK LTD
Form 424B2
February 05, 2015
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered[(1)]	Number of ADSs to be offered	Gross Proceeds of the offering	Amount of Registration Fee
ADSs, each representing three equity share of HDFC Bank Limited of par value Rs. 2.0.	**22,000,000**	**$1,270,720,000**	**$147,657.66**

1. American depositary shares evidenced by American depositary receipts issuable upon deposit of the equity shares registered hereby are registered pursuant to a separate registration statement on Form F-6. Each American depositary share represents three equity shares.

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Filed pursuant to Rule 424(b)(2)

Registration No. 333-201852

Prospectus Supplement

(to Prospectus dated February 4, 2015)

22,000,000 American Depositary Shares

Representing 66,000,000 Equity Shares

HDFC Bank Limited is offering 66,000,000 equity shares in the form of American Depositary Shares or ADSs. Each American Depositary Share represents three equity shares of HDFC Bank Limited of par value of Rs. 2.0 each.

Our American Depositary Shares are listed on the New York Stock Exchange under the symbol HDB. On February 4, 2015, the closing price of an ADS on the New York Stock Exchange was U.S.$57.76.

PRICE U.S.$57.76 PER AMERICAN DEPOSITARY SHARE

Investing in our American Depositary Shares involves risks. See Risk Factors beginning on page S-14.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us (before expenses)
Per ADS	U.S.$ 57.76	U.S.$ 0.79	U.S.$ 56.97
Total	U.S.$ 1,270,720,000	U.S.$ 17,380,000	U.S.$ 1,253,340,000

Neither the Securities and Exchange Commission nor any state or foreign securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ADSs to purchasers on or about February 10, 2015.

Global Coordinators and Joint Bookrunners

(listed alphabetically)

BofA Merrill Lynch **Credit Suisse** **J.P. Morgan** **Morgan Stanley**

Joint Bookrunners

(listed alphabetically)

Barclays **Goldman Sachs** **Nomura** **UBS Investment Bank**

The date of this prospectus is February 5, 2015

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of ADSs representing our equity shares. It also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, on the other hand, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. No person is authorized to provide you with different information. Neither we nor any of the underwriters are making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. The information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus. It is important for you to read and consider all the information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference therein, in making your investment decision.

The offered ADSs may not be offered or sold, directly or indirectly, in India or to any resident of India, except as permitted by applicable Indian laws and regulations.

You must comply with all applicable laws and regulations in force in any applicable jurisdiction and you must obtain any consent, approval or permission required by you for the purchase of the ADSs under the laws and regulations in force in the jurisdiction to which you are subject or in which you make your purchase, and neither we nor the underwriters will have any responsibility therefor.

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EXCHANGE RATES AND CERTAIN DEFINED TERMS

In this document, all references to we, us, our, HDFC Bank or the Bank shall mean HDFC Bank Limited or whe context requires also to its subsidiaries whose financials are consolidated for accounting purposes. References to the U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to the Companies Act in the document mean the Companies Act, 1956 (to the extent such enactment remains in force) and the Companies Act, 2013 (to the extent notified as of the date of this document) and all rules and regulations issued thereunder. References to $ or US$ or dollars or U.S. dollars are to the legal currency of the United States and references to Rs., INR, rupees or Indian rupees are to the legal currency of India.

Our financial statements are presented in Indian rupees and in some cases translated into U.S. dollars. The financial statements included in the accompanying prospectus and all other financial data included in this prospectus supplement and the accompanying prospectus, except as otherwise noted, are prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. U.S. GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India s Banking Regulation Act and related regulations issued by the Reserve Bank of India (RBI) (collectively, Indian GAAP), which form the basis of our statutory general purpose financial statements in India. Principal differences insofar as they relate to us include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred income taxes, stock-based compensation, employee benefits, loan origination fees, derivative financial instruments, business combinations and the presentation format and disclosures of the financial statements and related notes. References to a particular fiscal year are to our fiscal year ended March 31 of such year.

We generally prepare and publish our financial statements in accordance with Indian GAAP, except for purposes of the financial statements contained in our Annual Report on Form 20-F which we file with the Securities and Exchange Commission, or the SEC, and for certain information filed on Form 6-K and included in this prospectus (incorporated herein by reference), which were prepared in accordance with U.S. GAAP.

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of the equity shares on the Indian stock exchanges and, as a result, will affect the market price of our American Depositary Shares (ADSs) in the United States. These fluctuations will also affect the conversion into U.S. dollars by the depositary of any cash dividends paid in Indian rupees on the equity shares represented by ADSs.

After the Indian rupee depreciated sharply in fiscal 2009 on account of the global risk aversion that resulted in a substantial reduction in capital flows, it managed to recover in fiscal 2010. The recovery in fiscal 2010 was driven by a pickup in domestic growth prospects that attracted foreign funds and improvement in global risk appetite. In fiscal 2011, the rupee was range bound as capital flows just about managed to balance the drag from external debt servicing and the current account deficit. However, in fiscal year 2012, the rupee depreciated coming under pressure amidst a widening current account deficit, thin capital inflows and rising global uncertainty spurred by lingering financial and economic instability in Europe and the USA. This trend continued in fiscal 2013. During fiscal 2014, the rupee came under immense and sustained selling pressure driven by growing anxiety about domestic growth prospects and global risk aversion (the high and low during fiscal 2014 was Rs. 68.80 per US$ and Rs. 53.65 per US$ respectively). Through the first half of fiscal 2015 however, the rupee has appreciated slightly and remained stable against the U.S. dollar on expectations that the new government could spur additional market reforms that might in turn help revive growth prospects in the Indian economy.

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The following table sets forth, for the periods indicated, information concerning the exchange rates between Indian rupees and U.S. dollars based on the noon buying rate in the city of New York for cable transfers of Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Fiscal Year	Period End[(1)]	Average[(1)(2)]	High	Low
2010	44.95	47.39	50.48	44.94
2011	44.54	45.49	47.49	43.90
2012	50.89	47.81	53.71	44.00
2013	54.52	54.36	57.13	50.64
2014	60.00	60.35	68.80	53.65
2015 (through January 30, 2015)	62.01	60.89	63.67	58.30

(1) The noon buying rate at each period end and the average rate for each period differed from the exchange rates used in the preparation of our financial statements.
(2) Represents the average of the noon buying rate for all days during the period.

The following table sets forth the high and low noon buying rate for the Indian rupee for each of the previous six months:

Month	Period End	Average	High	Low
August 2014	61.51	60.87	61.51	60.43
September 2014	61.92	60.90	61.92	60.26
October 2014	61.44	61.37	61.81	60.92
November 2014	62.20	61.68	62.20	61.38
December 2014	63.04	62.71	63.67	61.78
January 2015	62.01	62.13	63.57	61.32

Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at U.S.$1.00 = Rs. 61.92 on September 30, 2014. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on January 30, 2015 was Rs. 62.01 per U.S.$1.00.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in the ADSs representing our equity shares. You should read the entire prospectus supplement and the accompanying prospectus carefully, including our audited financial statements and the notes to those financial statements, Risk Factors and the other information appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Overview

We are a new generation private sector bank in India. Our goal is to be the preferred provider of financial services to upper and middle income individuals and corporations in India across metro, urban, semi-urban and rural markets. Our strategy is to provide a comprehensive range of financial products and services to our customers through multiple distribution channels, with what we believe is high quality service, advanced technology platforms and superior execution. We have three principal business activities: retail banking, wholesale banking and treasury operations.

We have grown rapidly since commencing operations in January 1995. As of September 30, 2014, we had 3,600 branches, 11,515 ATMs in 2,272 cities and towns and 30.6 million customers. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 3,571.2 billion as of March 31, 2012 to Rs. 5,125.4 billion as of March 31, 2014. Our assets as of September 30, 2014 were Rs. 5,320.2 billion. Our net income has increased from Rs. 49.8 billion for fiscal 2012 to Rs. 79.3 billion for fiscal 2014. Our net income for the first six months of fiscal 2015 was Rs. 43.0 billion.

We have three principal business activities: retail banking, wholesale banking and treasury operations:

Retail Banking. We consider ourselves a one-stop shop for the financial needs of upper and middle income individuals. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Our retail banking loan products include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes, which together account for more than a third of our total retail banking loans. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business. We also have specific products designed for lower income individuals through our Sustainable Livelihood Initiative (SLI). Through this initiative, we reach out to the un-banked and under-banked segments of the Indian population.

We actively market our services through our branches and alternate sales channels, as well as through our relationships with automobile dealers and corporate clients. We seek to establish a relationship with a retail customer and then expand it by offering more products. As part of our growth strategy we continue to expand our distribution channels so as to make it easier for the customer to do business with us. We believe this strategy, together with the general growth of the Indian economy and the Indian upper and middle classes, affords us significant opportunities for growth.

As of September 30, 2014, we had 3,600 branches and 11,515 ATMs in 2,272 cities and towns. We also provide telephone banking, internet and mobile banking to our customers. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to regulatory guidelines/approvals.

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Wholesale Banking. We provide our corporate and institutional clients a wide array of commercial banking products and transactional services.

Our principal commercial banking products include a range of financing products, documentary credits (primarily letters of credit) and bank guarantees, foreign exchange and derivative products, investment banking services and corporate deposit products. Our financing products include loans, overdrafts, bill discounting and credit substitutes, such as commercial papers, debentures, preference shares and other funded products. Our foreign exchange and derivatives products assist corporations in managing their currency and interest rate exposures.

For our commercial banking products, our customers include companies that are part of private sector business houses, public sector enterprises and multinational corporations, as well as small and mid-sized businesses. Our customers also include suppliers and distributors of corporations to whom we provide credit facilities and with whom we thereby establish relationships as part of a supply chain initiative for both our commercial banking products and transactional services. We aim to provide our corporate customers with high quality customized service. We have relationship managers who focus on particular clients and who work with teams that specialize in providing specific products and services, such as cash management and treasury advisory services.

Loans to small and medium enterprises, which are generally in the nature of loans for commercial vehicles, construction equipment and business purposes, are included as part of our retail banking business. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business.

Our principal transactional services include cash management services, capital markets transactional services and correspondent banking services. We provide physical and electronic payment and collection mechanisms to a range of corporations, financial institutions and government entities. Our capital markets transactional services include custodial services for mutual funds and clearing bank services for the major Indian stock exchanges and commodity exchanges. In addition, we provide correspondent banking services, including cash management services and funds transfers, to foreign banks and co-operative banks.

Treasury Operations. Our treasury group manages our balance sheet, including our maintenance of reserve requirements and the management of market and liquidity risk. Our treasury group also provides advice and execution services to our corporate and institutional customers with respect to their foreign exchange and derivatives transactions. In addition, our treasury group seeks to optimize profits from our proprietary trading, which is principally concentrated on Indian government securities.

Our client-based activities consist primarily of advising corporate and institutional customers and transacting spot and forward foreign exchange contracts and derivatives. Our primary customers are multinational corporations, large and medium sized domestic corporations, financial institutions, banks and public sector undertakings. We also advise and enter into foreign exchange contracts with some small companies and non-resident Indians.

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Our Competitive Strengths

We attribute our growth and continuing success to the following competitive strengths:

We have a strong brand and extensive reach through a large distribution network

We believe our HDFC Bank brand is one of the strongest brands in the Indian banking industry and was, in August 2014, acknowledged as the most valuable brand in India in the inaugural edition of the BrandZ Top 50 Most Valuable Indian Brands study. The study was conducted by WPP research agency Millward Brown, which specializes in brand equity research and brand valuation. We have capitalized on our strong brand by establishing an extensive branch network throughout India serving a broad range of customers in urban, semi-urban and rural regions. As of September 30, 2014, we had 3,600 branches and 11,515 ATMs in 2,272 cities and towns and 30.6 million customers as compared to 2,544 branches and 8,913 ATMs in 1,399 cities and towns and 25.9 million customers as of March 31, 2012. Our branch network is further complemented by our digital strategy, including online and mobile banking solutions, to provide our customers with access to on-demand banking services, which we believe allows us to develop strong and loyal relationships with our customers.

We provide a wide range of products and high quality service to our clients in order to meet their banking needs

Whether in retail banking, wholesale banking or treasury operations, we consider ourselves a one-stop shop for our customers banking needs. This includes the services that we can provide to our customers, both directly and indirectly through back-office operational execution, and the range of products we offer. We consider our high quality service to be a vital component of our business and believe in pursuing excellence in execution through multiple internal initiatives focused on continuous executional improvements. This pursuit of high quality service and operational execution directly supports our ability to offer a wide range of banking products. Our retail banking products range from retail loans to deposit products and other products and services, such as private banking, depositary accounts, foreign exchange services, distribution of third party products (such as insurance and mutual funds), bill payments and sales of gold and silver bullion. In addition, we offer our customers brokerage accounts through our subsidiary HDFC Securities Limited (HSL). On the wholesale banking side we offer customers working capital loans, term loans, bill collections, letters of credit and guarantees and foreign exchange and derivative products. We also offer a range of deposit and transaction banking services such as cash management, custodial and clearing bank services and correspondent banking. We collect taxes for the government and are bankers to companies in respect of issuances of equity shares and bonds to the public. We are able to provide this wide-range of products across our branch network, meaning we can provide our targeted rural customers banking products and services similar to those provided to our urban customers, which we believe provides us a competitive advantage. Our wide range of products and focus on superior service and execution also creates multiple cross-selling opportunities for us and, we believe, improves our customer retention rates.

We have achieved robust and consistent financial performance while preserving asset quality during our growth

On account of our superior operational execution, broad range of products, expansion in our geographical reach and the resultant increase in market penetration through our extensive branch network, our assets have grown from Rs. 3,571.2 billion as of March 31, 2012 to Rs. 5,125.4 billion as of March 31, 2014 (Rs. 5,320.2 billion as of September 30, 2014). Our net income has increased from Rs. 49.8 billion for fiscal 2012 to Rs. 79.3 billion for fiscal 2014 (Rs. 43.0 billion for the six months ended September 30, 2014). In addition to the significant growth in our assets and net revenue, we have remained focused on maintaining a high level of asset quality. Our gross non-performing customer assets as a percentage of total customer assets was 1.2% as of March 31, 2014 (1.0% as of September 30, 2014) and our net non-performing customer assets was 0.6% of net

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customer assets (0.3% as of September 30, 2014). Our net interest margin was 4.6% in fiscal 2012 and 4.7% in fiscal 2014 (4.9% for the six months ended September 30, 2014), net income as a percentage of average total shareholders equity was 13.3% in fiscal 2012 and 15.6% in fiscal 2014 (15.5% for the six months ended September 30, 2014) and net income as a percentage of average total assets was 1.6% in fiscal 2012 and 1.8% in fiscal 2014 (1.7% for the six months ended September 30, 2014). Our current and savings account deposits as a percentage of our total deposits were 43.1% as of September 30, 2014.

We have an advanced technology platform

We continue to make substantial investments in our advanced technology platform and systems and expand our electronically linked branch network. Our direct banking platforms are stable and robust, enabling new ways to connect with our customers to cross-sell our various products and improve customer retention and supporting ever-increasing transaction volumes as customers adopt newer self-service technologies.

We successfully completed an upgrade of our retail core banking system to the latest technology platform during fiscal 2014, which enables us to provide additional features to our customers and respond faster to business and market needs. We have also developed robust data analytics capabilities that allow us to market and cross-sell our products to customers through both traditional relationship management and interactive, on-demand methods depending on how particular customers choose to interact with us. We have also implemented state-of-the-art engineered systems technology for some of the important backend operational systems, including recently doubling the capacity of our operational customer relationship management system.

We have an experienced management team

Many of the members of our management team have had a long tenure with us, which gives us a deep bench of experienced managers. They have substantial experience in banking or other industries and share our common vision of excellence in execution. Having a management team with such breadth and depth of experience is well suited to leverage the competitive strengths we have already developed across our large, diverse and growing branch network as well as allowing our management team to focus on creating new opportunities for our business. See also the section Management .

Our Business Strategy

Our business strategy emphasizes the following elements:

Increase our market share of India s expanding banking and financial services industry

In addition to benefiting from the overall growth in India s economy and financial services industry, we believe we can increase our market share by continuing to focus on our competitive strengths, including our strong HDFC Bank brand and our extensive branch and ATM networks, to increase our market penetration.

Increase our geographical reach

As of September 30, 2014, we had 3,600 branches, 11,515 ATMs in 2,272 cities and towns, which represents an increase of 1,056 branches, 2,602 ATMs and our presence in 873 cities and towns since March 31, 2012. We believe we can continue expanding our branch footprint, particularly by focusing on rural and semi-urban areas. We believe these areas represent a significant opportunity for our continued growth as we expand banking services to those areas which have traditionally been underserved and which, by entering such markets, will enable us to establish new

customer bases. We also believe that delivering banking services which are integrated with our existing business and product groups helps us to provide viable opportunities to the sections of the rural and semi-urban customer base that is consistent with our targeted customer profile throughout India.

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Cross-sell our broad financial product portfolio across our customer base

We are able to offer our complete suite of financial products across our branch network, including in our rural locations. By matching our broad customer base with our ability to offer our complete suite of products to both rural and urban customers across the retail banking, wholesale banking and treasury product lines, we believe that we can continue to generate organic growth by cross-selling different products by proactively offering our customers complementary products as their relationships with us develop and their financial needs grow and evolve.

Continue our investments in technology to support our digital strategy

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching our customers. As a result, we are continuously investing in technology as a means of improving our customers banking experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with their banking accounts with us. While we currently provide a range of options for customers to access their accounts, including net banking, telephone banking, and banking applications on mobile devices, we believe additional investments in our technology infrastructure to further develop our digital strategy will allow us to cross-sell a wider range of products on our digital platform in response to our customers needs and thereby expand our relationship with our customers across a range of customer segments. We believe a comprehensive digital strategy will provide benefits in developing long-term customer relationships by allowing customers to interact with us and access their accounts wherever and whenever they desire.

Maintain strong asset quality through disciplined credit risk management

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our gross non-performing customer assets as a percentage of total customer assets was 1.0% as of September 30, 2014 and our net non-performing customer assets as a percentage of net customer assets was 0.3% as of September 30, 2014. As of September 30, 2014, our gross restructured loans as a percentage of gross non-performing loans were 8.2%. We believe we can maintain strong asset quality appropriate to the loan portfolio composition while achieving growth.

Maintain a low cost of funds

We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging our strengths and expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing. Our average cost of funds (including equity) was at 5.0% for the first six months of fiscal 2015 and 5.2% for the first six months of fiscal 2014. Our current and savings account deposits were 43% of our total deposits as of September 30, 2014.

Our Organization

We have two subsidiaries as per local laws: HDFC Securities Limited (HSL) and HDB Financial Services Limited (HDBFSL). HSL is primarily in the business of providing brokerage and other investment services through the internet and other channels. HSL s total assets and shareholders equity as of March 31, 2014 were Rs. 8.6 billion and Rs. 4.4 billion, respectively (per Indian GAAP). HSL s net profit was Rs. 0.8 billion for fiscal 2014 (per Indian GAAP). HDBFSL is a non-deposit taking non-bank finance company (NBFC) engaged primarily in the business of retail asset financing. The customer segments catered to by HDBFSL are typically underserviced by larger

commercial banks and this, we believe, creates a profitable niche for HDBFSL. HDBFSL also grants loans to micro, small and medium business enterprises and operates call centers for

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providing collection services to our retail loan products. HDBFSL s loans, total assets and shareholders equity as of March 31, 2014 were Rs. 134.1 billion, Rs. 136.9 billion and Rs. 16.3 billion (all according to Indian GAAP), respectively. HDBFSL s net profit amounted to Rs. 2.1 billion for fiscal 2014 (per Indian GAAP).

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000. Our agent in the United States for the ADS offering is Depositary Management Corporation, 570 Lexington Avenue, New York, NY 10022.

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The Offering

The Offering	ADSs representing equity shares, and constituting approximately 2.64% of our issued and outstanding equity shares on an as adjusted basis as of September 30, 2014, after giving effect to this offering and the QIP (as defined below).
ADSs offered	22,000,000 ADSs.
ADS/equity share ratio	One ADS represents three equity shares, par value Rs. 2.0 per share.
Equity shares outstanding after this offering	2,499,066,297 equity shares.
Use of proceeds	Subject to compliance with applicable laws and regulations, we intend to use the net proceeds of the offering, together with the net proceeds of the concurrent qualified institutions placement in accordance with applicable regulations issued by the Securities and Exchange Board of India (QIP) of approximately Rs. 19,850 million, for meeting capital requirements in accordance with the capital adequacy norms and ensuring adequate capital to support future growth and expansion, including enhancing our solvency and capital adequacy ratio and general corporate purposes.
Depositary	J.P. Morgan Chase Bank, N.A.
Voting rights	The ADSs will have no voting rights. Under the deposit agreement, the depositary will abstain from voting the equity shares. See Description of American Depositary Shares Voting Rights in the accompanying prospectus.
Concurrent equity offering	Concurrent with this offering of ADSs, we are offering additional equity shares by way of the QIP. The closing of this offering is conditioned on the closing of the QIP.
Listing	We are listing the offered ADSs on the New York Stock Exchange. Our outstanding equity shares are principally traded in India on the BSE

Limited (BSE) and the National Stock Exchange of India Limited (NSE).

New York Stock Exchange symbol for ADSs	HDB.

Corporate Information

We were incorporated in August 1994 as a public limited company under the laws of India. Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India, our telephone number is 91-22-6652-1000 and our website address is www.hdfcbank.com. Our

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registered agent in the United States is Depositary Management Corporation, 570 Lexington Avenue, New York, NY 10022, 212-319-4800. The information on our website is not a part of this prospectus supplement or the accompanying prospectus.

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PRICE RANGE OF OUR AMERICAN DEPOSITARY SHARES AND EQUITY SHARES

Our ADSs, each representing three equity shares, par value Rs. 2.0 per equity share, are listed on the NYSE under the symbol HDB . Our equity shares, including those underlying the ADSs, are listed on the NSE under the symbol HDFCBANK and the BSE under the code 500180. Our fiscal quarters end on June 30 of each year for the first quarter, September 30 for the second quarter and December 31 for the third quarter.

Trading Prices of Our ADSs on the NYSE

The following table shows:

- the reported high and low prices for our ADSs in U.S. dollars on the NYSE; and
- the average daily trading volume for our ADSs on the NYSE.

	Price per ADS		Average daily ADS trading volume (Number of ADSs)
	High	Low	
Fiscal Year 2015			
First Quarter	48.75	39.27	1,105,441
Second Quarter	51.67	45.56	817,861
Third Quarter	54.74	45.56	810,609
Most Recent Six Months			
August 2014	50.29	45.56	761,700
September 2014	51.67	46.35	868,195
October 2014	52.54	45.56	742,609
November 2014	54.74	50.85	927,211
December 2014	53.11	47.60	781,000
January 2015	62.10	49.32	1,184,855
February 2015 (through February 2, 2015)	58.26	57.31	2,310,800

The closing price for our ADSs on the NYSE was U.S.$57.76 per ADS on February 4, 2015.

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Trading Prices of Our Equity Shares on the NSE

The following table shows:

- the reported high and low market prices for our equity shares in rupees on the NSE;
- the imputed high and low prices for our equity shares translated into U.S. dollars based on the noon buying rate in the City of New York for cable transfers in Indian rupees at U.S.$1.00 = Rs. 61.92 on September 30, 2014; and
- the average daily trading volume for our equity shares on the NSE.

	Price per equity share		Price per equity share		Average daily equity share trading volume
	High	Low	High	Low	
Fiscal Year 2015					
First Quarter	Rs. 856.00	Rs. 707.30	US$ 13.82	US$ 11.42	2,354,148
Second Quarter	879.80	791.40	14.21	12.78	1,814,656
Third Quarter	973.95	854.10	15.73	13.79	1,779,679
Most Recent Six Months					
July 2014	860.70	807.15	13.90	13.04	1,814,313
August 2014	852.80	791.40	13.77	12.78	1,724,713
September 2014	879.80	838.60	14.21	13.54	1,892,677
October 2014	914.60	854.10	14.77	13.79	1,755,781
November 2014	965.90	893.00	15.60	14.42	2,105,507
December 2014	973.95	916.00	15.73	14.79	1,532,645
January 2015	1,100.60	936.25	17.77	15.12	1,999,854
February 2015 (through February 2, 2015)	1,093.00	1,052.35	17.65	17.00	1,427,588

The closing price for our equity shares on the NSE was Rs. 1,067.70 per equity share on February 4, 2015.

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RISK FACTORS

You should carefully consider the following risk factors in evaluating us and our business. An investment in ADSs involves a high degree of risk. You should carefully consider each of the following risk factors and all other information set forth in this prospectus supplement, including the risks and uncertainties described below, before making an investment in the ADSs. This section should be read together with Business , Selected Financial and Other Data , Selected Statistical Information and Management s Discussion and Analysis of Financial Condition and Results of Operations as well as the financial statements, including the notes thereto, and other financial information included elsewhere in this prospectus supplement or incorporated herein by reference.

The risks and uncertainties described below are not the only risks that we currently face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business, prospects, financial condition and results of operations and cashflows. If any or some combination of the following risks, or other risks that are not currently known or believed to be material, actually occur, our business, financial condition and results of operations and cashflows could suffer, the trading price of, and the value of your investment in, ADSs could decline and you may lose all or part of your investment. In making an investment decision, you must rely on your own examination of the Bank and the terms of this offering, including the merits and risks involved.

This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our results could differ materially from such forward-looking statements as a result of certain factors including the considerations described below and elsewhere in this prospectus supplement.

Risks Relating to our Business

A slowdown in economic growth in India would cause us to experience slower growth in our asset portfolio and deterioration in the quality of our assets.

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy, which in turn is linked to global economic conditions. The global slowdown of the financial market and economies had contributed to weakness in the Indian financial and economic environment. Despite a higher probability of US growth prospects, global growth is likely to remain below trend level due to subdued growth in the Eurozone and the effect of weakened Chinese growth prospects on emerging markets. We remain concerned that below-trend global growth may adversely affect domestic growth prospects. In addition, tighter monetary policy in the US could further undermine financial stability in an emerging market economy like India. These conditions, including global financial crisis and problems in the Eurozone countries, could result in a prolonged slowdown in the Indian economy, which would adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets and our ability to implement our strategy. In particular, the Indian economy may be adversely affected by volatile oil prices, given India s dependence on imported oil for its energy needs, inflationary pressures and weather conditions adversely affecting the Indian agricultural market or other factors. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising, while that of the industrial, manufacturing and agricultural sectors is declining. Finally, India faces major challenges in sustaining its growth, which include the need for substantial infrastructure development and improving access to healthcare and education. In this regard, addressing the structural bottlenecks that have limited the economy from fiscal 2012 to fiscal 2014 will remain a vital aspect of ongoing policy reforms. If the Indian economy deteriorates, our asset base may erode, which would result in a material decrease in our net income and total assets.

If we are unable to manage our rapid growth, our operations may suffer and our performance may decline.

We have grown rapidly over the last three fiscal years. Our loan growth rate has been significantly higher than that of the Indian banking industry over the last three fiscal years. Our loans in the three-year period ended

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March 31, 2013 grew at a compounded annual growth rate of approximately 24%, as against approximately 19% for the Indian banking industry for the same period. Our loans as of September 30, 2014 compared to that as of September 30, 2013 increased by 22%.

Our rapid growth has placed, and if it continues, will place, significant demands on our operational, credit, financial and other internal risk controls including:

- recruiting, training and retaining sufficient skilled personnel;
- upgrading, expanding and securing our technology platform;
- developing and improving our products and delivery channels;
- preserving our asset quality as our geographical presence increases and customer profile changes;
- complying with regulatory requirements such as the Know Your Customer (KYC) norms; and
- maintaining high levels of customer satisfaction.

The growth in our business is partly attributable to the expansion of our branch network. As at March 31, 2012, we had a branch network comprised of 2,544 branches, which increased to 3,600 as at September 30, 2014. Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open new branches. The RBI may cancel a license for violations of the conditions under which it was granted. The RBI issues instructions and guidelines to banks on branch authorization from time to time. With the objective of liberalizing and rationalizing the branch licensing process, the RBI, effective October 2013, granted general permission to banks such as us to open branches in Tier 1 to Tier 6 centers, subject to reporting to the RBI and certain specified conditions. See Supervision and Regulation Regulations Relating to the Opening of Branches . If we are unable to perform in a manner satisfactory to the RBI in any of the above areas, it may have an impact on the number of branches we will be able to open and would in turn have an impact on our future growth.

If we fail to properly manage our rapid growth, our operations would suffer and our performance as a whole would be materially adversely affected.

Our business is particularly vulnerable to interest rate risk and volatility in interest rates could adversely affect our net interest margin, the value of our fixed income portfolio, our treasury income and our financial performance.

Our results of operations depend to a great extent on our net interest revenue. During fiscal 2014, net interest revenue after allowances for credit losses represented 71.2% of our net revenue. For the six months to September 30, 2014, net interest revenue after allowances for credit losses represented 76.3% of our net revenue. Changes in market interest rates affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities and also affect the value of our investments. An increase in interest rates could result in an increase in interest expense relative to interest revenue if we are not able to increase the rates charged on our loans,

which would lead to a reduction in our net interest revenue and net interest margin. Further, an increase in interest rates could negatively affect demand for our loans and credit substitutes and we may not be able to achieve our volume growth, which could adversely affect our net income. A decrease in interest rates could result in a decrease in interest revenue relative to interest expense due to the repricing of our loans at a pace faster than the rates we pay on our interest-bearing liabilities. The quantum of the changes in interest rates for our assets and liabilities may also be different.

Interest rates have largely stabilized since the start of calendar year 2014 as India s external vulnerability has subsided, inflation pressures have moderated and the domestic liquidity position has improved considerably. While the RBI increased the policy repo rate by 25 basis points in January 2014, domestic interest rates have softened from the levels in the latter part of 2013 (when the RBI initiated emergency liquidity tightening

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measures). The yield on the Government s 10 year benchmark bond has been volatile over the past year and ranged from 7.2% to 9.2% during the course of fiscal 2014 while it has ranged from a high of 9.1% to a low of 8.4% over the first half of fiscal 2015. The yield on the benchmark was at 8.6%, 8.0% and 8.8% as of March 31, 2012, 2013 and 2014 respectively. As of September 30, 2014, the yield on the benchmark was at 8.5%. The market focus has shifted to the outcome of the general elections that resulted in the formation of a stable government, which has also contributed to the softness in domestic interest rates. However, a recent fall in inflation rates has emerged as the main catalyst behind the recent softness in bond yields as investors believe that recent developments could prompt the RBI to reverse its monetary stance. CPI inflation has fallen from levels of 8.0% in July 2014 to 6.6% in September 2014. However, uncertainty remains on the fiscal front as tax revenue targets set by the government seem overly optimistic and there is dependence on the disinvestment program for the government to meet its fiscal deficit to GDP target of 4.1% of GDP in fiscal 2015. Given that global sovereign yields have softened considerably over 2014 responding to disinflation pressures from falling global commodity prices, the pressure on domestic interest rates has subsided. Nevertheless, risks to domestic policy rates may emerge if the U.S. Federal Reserve Bank decides to increase policy rates, a development that is currently expected to take place sometime in mid-2015. If global interest rates increase in response to tighter US monetary policy, it could have a flow-on effect on domestic rates and, accordingly, domestic rates may increase further. In addition, interest rates can move up and accordingly we may change our interest rates. Any volatility in interest rates could also adversely affect our net income. See Selected Statistical Information Analysis of Changes in Interest Revenue and Interest Expense: Volume and Rate and Selected Statistical Information Yields, Spreads and Margins .

If the level of non-performing loans in our portfolio increases, we will be required to increase our provisions, which would negatively impact our income.

Our gross non-performing loans and impaired credit substitutes represented 1.0% of our gross customer assets as of September 30, 2014. Our non-performing loans and impaired credit substitutes net of specific loan loss provisions represented 0.3% of our net customer assets portfolio as of September 30, 2014. We have restructured the payment terms of certain loans, which, as of September 30, 2014, represented 0.1% of our gross customer assets. Our management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, remedial management and overall architecture for managing credit risk. In the case of our secured loan portfolio, the frequency of the valuation of collateral may vary based on the nature of the loan and the type of collateral. A decline in the value of collateral or an inappropriate collateral valuation increases the risk in the secured loan portfolio because of inadequate coverage of collateral. As of September 30, 2014, 77% of our loan book was partially or fully secured by collateral. Our risk mitigation and risk monitoring techniques may not be accurate or appropriately implemented and we may not be able to anticipate future economic and financial events, leading to an increase in our non-performing loans. See Note 10 Loans in our consolidated financial statements for the year ended March 31, 2014.

Provisions are created by a charge to expense, and represent our estimate for loan losses and risks inherent in the credit portfolio. See Selected Statistical Information Non-Performing Loans . The determination of an appropriate level of loan losses and provisions required inherently involves a degree of subjectivity and requires that we make estimates of current credit risks and future trends, all of which may undergo material changes. Our provisions may not be adequate to cover any further increase in the amount of non-performing loans or any further deterioration in our non-performing loan portfolio. In addition, we are a relatively young bank operating in a growing economy and we have yet not experienced a significant and prolonged downturn in the economy.

A number of factors outside of our control affect our ability to control and reduce non-performing loans. These factors include developments in the Indian economy, domestic or global turmoil, global competition, changes in interest rates and exchange rates and changes in regulations, including with respect to regulations requiring us to lend to certain

sectors identified by the RBI, or the Government of India. These factors coupled with other factors such as volatility in commodity markets and declining business and consumer confidence and decreases in business and consumer spending could impact the operations of our customers and in turn impact

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their ability to fulfill their obligations under the loans granted to them by us. In addition, the expansion of our business may cause our non-performing loans to increase and the overall quality of our loan portfolio to deteriorate. If our non-performing loans increase, we will be required to increase our provisions, which would result in our net income being less than it otherwise would be and would adversely affect our financial condition.

We have high concentrations of exposures to certain customers and sectors and if any of these exposures were to become non-performing, the quality of our portfolio could be adversely affected and our ability to meet capital requirements could be jeopardized.

We calculate customer and industry exposure (i.e. the loss we could incur due to the downfall of a customer or an industry) in accordance with the policies established by RBI, computed based on our Indian GAAP financial statements. In the case of customer exposures, we aggregate the higher of the outstanding balances of, or limits on, funded and non-funded exposures. As of September 30, 2014, our largest single customer exposure was Rs. 111.8 billion, representing 20.1% of our capital funds, and our ten largest customer exposures totaled Rs. 508.6 billion, representing 91.6% of our capital funds, in each case computed in accordance with RBI guidelines. None of our ten largest customer exposures were classified as non-performing as of September 30, 2014. However, if any of our ten largest customer exposures were to become non-performing, our net income would decline and, due to the magnitude of the exposures, our ability to meet capital requirements could be jeopardized. See Management s Discussion and Analysis of Financial Condition and Results of Operations for a detailed discussion on customer exposures. As of September 30, 2014, our largest industry concentrations, based on RBI guidelines, were as follows: banks and financial institutions (7.0%), wholesale trade (6.4%), NBFC/financial intermediaries (4.6%) and automobile and auto ancillary (3.9%). In addition, as of September 30, 2014, 33.6% of the concentration of our exposures was retail (except where otherwise included in the above classification). Industry-specific difficulties in these or other sectors may increase our level of non-performing customer assets. If we experience a downturn in an industry in which we have concentrated exposure, our net income will likely decline significantly and our financial condition may be materially adversely affected. As of September 30, 2014, our total non-performing loans and credit substitutes in accordance with US GAAP were concentrated in the following industries: land transport (6.4%), iron and steel (6.0%), engineering (3.7%), wholesale trade (3.0%) and NBFC/financial intermediaries (2.6%).

We are required to undertake directed lending under RBI guidelines. Consequently, we may experience a higher level of non-performing assets in our directed lending portfolio, which could adversely impact the quality of our loan portfolio, our business and the price of our equity shares and ADSs. Further, in the case of any shortfall in complying with these requirements, we may be required to invest in deposits of Indian development banks as directed by the RBI. These deposits yield low returns, thereby impacting our profitability.

The RBI prescribes guidelines on priority sector lending (PSL) in India. Under these guidelines, banks in India are required to lend 40.0% of their adjusted net bank credit (ANBC) or the credit equivalent amount of off-balance sheet exposures (CEOBE), whichever is higher, as defined by the RBI and computed in accordance with Indian GAAP figures, to certain eligible sectors categorized as priority sectors. The priority sector requirements must be met as of March 31 of the fiscal year with reference to the higher of the ANBC and the CEOBE of the previous fiscal year. Of the total priority sector advances, agricultural advances are required to be 18.0% of ANBC or CEOBE, whichever is higher, and of this, indirect lending in excess of 4.5% of ANBC or CEOBE, whichever is higher, is not taken into consideration for computing achievement of the 18.0% target. However, all agricultural loans under the categories direct and indirect are taken into consideration for computing achievement of the overall priority sector target of 40.0%. Advances to sections termed weaker by the RBI are required to be 10.0% of ANBC or CEOBE, whichever is higher. The balance of the priority sector lending requirement can be met by lending directly or indirectly to a range of sectors, including small businesses and residential mortgages satisfying certain criteria.

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We met our overall priority sector lending target of 40% and our total priority sector lending achievement for fiscal 2014 stood at 46.06%. However, we have not been able to meet the lending targets of certain sub-targets of the priority sector lending scheme and may not be able to meet the overall priority sector lending target or certain sub-targets in the future. For example, in fiscal 2014, agricultural loans made under the direct category were 12.2% of ANBC, against the requirement of 13.5%, with a shortfall of Rs. 29.03 billion, and advances to sections termed weaker by the RBI were 6.25% against the requirement of 10.0%, with a shortfall of Rs. 83.97 billion. Furthermore, the RBI can make changes to the types of loans that qualify under the PSL scheme. Changes that reduce the types of loans that can qualify toward meeting our PSL targets could increase shortfalls under the overall target or under certain sub-targets.

In the case of non-achievement of priority sector lending targets, including sub-targets, we are required to invest in deposits of Indian development banks, such as the National Bank of Agriculture and Rural Development and the Small Industries Development Bank of India, as may be directed by the RBI. The amount to be deposited, interest rates on such deposits and periods of deposits, and other terms, are determined by the RBI from time to time. The interest rates on such deposits may be lower than the interest rates which the Bank would have obtained by investing these funds at its discretion. As of March 31, 2014, our total investments as directed by the RBI in such deposits were Rs. 151.19 billion, yielding returns ranging from 3% to 8.25%. Additionally, as per RBI guidelines, non-achievement of priority sector lending target and sub-targets will be taken into account by the RBI when granting regulatory clearances/approvals for various purposes.

We may experience a higher level of non-performing assets in our directed lending portfolio, particularly in loans to the agricultural sector, small enterprises and weaker sections, where we are less able to control the portfolio quality and where economic difficulties are likely to affect our borrowers more severely. Our gross non-performing assets in the directed lending sector as a percentage to gross loans were 0.3% as of September 30, 2014 (as compared to 0.4% as of March 31, 2014 and March 31, 2013). Further expansion of the PSL scheme could result in an increase of non-performing assets due to our limited ability to control the portfolio quality under the directed lending requirements.

In addition to the directed lending requirements, the RBI has encouraged banks in India to have a financial inclusion plan for expanding banking services to rural and unbanked centers and to customers who currently do not have access to banking services. The expansion into these markets involves significant investments and recurring costs. The profitability of these operations depends on our ability to generate business volumes in these centers and from these customers. Future changes by the RBI in the directed lending norms may result in our inability to meet the priority sector lending requirements as well as require us to increase our lending to relatively more risky segments and may result in an increase in non-performing loans.

We may be unable to foreclose on collateral in a timely fashion or at all when borrowers default on their obligations to us, or the value of collateral may decrease, any of which may result in failure to recover the expected value of collateral security, increased losses and a decline in net income.

Although we typically lend on a cash-flow basis, many of our loans are secured by collateral, which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities). As of September 30, 2014, 77% of our loans were partially or fully secured by collateral. We may not be able to realize the full value of the collateral, due to, among other things, stock market volatility, changes in economic policies of the Indian government, obstacles and delays in legal proceedings, borrowers and guarantors not being traceable, the Bank s records of borrowers and guarantors addresses being ambiguous or outdated and defects in the perfection of collateral and fraudulent transfers by borrowers. In the event that a specialized regulatory agency gains jurisdiction over the borrower, creditor actions

can be further delayed. In addition, the value of collateral may be less than we expect or may decline. For example, the global economic slowdown and other domestic factors had led to a downturn in real estate prices in India. If we are unable to foreclose on our collateral or realize adequate value, our losses will increase and our net income will decline. In addition, if a

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company becomes a sick unit (as defined under Indian law, which provides for a unit to be so categorized based on the extent of its accumulated losses relative to its stockholders equity), foreclosure and enforceability of collateral is stayed. The RBI has set forth guidelines on Corporate Debt Restructuring (CDR) via the corporate debt restructuring cell. The guidelines envisage that for debt amounts of Rs. 0.1 billion and above, 60% of the creditors by number, in addition to 75% of creditors by value, can decide to restructure the debt and such a decision would be binding on the remaining creditors. In situations where we own 25% or less of the debt of a borrower, we could be forced to agree to an extended restructuring of debt, instead of foreclosure of security or a one-time settlement, which has generally been our practice. See Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commercial Commitments Commercial Commitments . During fiscal 2014, the RBI issued guidelines on revitalizing distressed assets in the economy. The guidelines envisage formation of a joint lenders forum (JLF) and the taking of a corrective action plan (CAP) in relation to delinquent accounts where the overdues are between 61 and 90 days and aggregate exposure of all lenders in an account is Rs. 1 billion or above. Such accounts may be restructured under the JLF or CDR mechanisms.

Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance.

We offer unsecured personal loans and credit cards to the retail customer segment, including salaried individuals and self-employed professionals. In addition, we offer unsecured loans to small businesses and individual businessmen. Unsecured loans are a greater credit risk for us than our secured loan portfolio because they may not be supported by realizable collateral that could help ensure an adequate source of repayment for the loan. Although we normally obtain direct debit instructions or postdated checks from our customers for our unsecured loan products, we may be unable to collect in part or at all in the event of non-payment by a borrower. Further, any expansion in our unsecured loan portfolio could require us to increase our provision for credit losses, which would decrease our earnings. Also see Business Retail Banking Retail Loans and Other Asset Products .

In order to support and grow our business, we must maintain a minimum capital adequacy ratio, and a lack of access to the capital markets may prevent us from maintaining an adequate ratio.

The RBI requires a minimum capital adequacy ratio of 9% of our total risk-weighted assets. We adopted the Basel III capital regulations effective April 1, 2013. Our capital adequacy ratio, calculated in accordance with Indian GAAP, was 16.1% as of March 31, 2014 as per Basel III (as compared to 16.8% and 16.5% as per the Basel II framework as of March 31, 2013 and March 31, 2012, respectively). As of September 30, 2014, our capital adequacy ratio, calculated in accordance with Indian GAAP, was 15.7%. Our ability to support and grow our business would be limited by a declining capital adequacy ratio. While we anticipate accessing the capital markets to offset declines in our capital adequacy ratio, we may be unable to access the markets at the appropriate time or the terms of any such financing may be unattractive due to various reasons attributable to changes in the general environment, including political, legal and economic conditions.

The Basel Committee on Banking Supervision issued a comprehensive reform package entitled Basel III: A global regulatory framework for more resilient banks and banking systems in December 2010. In May 2012, the RBI released guidelines on implementation of Basel III capital regulations in India and in July 2013, the RBI issued a master circular consolidating all relevant guidelines on Basel III. The key items covered under these guidelines include: i) improving the quality, consistency and transparency of the capital base; ii) enhancing risk coverage; iii) graded enhancement of the total capital requirement; iv) introduction of capital conservation buffer and countercyclical buffer; and v) supplementing the risk-based capital requirement with a leverage ratio. One of the major changes in the Basel III capital regulations is that the Tier 1 capital will predominantly consist of common equity of the banks which includes common shares, reserves and stock surplus. Innovative instruments and perpetual

non-cumulative preference shares will not be considered a part of Common Equity Tier 1 capital.

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Basel III also defines criteria for instruments to be included in Tier 2 capital to improve their loss absorbency. The guidelines also set-out criteria for loss absorption through conversion/write-off of all non-common equity regulatory capital instruments at the point of non-viability. The point of non-viability is defined as a trigger event upon the occurrence of which non-common equity Tier 1 and Tier 2 instruments issued by banks in India may be required to be, at the option of the RBI, written off or converted into common equity. The capital requirement including the capital conservation buffer will be 11.5% (against the current requirement of 9.0%) once these guidelines are fully phased-in. Domestically systemically important banks would be required to maintain CET1 capital requirement ranging from 0.2% to 0.8% of risk weighted assets once the RBI publishes final guidelines relating to framework for domestic systemically important banks. Banks will also be required to have an additional capital requirement increasing linearly up to 2.5% of the risk weighted assets once the RBI finalizes the implementation of countercyclical capital buffer requirements. The transitional arrangements began from April 1, 2013 and the guidelines will be fully phased-in and implemented as of March 31, 2019. Additionally, the Basel III Liquidity Coverage Ratio (LCR), which is a measure of the Bank s high quality liquid assets compared to its anticipated cash outflows over a 30 day stressed period, will apply in a phased manner starting with a minimum requirement of 60% from January 1, 2015 and reaching a minimum of 100% on January 1, 2019. These various requirements require us to begin preparing in advance and requirements to increase capital to meet increasing capital adequacy ratios could require us to forego certain business opportunities.

We also believe that the demand for Basel III compliant debt instruments such as Tier 2 capital eligible securities may be limited in India. There have been very few issuances of such bonds, pending regulatory clarifications. In September 2014, the RBI reviewed its guidelines on Basel III capital regulations with a view to facilitating the issuance of non-equity regulatory capital instruments by banks under the Basel III framework. Accordingly, certain specific eligibility criteria of such instruments were amended. It is unclear what effect, if any, these amendments may have on the issuance of Basel III compliant securities or if there will be sufficient demand for such securities. It is also possible that the RBI could further amend the eligibility criteria of such instruments in the future if the objectives identified by the RBI are not met, which would create additional uncertainty regarding the market for Basel III compliant securities in India.

If we are unable to meet the new and revised requirements, our business, future financial performance and the price of our equity shares could be adversely affected.

HDFC Limited holds a significant percentage of our share capital and can exercise influence over board decisions that could directly or indirectly favor the interests of HDFC Limited over our interests.

HDFC Limited and its subsidiaries owned 22.47% of our equity as of December 31, 2014. So long as HDFC Limited and its subsidiaries hold at least a 20% equity stake in us, HDFC Limited is entitled to nominate two directors, our Chairperson and Managing Director, to our ten member Board of Directors. These two directors are not required to retire by rotation and their nominations are subject to RBI approval. We have since received shareholder and regulatory approvals for the appointment of Mrs. Shyamala Gopinath as part-time Non-Executive Chairperson. Mrs. Gopinath has been appointed for three years with effect from January 2, 2015. Two of our other directors, Mr. Keki Mistry and Mrs. Renu Karnad, are the Vice Chairman and Chief Executive Officer and the Managing Director of HDFC Limited, respectively. Mr. Mistry and Mrs. Karnad both also serve on the boards of various other companies and were appointed to our Board of Directors independent of HDFC Limited s entitlement to nominate two directors. While we are professionally managed and overseen by an independent board of directors, HDFC Limited can exercise influence over our board and over matters subject to a shareholder vote, which could result in decisions that favor HDFC Limited or result in us foregoing opportunities to the benefit of HDFC Limited. Such decisions may restrict our growth or harm our financial condition.

Additionally, Mr. D.M. Sukthankar is the father of our Deputy Managing Director, Mr. Paresh Sukthankar, and serves as an independent director on the board of HDFC Limited. Mr. D.M. Sukthankar has been a member of the board of HDFC Limited since 1989. Mr. Paresh Sukthankar was one of our early employees and also a part

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of the initial senior management team. He was elevated to the position of Deputy Managing Director with effect from December 2013. Both are associated with the respective companies in their independent professional capacities and we believe that none is in a position to exercise influence over the other.

There have been reports in the Indian media suggesting that we may merge with HDFC Limited. We consider business combination opportunities as they arise. At present, we are not actively considering a business combination with HDFC Limited. Any significant business combination would involve compliance with regulatory requirements and shareholder and regulatory approvals. Additionally, on July 15, 2014, the RBI issued guidelines in relation to the issuance of long term bonds with a view to encourage financing of infrastructure and affordable housing. Regulatory incentives in the form of an exemption from the reserve requirements and relaxation in priority sector lending norms are stipulated as being restricted to bonds that are used to incrementally finance long-term infrastructure projects and loans for affordable housing. On January 12, 2015, the RBI approved the issuance of long term bonds with a minimum maturity of seven years to fund the purchase of approximately Rs. 40 billion of affordable housing loans from HDFC Limited. Any incremental infrastructure or affordable housing loans acquired from other banks and financial institutions, such as those that could be involved in a business combination with HDFC Limited, to be reckoned for regulatory incentives will require the prior approval of the RBI. We cannot predict the impact any potential business combination or what implications the recent guidelines would have on our business, financial condition, growth prospects or the prices of our equity shares.

We may face conflicts of interest relating to our promoter and principal shareholder, HDFC Limited, which could cause us to forego business opportunities and consequently have an adverse effect on our financial performance.

HDFC Limited is primarily engaged in financial services, including home loans, property-related lending and deposit products. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life and other insurance and mutual funds. Although we have no agreements with HDFC Limited or any other HDFC group companies that restrict us from offering products and services that are offered by them, our relationship with these companies may cause us not to offer products and services that are already offered by other HDFC group companies and may effectively prevent us from taking advantage of business opportunities. See Related Party Transactions in our Annual Report on Form 20-F for fiscal 2014 for a summary of transactions we have engaged in with HDFC Limited during fiscal 2014. We currently distribute products of HDFC Limited and its group companies. If we stop distributing these products or forego other opportunities because of our relationship with HDFC Limited, it could have a material adverse effect on our financial performance.

HDFC Limited may prevent us from using the HDFC Bank brand if they reduce their shareholding in us to below 5%.

As part of a shareholder agreement executed when HDFC Bank was formed, HDFC Limited has the right to prevent us from using HDFC as part of our name or brand if HDFC Limited reduces its shareholding in HDFC Bank to an amount below 5% of our outstanding share capital. If HDFC Limited were to exercise this right, we would be required to change our name and brand, which could require us to expend significant resources to establish new branding and name recognition in the market as well as undertake efforts to rebrand our branches and our digital presence. This could have a material adverse effect on our financial performance.

RBI guidelines relating to ownership in private banks could discourage or prevent a change of control or other business combination involving us, such as with HDFC Limited, which could restrict the growth of our business and operations.

RBI guidelines prescribe a policy framework for the ownership and governance of private sector banks. The guidelines state that no single entity or group of entities will be permitted to own or control, directly or indirectly,

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more than 10% of the paid-up capital of a private sector bank without RBI approval. The implementation of such a restriction could discourage or prevent a change in control, merger, consolidation, takeover or other business combination involving us, which might be beneficial to our shareholders. The RBI s acknowledgement is required for the acquisition or transfer of a bank s shares, which will increase the aggregate holding (direct and indirect, beneficial or otherwise) of an individual or a group to the equivalent of 5% or more of its total paid-up capital. The RBI, when considering whether to grant an approval, may take into account all matters that it considers relevant to the application, including ensuring that shareholders whose aggregate holdings are above specified thresholds meet fitness and propriety tests. The RBI has accorded its approval for HDFC Limited to hold more than 10% of our stock. HDFC Limited s substantial stake in us could discourage or prevent another entity from exploring the possibility of a combination with us. These obstacles to potentially synergistic business combinations could negatively impact our share price and have a material adverse effect on our ability to compete effectively with other large banks and consequently our ability to maintain and improve our financial condition.

Additionally, under the recently revised SEBI clause 49 which came into effect on October 1, 2014, related party transactions over a certain threshold will require approval of the shareholders. Once the threshold is crossed, the approval of the shareholders is required for all transactions with that party. The related party is unable to vote with regard to the approval of these transactions. If we were to expand our business transactions with HDFC Limited, we could cross the threshold and would then be required to seek shareholder approval for transactions with HDFC Limited in our Annual General Meeting or at other times. If we are unable to obtain the necessary shareholder approvals for transactions with HDFC Limited in either a timely manner or fail to obtain necessary approvals once the threshold is exceeded, we would be required to forego certain opportunities, which could have a material adverse effect on our financial performance.

Foreign investment in our shares may be restricted due to regulations governing aggregate foreign investment in the Bank s paid-up equity share capital.

Aggregate foreign investment from all sources in a private sector bank is permitted up to 49% of the paid up capital under the automatic route. This limit can be increased up to 74% of the paid up capital with prior approval from the FIPB. Pursuant to a letter dated February 4, 2015, FIPB has approved foreign investment in the Bank up to 74% of its paid up capital. The approval is subject to compounding from the RBI for the change of foreign shareholding since April 2010. If we are subject to any penalties or an unfavorable ruling by the RBI, this could have an adverse effect on our results of operation and financial condition. As of September 30, 2014, foreign investment in the Bank, including the shareholdings of HDFC Limited and its subsidiaries, constituted 73.5% of the paid up capital of the Bank. Following the completion of this offering and the concurrent offering of equity shares in a qualified institutions placement in accordance with applicable regulations issued by SEBI, we expect that the amount of foreign investment in our shares will be near the 74.0% limit. These limitations could negatively affect the price of our shares and could limit the ability of investors to trade our shares in the market. These limitations could also negatively affect the Bank s ability to raise additional capital to meet our capital adequacy requirements or to fund future growth through future issuances of additional equity shares, which could have a material adverse effect on our business and financial results.

Our success depends in large part upon our management team and skilled personnel and our ability to attract and retain such persons.

We are highly dependent on our management team, including the efforts of our Chairperson, our Managing Director, our Deputy Managing Director, our Executive Directors and members of our senior management. Our future performance is dependent on the continued service of these persons. We have recently received shareholder and regulatory approvals for the appointment of Mrs. Shyamala Gopinath as part-time Non-Executive Chairperson on January 2, 2015. Mrs. Gopinath has been appointed for three years with effect from January 2, 2015. See HDFC

Limited holds a significant percentage of our share capital and can exercise significant influence over board decisions that could directly or indirectly favor the interests of HDFC Limited over our interests. We also face a continuing challenge to recruit and retain a sufficient number of skilled

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personnel, particularly if we continue to grow. Competition for management and other skilled personnel in our industry is intense, and we may not be able to attract and retain the personnel we need in the future. The loss of key personnel may restrict our ability to grow and consequently have a material adverse impact on our results of operations and financial position.

We have previously been subject to penalties imposed by the RBI. Any regulatory investigations, fines, sanctions, and requirements relating to conduct of business and financial crime could negatively affect our business and financial results, or cause serious reputational harm.

The RBI is empowered under the Banking Regulation Act, to impose penalties on banks and their employees to enforce applicable regulatory requirements. In fiscal 2014, the RBI imposed penalties on us and many other banks for certain irregularities and violations discovered by the RBI during its scrutiny conducted in the first half of 2013, namely, non-observance of certain safeguards in respect of arrangement of at par payment of checks drawn by cooperative banks, exceptions in periodic review of risk profiling of account holders, non-adherence to KYC rules for walk-in customers (non-customers) including for sale of third party products, sale of gold coins for cash in excess of Rs. 50,000 in certain cases and non-submission of proper information required by the RBI. We paid a penalty of Rs. 45 million in June 2013. Further, in January 2015, the Financial Intelligence Unit (India) (FIU) has imposed a fine on us of Rs. 2.6 million relating to our failure in detecting and reporting attempted suspicious transactions. As of the date of this prospectus supplement, we are in the process of filing an appeal against the FIU order as permitted by the order. See Supervision and Regulation Special Provisions of the Banking Regulation Act Penalties. Additionally, during fiscal 2014, the RBI investigated a corporate borrower s loan and current accounts maintained with 12 Indian banks, including us. Based on its assessment, the RBI in its press release dated July 25, 2014, levied penalties totaling Rs. 15 million on the 12 Indian banks. The penalty levied on us was Rs. 0.5 million on the grounds that we failed to exchange information about the conduct of the corporate borrower s account with other banks at intervals as prescribed in the RBI guidelines on Lending under Consortium Arrangement/Multiple Banking Arrangements . We cannot predict the initiation or outcome of any further investigations by other authorities or different investigations by the RBI. The penalty imposed by the RBI has generated adverse publicity for our business. Such adverse publicity, or any future scrutiny, investigation, inspection or audit which could result in fines, public reprimands, damage to our reputation, significant time and attention from our management, costs for investigations and remediation of affected customers, may materially adversely affect our business and financial results.

Material changes in Indian banking regulations may adversely affect our business and our future financial performance.

We operate in a highly regulated environment in which the RBI extensively supervises and regulates all banks. Our business could be directly affected by any changes in policies for banks in respect of directed lending, reserve requirements and other areas. For example, the RBI could change its methods of enforcing directed lending standards so as to require more lending to certain sectors, which could require us to change certain aspects of our business. In addition, we could be subject to other changes in laws and regulations, such as those affecting the extent to which we can engage in specific businesses or those that reduce our income through a cap on either fees or interest rates chargeable to our customers or those affecting foreign investment in the banking industry, as well as changes in other governmental policies and enforcement decisions, income tax laws, foreign investment laws and accounting principles. Laws and regulations governing the banking sector may change in the future and any changes may adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

Our business is highly competitive, which makes it challenging for us to offer competitive prices to retain existing customers and solicit new business, and our strategy depends on our ability to compete effectively.

We face strong competition in all areas of our business, and some of our competitors are much larger than we are. We compete directly with the large public sector banks, which generally have much larger customer asset

and deposit bases, larger branch networks and more capital than we do. These banks are becoming more competitive as they improve their customer services and technology. One of the other private sector banks in India is also larger than we are, based on such measurements. In addition, we compete directly with foreign banks, which include some of the largest multinational financial companies in the world. The economies of scale that our larger competitors benefit from make it difficult for us to offer competitive pricing on products and services to retain existing customers and attract new customers so that we can execute our growth strategy successfully. In February 2013, the RBI issued guidelines for the entry of new banks in the private sector, including eligibility criteria, capital requirements, shareholding structure, business plan and corporate governance practices. The RBI received approximately 26 applications for new bank licenses including from some of the largest business groups in India. After review of the applications received, the RBI provided in-principle approvals in April 2014 to two of the applicants which are valid for a period of 18 months, during which the new banks will have to be set up. The RBI will grant these new banks a license to commence banking operations after being satisfied that the applicants have complied with the conditions established as part of the in-principle approvals.

The RBI has liberalized the licensing regime and intends to issue licenses on an ongoing basis subject to its qualification criteria. In November 2014, the RBI released guidelines for licensing of payment banks and for licensing of small finance banks in the private sector. Further liberalization of the Indian financial sector could lead to a greater presence or new entries of Indian and foreign banks offering a wider range of products and services, which could adversely impact our competitive environment. Due to competitive pressures, we may be unable to successfully execute our growth strategy and offer products and services at reasonable returns and this may adversely impact our business. If we are unable to retain and attract new customers, our revenue and net income will decline, which could materially adversely affect our financial condition. See Business Competition .

Our funding is primarily short-and medium-term and if depositors do not roll over deposited funds upon maturity our net income may decrease.

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of retail deposits. Short-term deposits are those with a maturity not exceeding one year. Medium-term deposits are those with a maturity of greater than one year but not exceeding three years. See Selected Statistical Information Funding . However, a portion of our assets have long-term maturities, which sometimes causes funding mismatches. As of September 30, 2014, 38% of our loans are expected to mature within the next one year and 47% of our loans are expected to mature between the next one to three years. As of September 30, 2014, 26% of our deposits are expected to mature within the next one year and 45% of our deposits are expected to mature between the next one to three years. In our experience, a substantial portion of our customer deposits has been rolled over upon maturity and has been, over time, a stable source of funding. However, if a substantial number of our depositors do not roll over deposited funds upon maturity, our liquidity position will be adversely affected and we may be required to seek more expensive sources of funding to finance our operations, which would result in a decline in our net income and have a material adverse effect on our financial condition.

Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and could have a material adverse effect on our net income.

Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and could have a material adverse effect on our net revenue. Policy rates were successively increased from February 2010 to March 2012 during which the bout of interest rate tightening in India was faster than many other economies. The RBI raised key policy rates from 5.25% (repo rate) in April 2010 to 8.5% in October 2011. However, key policy rates were eased from 8.0% (repo rate) in April 2012 to 7.25% in May 2013. In July 2013, the RBI increased the rate for borrowings under its marginal standing facility (introduced by the RBI in fiscal 2012) from 100 basis points to 300

basis points above the repo rate. This rate was eased from 200 basis points above the repo rate in September 2013 to 100 basis points above repo rate in October 2013. In contrast the policy rates were tightened from 7.5% (repo rate) in September 2013 to 8.0% in January 2014. The

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RBI, effective January 15, 2015, reduced the policy repo rate by 25 basis points from 8.0% to 7.75%. We are, however, more structurally exposed to interest rate risk than banks in many other countries because of certain mandated reserve requirements of the RBI. See Supervision and Regulation Legal Reserve Requirements . These requirements result in Indian banks such as ourselves maintaining (as per extant RBI guidelines currently in force) at least 21.5% of our liabilities (computed as per guidelines issued by the RBI) in bonds issued by the Government of India. We are also required to maintain 4% of our liabilities (computed as per guidelines issued by RBI) by way of a balance with the RBI. This in turn means that we could be adversely impacted by a rise in interest rates, especially if the rise were sudden or sharp. A rise in yields on fixed income securities, including government securities, will likely adversely impact our profitability. The aforementioned requirements would also have a negative impact on our net interest income and net interest margins since interest earned on our investments in government issued securities is generally lower than that earned on our other interest earning assets.

The development of a well entrenched nationwide inter-bank settlement system would adversely impact our cash float and decrease fees we receive in connection with check collection.

Currently, there is no well entrenched nationwide payment system in India, and checks must generally be returned to the city from which they were written in order to be cleared. Because of mail delivery delays and the variation in city-based inter-bank clearing practices, check collections can be slow and unpredictable. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we effectively provide a nationwide collection and disbursement system for our corporate clients. We enjoy cash float and earn fees from these services. If any of the current nationwide payment systems are further developed, this could have an adverse effect on the cash float and fees that we have traditionally received from the services we provided.

We could experience a decline in our revenue generated from activities on the equity markets if there is a prolonged or significant downturn on the Indian stock exchanges, or we may face difficulties in getting regulatory approvals necessary to conduct our business if we fail to meet regulatory limits on capital market exposures.

We provide a variety of services and products to participants involved with the Indian stock exchanges. These include working capital funding and margin guarantees to share brokers, personal loans secured by shares, initial public offering finance for retail customers, stock exchange clearing services, collecting bankers to various public offerings and depositary accounts. If there is a prolonged or significant downturn on the Indian stock exchanges, our revenue generated by offering these products and services may decrease, which would have a material adverse effect on our financial condition.

We are required to maintain our capital market exposures within the limits as prescribed by the RBI. Our capital market exposures are comprised primarily of investments in equity shares, loans to share brokers and financial guarantees issued to stock exchanges on behalf of share brokers.

As per RBI norms, a bank s capital market exposure is limited to 40% of its net worth under Indian GAAP, both on a consolidated and non-consolidated basis. Our capital market exposure as of September 30, 2014 was 23.8% of our net worth on a non-consolidated basis and 23.9% on a consolidated basis. See Supervision and Regulation Regulations Relating to Capital Market Exposure Limits . In the future if we fail to meet these regulatory limits, we may face difficulties in obtaining other regulatory approvals necessary to conduct business in the normal course, which would have a material adverse effect on our business and operations.

Significant fraud, system failure or calamities would disrupt our revenue generating activities in the short-term and could harm our reputation and adversely impact our revenue-generating capabilities.

Our business is highly dependent on our ability to efficiently and reliably process a high volume of transactions across numerous locations and delivery channels. We place heavy reliance on our technology

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infrastructure for processing this data and therefore ensuring system security and availability is of paramount importance. Our systemic and operational controls may not be adequate to prevent adverse impact from frauds, errors, hacking and system failures. A significant system breakdown or system failure caused due to intentional or unintentional acts would have an adverse impact on our revenue-generating activities and lead to financial loss. Our reputation could be adversely affected by fraud committed by employees, customers or outsiders, or by our perceived inability to properly manage fraud-related risks. Our inability or perceived inability to manage these risks could lead to enhanced regulatory oversight and scrutiny. We have established a geographically remote disaster recovery site to support critical applications, and we believe that we will be able to restore data and resume processing. However, it is possible the disaster recovery site may also fail or it may take considerable time to make the system fully operational and achieve complete business resumption using the alternate site. Therefore, in such a scenario, where the primary site is completely unavailable, there may be significant disruption to our operations, which would materially adversely affect our reputation and financial condition.

Our business and financial results could be impacted materially by adverse results in legal proceedings.

We establish reserves for legal claims when payments associated with claims become probable and the costs can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of any pending or future legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition. See Business Legal Proceedings.

We may breach third party intellectual property rights.

We may be subject to claims by third parties, both inside and outside India, if we breach their intellectual property rights by using slogans, names, designs, software or other such rights, which are of a similar nature to the intellectual property these third parties may have registered. Any legal proceedings which result in a finding that we have breached third parties intellectual property rights, or any settlements concerning such claims, may require us to provide financial compensation to such third parties or make changes to our marketing strategies or to the brand names of our products, which may have a materially adverse effect on our business prospects, reputation, results of operations and financial condition.

Negative publicity could damage our reputation and adversely impact our business and financial results.

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. The reputation of the financial services industry in general has been closely monitored as a result of the financial crisis and other matters affecting the financial services industry. Negative public opinion about the financial services industry generally or us specifically could adversely affect our ability to attract and retain customers, and may expose us to litigation and regulatory action. Negative publicity can result from our actual or alleged conduct in any number of activities, including lending practices, mortgage servicing and foreclosure practices, corporate governance, regulatory compliance, mergers and acquisitions, and related disclosure, sharing or inadequate protection of customer information, and actions taken by government regulators and community organizations in response to that conduct. Although we take steps to minimize reputational risk in dealing with customers and other constituencies, we, as a large financial services organization with a high industry profile, are inherently exposed to this risk.

We face cyber threats, such as hacking, phishing and trojans, attempting to exploit our network to disrupt services to customers and/or theft of sensitive internal Bank data or customer information. This may cause damage to our reputation and adversely impact our business and financial results.

We offer internet banking services to our customers. Our internet banking channel includes multiple services such as electronic funds transfer, bill payment services, usage of credit cards on-line, requesting account statements, and requesting check books. We are therefore exposed to various cyber threats such as: a) phishing

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and trojans targeting our customers, wherein fraudsters send unsolicited mails to our customers seeking account sensitive information or to infect customer machines to search and attempt exfiltration of account sensitive information; b) hacking wherein attackers seek to hack into our website with the primary intention of causing reputational damage to us by disrupting services; and c) data theft wherein cyber criminals may attempt to intrude into our network with the intention of stealing our data or information. Attempted cyber threats fluctuate in frequency but are generally not decreasing in frequency. There is also the risk of our customers incorrectly blaming us and terminating their accounts with us for a cyber-incident which might have occurred on their own system or with that of an unrelated third party. Any cyber security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and related financial liability.

We may face increased competition as a result of revised guidelines that relax restrictions on the presence of foreign banks in India and a proposal by the RBI to grant fresh banking licenses for the establishment of new banks in the private sector which could cause us to lose existing business or be unable to compete effectively for new business.

The Government of India regulates foreign ownership in private sector banks. Foreign ownership up to 74% of the paid-up capital is permitted in Indian private sector banks, however, under the Banking Regulation Act, a shareholder cannot exercise voting rights in excess of 10% of the total voting rights. The RBI, on February 28, 2005, released a Roadmap for Presence of Foreign Banks in India and Guidelines on Ownership and Governance in Private Sector Banks (the Roadmap).

The Roadmap envisages two phases. During the first phase, between March 2005 and March 2009, foreign banks were permitted to establish their presence in India by way of setting up a wholly-owned banking subsidiary (WOS) or converting their existing branches into a WOS. The WOS must have minimum capital of Rs. 3 billion and ensure sound corporate governance.

Initially, equity participation by banks would be permitted only in the private sector banks that are identified by the RBI for restructuring. On an application made by a foreign bank for acquisition of 5% or more in any private bank, the RBI would consider the standing and reputation of the foreign bank and shall permit such acquisition only if it is satisfied that the investment by such foreign bank is in the long-term interest of all the stakeholders of the investee bank. It was proposed that in the second phase, beginning April 2009, the RBI would allow foreign banks to acquire up to 74% of equity capital in private sector banks in India, and would also enact appropriate amendments to the Banking Regulation Act to provide for voting rights commensurate with economic ownership. However, in light of the global financial turmoil and concerns regarding financial strength of banks around the world, the RBI decided to put on hold the second phase of the Roadmap and leave unchanged its policy on the presence of foreign banks in the country. While announcing its annual policy for fiscal 2010, the RBI said that it would continue with the current policy and procedures governing the presence of foreign banks in India. A review will happen once there is greater clarity regarding stability, recovery of the global financial system, and a shared understanding on the regulatory and supervisory architecture around the world. In January 2011, the RBI released a discussion paper on the presence of foreign banks in India, seeking comments and suggestions. In November 2013, the RBI released its framework for establishing wholly owned subsidiaries of foreign banks in India, which aims to tighten regulatory control and encourage foreign banks to convert their existing branches into wholly owned subsidiaries. Any growth in the presence of foreign banks or in foreign investments in Indian banks may increase the competition that we face and as a result have a material adverse effect on our business. See Restrictions on Foreign Ownership of Indian Securities .

In February 2013, the RBI released guidelines for licensing of new banks in the private sector. The key items covered under these guidelines include: i) promoters eligible to apply for banking licenses; ii) corporate structure; iii) minimum capital requirements for new banks; iv) foreign shareholding cap; v) corporate governance; and vi) business

plan. The RBI has permitted private sector entities owned and controlled by Indian residents and entities in the public sector in India to apply to the RBI for a license to operate a bank through a wholly owned non-operative financial holding company route, subject to compliance with certain specified

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criteria. Such a non-operative financial holding company is permitted to be the holding company of the bank as well as any other financial services entity, with the objective that the holding company ring fences the regulated financial services entities in the group, including the bank from other activities of the group. The RBI specified July 1, 2013 as the deadline for submission of applications for setting up new banks in the private sector and it received about 26 applications for new bank licenses, including from some of the largest business groups in India. After review of the applications received, the RBI provided in-principle approvals to two applicants, IDFC Limited and Bandhan Financial Services Private Limited, in April 2014 which are valid for a period of 18 months, during which the new banks will have to be set up. The RBI will grant these new banks a license to commence banking operations only after being satisfied that the applicants have complied with the conditions established as part of the in-principle approvals. The RBI has liberalized the licensing regime and intends to issue licenses on an ongoing basis subject to its qualification criteria. In November 2014, the RBI released guidelines for licensing of payment banks and for licensing of small finance banks in the private sector. If the number of banks in the country increases, we will face increased competition in the businesses we operate in. This could have a material adverse effect on our business and financial results.

Delays in obtaining prior RBI approval and/or our inability to meet the criteria specified by RBI for opening new branches to increase our infrastructure and expand our reach into different geographical segments will restrict our expansion plans and have a negative impact on our future financial performance by preventing us from realizing anticipated revenue from the new branches.

The RBI issues instructions and guidelines to banks on branch authorization from time to time. Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open new branches. The RBI may cancel a license for violations of the conditions under which it was granted. With the objective of liberalizing and rationalizing the branch licensing process, the RBI, effective October 2013, granted general permission to banks like us to open branches in Tier 1 to Tier 6 centers, subject to reporting to the RBI and certain specified conditions. If we are unable to perform in a manner satisfactory to the RBI or comply with the specified conditions, it may have an impact on the number of branches we will be able to open, which would in turn have an impact on our future growth. This would adversely affect our financial performance by preventing us from realizing anticipated revenue from the new branches. See Supervision and Regulation Regulations Relating to the Opening of Branches .

If the goodwill recorded in connection with our recent acquisitions becomes impaired, we may be required to record impairment charges, which would decrease our net income and total assets.

In accordance with US GAAP, we have accounted for our acquisitions using the purchase method of accounting. We recorded the excess of the purchase price over the fair value of the assets and liabilities of the acquired companies as goodwill. US GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Goodwill is tested by initially estimating fair value of the reporting unit and then comparing it against the carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its estimated fair value, we are required to record an impairment loss. The amount of impairment and the remaining amount of goodwill, if any, is determined by comparing the fair value of the reporting unit as of the test date against the fair value of the assets and liabilities of that reporting unit as of the same date. See Note 2u, Business Combination , in our consolidated financial statements for the year ended March 31, 2014.

The Companies Act, 2013 has effected significant changes to the existing Indian company law framework, which may subject us to higher compliance requirements and increase our compliance costs.

A majority of the provisions and rules under the Companies Act, 2013 have recently been notified and have come into effect from the date of their respective notifications, resulting in the corresponding provisions of the Companies Act,

1956 ceasing to have effect. The Companies Act, 2013 has brought into effect significant changes to the Indian company law framework, such as in the provisions related to issue of capital, disclosures, corporate governance norms, audit matters, and related party transactions. Further, the Companies Act, 2013 has

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also introduced additional requirements which do not have corresponding equivalents under the Companies Act, 1956, including the introduction of a provision allowing the initiation of class action suits in India against companies by shareholders or depositors, a restriction on investment by an Indian company through more than two layers of subsidiary investment companies (subject to certain permitted exceptions), and prohibitions on advances to directors. We are also required to spend 2.0% of our average profits computed in accordance with the Companies Act, 2013, during three immediately preceding financial years on corporate social responsibility activities. While we already spend a portion of our profits on corporate social responsibility activities, we may be required to increase our spending to comply with the requirements stipulated under the Companies Act, 2013. Further, the Companies Act, 2013 imposes greater monetary and other liability on the Bank, directors and officers in default, for any non-compliance with the requirements. To ensure compliance with the requirements of the Companies Act, 2013, we may need to allocate additional resources, which may increase our regulatory compliance costs and divert management attention.

Many of our branches have been recently added to our branch network and are not operating with the same efficiency as compared to the rest of our existing branches, which adversely affects our profitability.

As at March 31, 2012, we had 2,544 branches and as at September 30, 2014, we had 3,600 branches, a significant increase in the number of branches. Some of the newly added branches are currently operating at a lower efficiency level as compared with our established branches. While we believe that the newly added branches will achieve the productivity benchmark set for our entire network over time, the success in achieving our benchmark level of efficiency and productivity will depend on various internal and external factors, some of which are not under our control. The sub-optimal performance of the newly added branches, if continued over an extended period of time, would have a material adverse effect on our profitability.

Deficiencies in accuracy and completeness of information about customers and counterparties may adversely impact us.

We rely on accuracy and completeness of information about customers and counterparties while carrying out transactions with them or on their behalf. We may also rely on representations as to the accuracy and completeness of such information. For example, we may rely on reports of independent auditors with respect to financial statements, and decide to extend credit based on the assumption that the customer s audited financial statements conform to generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted by such reliance on information that is inaccurate or materially misleading. This may affect the quality of information available to us about the credit history of our borrowers, especially individuals and small businesses. As a consequence, our ability to effectively manage our credit risk may be adversely affected.

We present our financial information differently in other markets or in certain reporting contexts.

In India, our equity shares are traded on the BSE Limited (BSE) and National Stock Exchange of India Limited (NSE). Under Indian laws and rules, we are required to report our financial results in India in Indian GAAP. Because of the difference in accounting principles and presentation, certain financial information available in our required filings in the United States may be presented differently than in the financial information we provide under Indian GAAP.

Additionally, we make available information on our website and in our presentations in order to provide investors a view of our business through metrics similar to what our management uses to measure our performance. Some of the information we make available from time to time may be in relation to our unconsolidated or our consolidated results under Indian GAAP or under US GAAP. Potential investors should read any notes or disclaimers to such financial

information when evaluating our performance to confirm how the information is being presented, since the information that may have been prepared with a different presentation may not be directly comparable.

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Public companies in India, including us, may be required to prepare financial statements under IFRS or a variation thereof, IND-AS. The transition to IND-AS in India is still unclear and we may be adversely affected by this transition.

We may be required to begin preparing financial statements in accordance with IND-AS in the near future once regulatory authorities notify us that the implementation of IND-AS will be mandatory for banking institutions. The Ministry of Corporate Affairs, in its press release dated January 2, 2015, issued a roadmap for implementation of Indian Accounting Standards (IND-AS) converged with IFRS. This roadmap is not applicable to banking companies, insurance companies and non-banking finance companies. The Bank has not determined with any degree of certainty the impact such adoption will have on its financial reporting. Further, the new accounting standards will change, among other things, the Bank s methodology for estimating allowances for probable loan losses and for classifying and valuing its investment portfolio and its revenue recognition policy. There can be no assurance that the Bank s financial condition, results of operations, cash flows or changes in shareholders equity will not appear materially worse under IND-AS than under Indian GAAP. In the Bank s transition to IND-AS reporting, the Bank may encounter difficulties in the ongoing process of implementing and enhancing its management information systems. Moreover, there is increasing competition for the small number of IFRS-experienced accounting personnel available as more Indian companies begin to prepare IND-AS financial statements. Further, there is no significant body of established practice on which to draw in forming judgments regarding the new system s implementation and application. There can be no assurance that the Bank s adoption of IND-AS will not adversely affect its reported results of operations or financial condition and any failure to successfully adopt IND-AS could adversely affect the Bank s business, financial condition and results of operations.

Statistical, industry and financial data in this prospectus supplement may be incomplete or unreliable.

We have not independently verified data obtained from industry publications and other sources referred to in this prospectus supplement and therefore, while we believe them to be true, we cannot assure you that they are complete or reliable. Such data may also be produced on different bases from those used in the industry publications we have referenced. Therefore, discussions of matters relating to India, its economy and the industries in which we currently operate are subject to the caveat that the statistical and other data upon which such discussions are based may be incomplete or unreliable.

Risks Relating to Investments in Indian Companies

Financial instability in other countries may cause increased volatility in Indian financial markets.

The Indian market and the Indian economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has affected the Indian economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. A loss of investor confidence in the financial systems of other emerging markets may cause increased volatility in Indian financial markets and, indirectly, in the Indian economy in general. Any worldwide financial instability could also have a negative impact on the Indian economy. Financial disruptions may occur again and could harm the Bank s business, its future financial performance and the prices of the equity shares.

The global credit and equity markets have experienced substantial dislocations, liquidity disruptions and market corrections in recent years. In particular, sub-prime mortgage loans in the United States have experienced increased rates of delinquency, foreclosure and loss. Since September 2008, liquidity and credit concerns and volatility in the global credit and financial markets increased significantly with the bankruptcy or acquisition of, and government

assistance extended to, several major U.S. financial institutions. The United States continues to face adverse economic conditions and should a further downgrade of the sovereign credit ratings of the U.S. government occur, it is foreseeable that the ratings and perceived creditworthiness of instruments issued, insured

or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected by any such downgrade, which may have an adverse affect on the economic outlook across the world.

Recent developments in the Eurozone have exacerbated the ongoing global economic crisis. Large budget deficits and rising public debts in Europe have triggered sovereign debt finance crises that resulted in the bailouts of European economies and elevated the risk of government debt defaults, forcing governments to undertake aggressive budget cuts and austerity measures, in turn underscoring the risk of global economic and financial market volatility. Moreover, in 2012, the sovereign rating of various European Union countries was downgraded. Financial markets and the supply of credit could continue to be negatively impacted by ongoing concerns surrounding the sovereign debts and/or fiscal deficits of several countries in Europe, the possibility of further downgrades of, or defaults on, sovereign debt, concerns about a slowdown in growth in certain economies and uncertainties regarding the stability and overall standing of the European Monetary Union. These and other related events have had a significant impact on the global credit and financial markets as a whole, including reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States, Europe and global credit and financial markets.

In response to such developments, legislators and financial regulators in the United States, Europe and other jurisdictions, including India, have implemented several policy measures designed to add stability to the financial markets. However, the overall impact of these and other legislative and regulatory efforts on the global financial markets is uncertain, and they may not have the intended stabilizing effects. In the event that the current adverse conditions in the global credit markets continue or if there are any significant financial disruption, this could have an adverse effect on the Bank s business, future financial performance and the trading price of the equity shares.

Any adverse change in India s credit rating by an international rating agency could adversely affect our business and profitability.

In May 2013, Standard & Poor s, an international rating agency, reiterated its negative outlook on India s credit rating. It identified India s high fiscal deficit and heavy government borrowing as the most significant constraints on its ratings, and recommended the implementation of reforms and containment of deficits. In June 2013, Fitch, another international rating agency, returned India s sovereign outlook to stable from negative a year after its initial downgrade of the outlook, stating that the authorities had been successful in containing the upward pressure on the central government budget deficit in the face of a weaker-than-expected economy and that the authorities had also begun to address structural factors that have weakened the investment climate and growth prospects. Similarly, Standard & Poor s upgraded its outlook on India s sovereign debt rating to stable , while reaffirming the BBB long-term rating on bonds. Standard & Poor s stated that the revision reflects the view that India s improved political setting offers an environment which is conducive to reforms that could boost growth prospects and improve fiscal management. Going forward, the sovereign ratings outlook will remain dependent on whether the government is able to transition the economy out of a low-growth and high inflation environment, as well as exercise adequate fiscal restraint. Any adverse change in India s credit ratings by international rating agencies may adversely impact our business and limit our access to capital markets.

The Bank s long term unsecured, subordinated (tier II) bonds are rated CARE AAA by CARE and AAA (ind) (with the outlook on the rating as stable) by India Ratings and Research Private Ltd. (100% subsidiary of Fitch Inc.). CARE has also rated the Bank s Certificate of Deposit (CD) program CARE A1+ which represents very strong degree of safety regarding timely payment of financial obligations . India Ratings India Private Ltd. has assigned the tAAA (ind) rating to the Bank s deposit program, with the outlook on the rating as stable . Any downgrade from the current credit rating of our borrowings may result in an increase in interest rates or require us to prepay such borrowings, thereby impacting our cost of borrowing and liquidity.

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Any volatility in the exchange rate may lead to a decline in India s foreign exchange reserves and may affect liquidity and interest rates in the Indian economy, which could adversely impact us.

Capital inflows into India have remained extremely volatile responding to concerns about the domestic macroeconomic landscape and changes in the global risk environment. While the current account deficit (CAD) remained a main area of concern over fiscal 2012 and fiscal 2013, it has shrunk sharply in fiscal 2014. A substantial decline in the imports bill reflecting weak domestic growth as well as a sharp reduction in gold imports led to a significant narrowing in the trade deficit that in turn reduced the size of the CAD. However, the primary challenge for the Indian rupee was the volatile swings in capital flows. The shifts in capital flows is reflected in the fact that Indian rupee recorded a high of Rs. 53.65 to US dollar and a low of Rs. 68.80 to the US dollar during fiscal 2014. Even though the Indian rupee has been fairly stable since start of calendar year 2014, it may come back under pressure given the possibility of a gradual reversal in US monetary policy that may result in a rotation of global fund flows from emerging markets to the US markets over the medium term. Additionally, some anxiety about the prospect of sub-normal monsoons adversely affecting the domestic economy could make investors circumspect of investing in domestic assets. Although the rupee is less vulnerable given the improvements in the CAD and visible moderation in inflation rates, there remains a possibility of needing to intervene in the foreign exchange market to control volatility of the exchange rate. This heightened volatility may only occur around mid-2015 when there may be a more substantial reversal in US monetary policy. The need to intervene at that point in time may result in the decline in India s foreign exchange reserves and subsequently reduce the amount of liquidity in the domestic financial system. This in turn could cause domestic interest rates to rise.

Further, increased volatility in capital flows may also affect monetary policy decision making. For instance, a period of net capital outflows might force the RBI to keep monetary policy tighter than optimal to guard against currency depreciation.

Political instability or changes in the government in India could delay the liberalization of the Indian economy and adversely affect economic conditions in India generally, which would impact our financial results and prospects.

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the roles of the Indian central and state governments in the Indian economy as producers, consumers and regulators remain significant as independent factors in the Indian economy. Most recently, the election of a pro-business majority government in May 2014 has marked a distinct increase in expectations for policy and economic reforms among certain aspects of the Indian economy. There is no guarantee that the new government will be able to enact an optimal set of reforms or that any such reforms would continue or succeed if there were a change in the current majority leadership in the government in the future. There is also no guarantee that the government will announce an optimal set of reforms or policies in the future. The rate of economic liberalization is subject to change and specific laws and policies affecting banking and finance companies, foreign investment, currency exchange and other matters affecting investment in our securities are continuously evolving as well. Other major reforms that have been proposed are the goods and services tax, the direct tax code and the general anti-avoidance rules (GAAR). Any significant change in India s economic liberalization, deregulation policies or other major economic reforms could adversely affect business and economic conditions in India generally and our business in particular.

Terrorist attacks, civil unrest and other acts of violence or war involving India and other countries would negatively affect the Indian market where our shares trade and lead to a loss of confidence and impair travel, which could reduce our customers appetite for our products and services.

Terrorist attacks, such as those in Mumbai in November 2008, and other acts of violence or war may negatively affect the Indian markets on which our equity shares trade and also adversely affect the worldwide financial markets. These acts may also result in a loss of business confidence, make travel and other services

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more difficult and as a result ultimately adversely affect our business. In addition, any deterioration in relations between India and Pakistan or between India and China might result in investor concern about stability in the region, which could adversely affect the price of our equity shares and ADSs.

India has also witnessed civil disturbances in recent years and future civil unrest as well as other adverse social, economic and political events in India could have an adverse impact on us. Such incidents also create a greater perception that investment in Indian companies involves a higher degree of risk, which could have an adverse impact on our business and the price of our equity shares and ADSs.

Investors may have difficulty enforcing foreign judgments in India against the Bank or its management.

The Bank was constituted under the Companies Act, 1956. Substantially all of the Bank s directors and executive officers and some of the experts named herein are residents of India and a substantial portion of the assets of the Bank and such persons are located in India. As a result, it may not be possible for investors to effect service of process on the Bank or such persons in jurisdictions outside of India, or to enforce against them judgments obtained in courts outside of India predicated upon civil liabilities of the Bank or such directors and executive officers under laws other than Indian Law.

In addition, India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. Recognition and enforcement of foreign judgments is provided for under section 13 and section 44A of the Indian Civil Procedure Code (Code). Section 44A of the Code provides that where a foreign judgment has been rendered by a superior court in any country or territory outside India which the Government has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. However, section 44A of the Code is applicable only to monetary decrees not being in the nature of any amounts payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty and is not applicable to arbitration awards.

The United States has not been declared by the Government to be a reciprocating territory for the purposes of section 44A of the Code. However, the United Kingdom has been declared by the Government to be a reciprocating territory and the High Courts in England as the relevant superior courts. Accordingly, a judgment of a court in the United States may be enforced only by a fresh suit upon the judgment and not by proceedings in execution. A judgment of a court in a jurisdiction which is not a reciprocating territory may be enforced only by a new suit upon the judgment and not by proceedings in execution. Section 13 of the Code provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except: (i) where it has not been pronounced by a court of competent jurisdiction; (ii) where it has not been given on the merits of the case; (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognize the law of India in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where it has been obtained by fraud; or (vi) where it sustains a claim founded on a breach of any law in force in India. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce a foreign judgment if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the RBI to repatriate outside India any amount recovered pursuant to execution. Any judgment in a foreign currency would be converted into Indian rupees on the date of the judgment and not on the date of the payment. The Bank cannot predict whether a suit brought in an Indian court will be disposed of in a timely manner or be subject to considerable delays.

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Risks Relating to the ADSs and Equity Shares

Historically, our ADSs have traded at a premium to the trading prices of our underlying equity shares, a situation which may not continue.

Historically, our ADSs have traded on the New York Stock Exchange (NYSE) at a premium to the trading prices of our underlying equity shares on the Indian stock exchanges. See Price Range of Our American Depositary Shares and Equity Shares for the underlying data. We believe that this price premium has resulted from the relatively small portion of our market capitalization previously represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs, and an apparent preference for investors to trade dollar-denominated securities. Over time, some of the restrictions on issuance of ADSs imposed by Indian law have been relaxed and we expect that other restrictions may be relaxed in the future. It is possible that in the future our ADSs will not trade at any premium to our equity shares and could even trade at a discount to our equity shares.

Investors in ADSs will not be able to vote.

Investors in ADSs will have no voting rights, unlike holders of the equity shares. Under the deposit agreement, the depositary will abstain from voting the equity shares represented by the ADSs. If you wish, you may withdraw the equity shares underlying the ADSs and seek to vote (subject to Indian restrictions on foreign ownership) the equity shares you obtain upon withdrawal. However, this withdrawal process may be subject to delays, additional costs and you may not be able to redeposit the equity shares. For a discussion of the legal restrictions triggered by a withdrawal of the equity shares from the depositary facility upon surrender of ADSs, see Restrictions on Foreign Ownership of Indian Securities and Description of American Depository Shares Voting Rights .

Your ability to withdraw equity shares from the depositary facility is uncertain and may be subject to delays.

India s restrictions on foreign ownership of Indian companies limit the number of equity shares that may be owned by foreign investors and generally require government approval for foreign investments. Investors who withdraw equity shares from the ADS depositary facility for the purpose of selling such equity shares will be subject to Indian regulatory restrictions on foreign ownership upon withdrawal. The withdrawal process may be subject to delays. For a discussion of the legal restrictions triggered by a withdrawal of equity shares from the depositary facility upon surrender of ADSs, see Restrictions on Foreign Ownership of Indian Securities .

Restrictions on deposit of equity shares in the depositary facility could adversely affect the price of our ADSs.

Under current Indian regulations, an ADS holder who surrenders ADSs and withdraws equity shares may deposit those equity shares again in the depositary facility in exchange for ADSs. An investor who has purchased equity shares in the Indian market may also deposit those equity shares in the ADS program. However, the deposit of equity shares may be subject to securities law restrictions and the restriction that the cumulative aggregate number of equity shares that can be deposited as of any time cannot exceed the cumulative aggregate number represented by ADSs converted into underlying equity shares as of such time. These restrictions increase the risk that the market price of our ADSs will be below that of the equity shares.

There is a limited market for the ADSs.

Although our ADSs are listed and traded on the NYSE, any trading market for our ADSs may not be sustained, and there is no assurance that the present price of our ADSs will correspond to the future price at which our ADSs will trade in the public market. Indian legal restrictions may also limit the supply of ADSs. The only way to add to the

supply of ADSs would be through an additional issuance. We cannot guarantee that a market for the ADSs will continue.

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Conditions in the Indian securities market may affect the price or liquidity of our equity shares and ADSs.

The Indian securities markets are smaller and more volatile than securities markets in more developed economies. The Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities. Currently prices of securities listed on Indian exchanges are displaying signs of volatility linked among other factors to the uncertainty in the global markets and the rising inflationary and interest rate pressures domestically. The governing bodies of the Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Future fluctuations or trading restrictions could have a material adverse effect on the price of our equity shares and ADSs.

Settlement of trades of equity shares on Indian stock exchanges may be subject to delays.

The equity shares represented by our ADSs are listed on the NSE and BSE. Settlement on these stock exchanges may be subject to delays and an investor in equity shares withdrawn from the depositary facility upon surrender of ADSs may not be able to settle trades on these stock exchanges in a timely manner.

You may be subject to Indian taxes arising out of capital gains

Generally, capital gains, whether short-term or long-term, arising on the sale of the underlying equity shares in India is subject to Indian capital gains tax. Investors are advised to consult their own tax advisers and to carefully consider the potential tax consequences of an investment in ADSs. See also Taxation .

You may be unable to exercise preemptive rights available to other shareholders.

A company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless these rights have been waived by at least 75.0% of the company s shareholders present and voting at a shareholders general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for our equity shares underlying our ADSs unless a registration statement under the Securities Act of 1933 (the Securities Act) is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We do not commit to filing a registration statement under those circumstances. If we issue any securities in the future, these securities may be issued to the depositary, which may sell these securities in the securities markets in India for the benefit of the investors in our ADSs. There can be no assurance as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that investors in our ADSs are unable to exercise preemptive rights, their proportional interests in us would be reduced.

Financial difficulty and other problems in certain financial institutions in India could adversely affect our business and the price of our ADSs and equity shares.

We are exposed to the risks of the Indian financial system by being a part of the system. The financial difficulties faced by certain Indian financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Such systemic risk , may adversely affect financial intermediaries, such as clearing agencies, banks, securities firms and exchanges with which we interact on a daily basis. Any such difficulties or instability of the Indian financial system in general could create an adverse market perception about Indian financial institutions and banks and adversely affect our business. Our transactions with these

financial institutions expose us to various risks in the event of default by a counterparty, which can be exacerbated during periods of market illiquidity.

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Because the equity shares underlying our ADSs are quoted in rupees in India, you may be subject to potential losses arising out of exchange rate risk on the Indian rupee and risks associated with the conversion of rupee proceeds into foreign currency.

Fluctuations in the exchange rate between the U.S. dollar and the Indian rupee may affect the value of your investment in our ADSs. Specifically, if the relative value of the Indian rupee to the U.S. dollar declines, each of the following values will also decline:

- the U.S. dollar equivalent of the Indian rupee trading price of our equity shares in India and, indirectly, the U.S. dollar trading price of our ADSs in the United States;
- the U.S. dollar equivalent of the proceeds that you would receive upon the sale in India of any equity shares that you withdraw from the depositary; and
- the U.S. dollar equivalent of cash dividends, if any, paid in Indian rupees on the equity shares represented by our ADSs.

You may not be able to enforce a judgment of a foreign court against us.

We are a limited liability company incorporated under the laws of India. All our directors and members of our senior management and some of the experts named in this report are residents of India and almost all of our assets and the assets of these persons are located in India. It may not be possible for investors in our ADSs to effect service of process outside India upon us or our directors and members of our senior management and experts named in the report that are residents of India or to enforce judgments obtained against us or these persons in foreign courts predicated upon the liability provisions of foreign countries, including the civil liability provisions of the federal securities laws of the United States. Moreover, it is unlikely that a court in India would award damages on the same basis as a foreign court if an action were brought in India or that an Indian court would enforce foreign judgments if it viewed the amount of damages as excessive or inconsistent with Indian practice.

There may be less information available on Indian securities markets than securities markets in developed countries.

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that of markets in the United States and other developed economies. The Securities and Exchange Board of India (SEBI) and the stock exchanges are responsible for improving disclosure and other regulatory standards for the Indian securities markets. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed economies.

Your holdings will be diluted by additional issuances of equity shares in a qualified institutions placement in combination with our concurrent offering of ADSs in the United States and such dilution in connection with these concurrent offerings, future offerings of equity or ADSs or future preferential offerings to our existing shareholders may adversely affect the market price of our equity shares or ADSs.

Concurrent with this offering of ADSs, we are also offering additional equity shares in a qualified institutions placement. The combined equity issuance pursuant to these concurrent offerings will dilute the holdings of investors in the Bank and could adversely affect the market price of our equity shares or ADSs. In addition, if we offer additional equity shares or ADSs in future offerings in India, the United States or other markets or make any preferential offerings to our existing shareholders, including our principal shareholder, in the future, such offerings may also dilute your holdings and adversely affect the market price of our shares or ADSs. See Dilution .

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Foreign Account Tax Compliance withholding may affect payments on the equity shares and the ADSs.

Sections 1471 through 1474 of the Code (provisions commonly known as FATCA or the Foreign Account Tax Compliance Act) impose (a) certain reporting and due diligence requirements on foreign financial institutions and, (b) potentially require such foreign financial institutions to deduct a 30% withholding tax from (i) certain payments from sources within the United States, and (ii) foreign passthru payments (which is not yet defined in current guidance) made to certain non-U.S. financial institutions that do not comply with such reporting and due diligence requirements or certain other payees that do not provide required information. The United States has entered a number of intergovernmental agreements with other jurisdictions (IGAs) which may modify the operation of this withholding. The Bank as well as relevant intermediaries such as custodians and depository participants are classified as financial institutions for these purposes. Given that India has reached an agreement in substance with the United States on FATCA and is expected to sign a Model 1 IGA with the United States for giving effect to FATCA, Indian financial institutions such as the Bank are also being instructed to become fully FATCA compliant, based on the terms of its IGA and relevant rules.

Under current guidance it is not clear whether or to what extent payments on ADSs or equity shares will be considered foreign passthru payments subject to FATCA withholding or the extent to which withholding on foreign passthru payments will be required under the applicable IGA. Investors should consult their own tax advisers on how the FATCA rules may apply to payments they receive in respect of the ADSs or equity shares.

Should any withholding tax in respect of FATCA be deducted or withheld from any payments arising to any investor, neither the Bank nor any other person will pay additional amounts as a result of the deduction or withholding.

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BUSINESS

Overview

We are a new generation private sector bank in India. Our goal is to be the preferred provider of financial services to upper and middle income individuals and corporations in India across metro, urban, semi-urban and rural markets. Our strategy is to provide a comprehensive range of financial products and services to our customers through multiple distribution channels, with what we believe is high quality service, advanced technology platforms and superior execution. We have three principal business activities: retail banking, wholesale banking and treasury operations.

We have grown rapidly since commencing operations in January 1995. As of September 30, 2014, we had 3,600 branches, 11,515 ATMs in 2,272 cities and towns and 30.6 million customers. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 3,571.2 billion as of March 31, 2012 to Rs. 5,125.4 billion as of March 31, 2014. Our assets as of September 30, 2014 were Rs. 5,320.2 billion. Our net income has increased from Rs. 49.8 billion for fiscal 2012 to Rs. 79.3 billion for fiscal 2014. Our net income for the first six months of fiscal 2015 was Rs. 43.0 billion.

Fiscal 2014 was a challenging year for the Indian economy driven by subdued domestic growth, extreme volatility in the exchange rate and a much higher than expected spike in inflation rates. Domestic GDP growth showed a marginal improvement from 4.5% in fiscal 2013 to 4.7% in fiscal 2014, primarily attributable to an increase in agricultural growth from 1.4% in fiscal 2013 to 4.7% in fiscal 2014. Growth in both the industrial sector and service sector remained lackluster due to a weakness in both consumption and investment demand. A major challenge for the economy in the first half of fiscal 2014 was the weakening of the Indian rupee against the U.S. dollar driven by concerns about the domestic macroeconomic landscape that made investors somewhat circumspect of investing in domestic assets. Anxiety about the future direction of U.S. monetary policy due to the U.S. Federal Reserve preparing the markets for a gradual wind-down of its third round of quantitative easing (QE3) resulted in an overall outflow of funds from European markets. The Indian rupee also fell victim to this rotation of funds away from European markets and into US markets. To counter pressures of currency depreciation, the RBI in July 2013 introduced a series of measures to tighten domestic liquidity in order to raise short-term rates to provide the Indian rupee with some yield advantage. These measures resulted in an inversion of the yield curve. The RBI also provided various incentives to commercial banks to raise foreign currency non-resident (FCNR) deposits that resulted in foreign currency flows of U.S. $34 billion into the country. The RBI gradually removed these emergency measures when the exchange rate showed some signs of stability in the second half of fiscal 2014. However, the RBI increased the repo rate by approximately 75 basis points over the course of fiscal 2014 in part to counter the exchange rate depreciation as well as to fight inflationary pressures as the consumer price index (CPI) inflation touched a high of 11.2% in November 2013.

Indications of an improvement in the overall domestic macroeconomic landscape have been visible over the fourth quarter of fiscal 2014 and the first quarter of fiscal 2015, which has helped to stabilize the Indian rupee. Inflationary pressures, both in terms of the CPI and the wholesale price index, have subsided as a result of a decline in food price inflation. The Government s efforts to ramp up the local supply of food grains appear to have helped in reining in overall inflation rates. For example, CPI inflation has fallen from a high of 11.2% in November 2013 to 6.5% in September 2014. As a result of, *inter alia*, declining inflationary pressures, the RBI, in its press release dated January 15, 2015, reduced the policy repo rate by 25 basis points from 8.0% to 7.75% with immediate effect. The Government appears to be firmly committed to fiscal consolidation by reducing the fiscal deficit from 4.5% in fiscal 2014 to 4.1% in fiscal 2015. Further, there has been an improvement in the current account deficit which has decreased from 4.8% of GDP in fiscal 2013 to 1.7% of GDP in fiscal 2014 and which is expected to widen marginally to 2.2% of GDP in fiscal 2015. The current account deficit was 1.7% of GDP at the end of the first quarter of fiscal 2015. The

improvement in the current account position can partially be attributed to the reduction in the trade deficit as imports fell by 7.2% in fiscal 2014. The ongoing domestic growth prospects are based on expectations that the new government, which took office in May 2014, with a strong mandate could spur the reform process to address the structural bottlenecks that have hampered growth over fiscal 2012 to fiscal 2014. This may in

turn help to revive growth prospects in the Indian economy and enable domestic growth to increase to around 5.5% in fiscal 2015 according to the RBI.

Notwithstanding our pace of growth, we believe we have maintained a strong balance sheet and a low cost of funds. As of September 30, 2014, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.3% of net customer assets. In addition, our net customer assets represented 89.7% of our deposits and our deposits represented 73.4% of our total liabilities and shareholders equity. The non-interest bearing current accounts and low-interest bearing savings accounts represented 43.1% of total deposits as of September 30, 2014. These low-cost deposits and the cash float associated with our transactional services, led to an average cost of funds (including equity) for the first six months of fiscal 2015 of 5.0%.

We had a cash outflow of approximately Rs. 7.9 billion, Rs. 10.0 billion, Rs. 9.7 billion and Rs. 3.4 billion in fiscals 2012, 2013 and 2014 and for the first six months of fiscal 2015, respectively, principally for property, plant and equipment, including our branch network expansion and our technology and communications infrastructure. We have current plans for aggregate capital expenditures of approximately Rs. 8.1 billion in fiscal 2015. This budgeted amount includes Rs. 2.5 billion to expand our branch and back office network, Rs. 0.1 billion to expand our electronic data capture terminal network, Rs. 3.1 billion to upgrade and expand our hardware, data center, network and other systems and the balance primarily to add new equipment in our existing premises, to expand our existing premises and to relocate our branches and back offices. We may use these budgeted amounts for other purposes depending on, among other factors the business environment prevailing at the time, consequently our actual capital expenditures may be higher or lower than our budgeted amounts.

We are part of the HDFC group of companies established by our principal shareholder, Housing Development Finance Corporation Limited (HDFC Limited), a listed public limited company established under the laws of India. HDFC Limited is primarily engaged in financial services, including mortgages, property-related lending and deposit services. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life insurance and other insurance. HDFC Limited and its subsidiaries owned 22.5% of our outstanding equity shares as of September 30, 2014. Our Chairperson and Managing Director are nominated by HDFC Limited and appointed with the approval of our shareholders and the Reserve Bank of India (RBI). In addition, two members of our Board of Directors, Mr. Keki Mistry and Mrs. Renu Karnad, are the Vice Chairman and Chief Executive Officer of HDFC Limited and Managing Director of HDFC Limited, respectively and have been appointed independent of HDFC Limited s entitlement to nominate two directors. See also the section Principal Shareholders . We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them or restricting HDFC Limited or any of its group companies from competing with our business. We currently distribute products of HDFC Limited and its group companies, such as home loans of HDFC Limited, life and general insurance products of HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited, respectively, and mutual funds of HDFC Asset Management Company Limited.

We have two subsidiaries as per local laws: HDFC Securities Limited (HSL) and HDB Financial Services Limited (HDBFSL). HSL is primarily in the business of providing brokerage and other investment services through the internet and other channels. HSL s total assets and shareholders equity as of March 31, 2014 were Rs. 8.6 billion and Rs. 4.4 billion, respectively (per Indian GAAP). HSL s net profit was Rs. 0.8 billion for fiscal 2014 (per Indian GAAP). HDBFSL is a non-deposit taking non-bank finance company (NBFC) engaged primarily in the business of retail asset financing. The customer segments catered to by HDBFSL are typically underserviced by larger commercial banks and this, we believe, creates a profitable niche for HDBFSL. HDBFSL also grants loans to micro, small and medium business enterprises and operates call centers for providing collection services to our retail loan products. HDBFSL s loans, total assets and shareholders equity as of March 31, 2014 were Rs. 134.1 billion, Rs. 136.9 billion and Rs. 16.3 billion (all according to Indian GAAP), respectively. HDBFSL s net profit amounted to Rs. 2.1

billion for fiscal 2014 (per Indian GAAP). Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000. Our agent in the United States for the 2001, 2005 and 2007 ADS offerings is Depositary Management Corporation, 570 Lexington Avenue, New York, NY 10022.

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Our Competitive Strengths

We attribute our growth and continuing success to the following competitive strengths:

We have a strong brand and extensive reach through a large distribution network

We believe our HDFC Bank brand is one of the strongest brands in the Indian banking industry and was, in August 2014, acknowledged as the most valuable brand in India in the inaugural edition of the BrandZ Top 50 Most Valuable Indian Brands study. The study was conducted by WPP research agency Millward Brown, which specializes in brand equity research and brand valuation. We have capitalized on our strong brand by establishing an extensive branch network throughout India serving a broad range of customers in urban, semi-urban and rural regions. As of September 30, 2014, we had 3,600 branches and 11,515 ATMs in 2,272 cities and towns and 30.6 million customers as compared to 2,544 branches and 8,913 ATMs in 1,399 cities and towns and 25.9 million customers as of March 31, 2012. Our branch network is further complemented by our digital strategy, including online and mobile banking solutions, to provide our customers with access to on-demand banking services, which we believe allows us to develop strong and loyal relationships with our customers.

We provide a wide range of products and high quality service to our clients in order to meet their banking needs

Whether in retail banking, wholesale banking or treasury operations, we consider ourselves a one-stop shop for our customers banking needs. This includes the services that we can provide to our customers, both directly and indirectly through back-office operational execution, and the range of products we offer. We consider our high quality service to be a vital component of our business and believe in pursuing excellence in execution through multiple internal initiatives focused on continuous executional improvements. This pursuit of high quality service and operational execution directly supports our ability to offer a wide range of banking products. Our retail banking products range from retail loans to deposit products and other products and services, such as private banking, depositary accounts, foreign exchange services, distribution of third party products (such as insurance and mutual funds), bill payments and sales of gold and silver bullion. In addition, we offer our customers brokerage accounts through our subsidiary HSL. On the wholesale banking side we offer customers working capital loans, term loans, bill collections, letters of credit and guarantees and foreign exchange and derivative products. We also offer a range of deposit and transaction banking services such as cash management, custodial and clearing bank services and correspondent banking. We collect taxes for the government and are bankers to companies in respect of issuances of equity shares and bonds to the public. We are able to provide this wide-range of products across our branch network, meaning we can provide our targeted rural customers banking products and services similar to those provided to our urban customers, which we believe provides us a competitive advantage. Our wide range of products and focus on superior service and execution also creates multiple cross-selling opportunities for us and, we believe, improves our customer retention rates.

We have achieved robust and consistent financial performance while preserving asset quality during our growth

On account of our superior operational execution, broad range of products, expansion in our geographical reach and the resultant increase in market penetration through our extensive branch network, our assets have grown from Rs. 3,571.2 billion as of March 31, 2012 to Rs. 5,125.4 billion as of March 31, 2014 (Rs. 5,320.2 billion as of September 30, 2014). Our net income has increased from Rs. 49.8 billion for fiscal 2012 to Rs. 79.3 billion for fiscal 2014 (Rs. 43.0 billion for the six months ended September 30, 2014). In addition to the significant growth in our assets and net revenue, we have remained focused on maintaining a high level of asset quality. Our gross non-performing customer assets as a percentage of total customer assets was 1.2% as of March 31, 2014 (1.0% as of September 30, 2014) and our net non-performing customer assets was 0.6% of net customer assets (0.3% as of September 30, 2014). Our net interest margin was 4.6% in fiscal 2012 and 4.7% in fiscal 2014 (4.9% for the six

months ended September 30, 2014), net income as a percentage of

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average total shareholders equity was 13.3% in fiscal 2012 and 15.6% in fiscal 2014 (15.5% for the six months ended September 30, 2014) and net income as a percentage of average total assets was 1.6% in fiscal 2012 and 1.8% in fiscal 2014 (1.7% for the six months ended September 30, 2014). Our current and savings account deposits as a percentage of our total deposits were 43.1% as of September 30, 2014.

We have an advanced technology platform

We continue to make substantial investments in our advanced technology platform and systems and expand our electronically linked branch network. Our direct banking platforms are stable and robust, enabling new ways to connect with our customers to cross-sell our various products and improve customer retention and supporting ever-increasing transaction volumes as customers adopt newer self-service technologies.

We successfully completed an upgrade of our retail core banking system to the latest technology platform during fiscal 2014, which enables us to provide additional features to our customers and respond faster to business and market needs. We have also developed robust data analytics capabilities that allow us to market and cross-sell our products to customers through both traditional relationship management and interactive, on-demand methods depending on how particular customers choose to interact with us. We have also implemented state-of-the-art engineered systems technology for some of the important backend operational systems, including recently doubling the capacity of our operational customer relationship management system.

We have an experienced management team

Many of the members of our management team have had a long tenure with us, which gives us a deep bench of experienced managers. They have substantial experience in banking or other industries and share our common vision of excellence in execution. Having a management team with such breadth and depth of experience is well suited to leverage the competitive strengths we have already developed across our large, diverse and growing branch network as well as allowing our management team to focus on creating new opportunities for our business. See also the section Management .

Our Business Strategy

Our business strategy emphasizes the following elements:

Increase our market share of India s expanding banking and financial services industry

In addition to benefiting from the overall growth in India s economy and financial services industry, we believe we can increase our market share by continuing to focus on our competitive strengths, including our strong HDFC Bank brand and our extensive branch and ATM networks, to increase our market penetration.

Increase our geographical reach

As of September 30, 2014, we had 3,600 branches, 11,515 ATMs in 2,272 cities and towns, which represents an increase of 1,056 branches, 2,602 ATMs and our presence in 873 cities and towns since March 31, 2012. We believe we can continue expanding our branch footprint, particularly by focusing on rural and semi-urban areas. We believe these areas represent a significant opportunity for our continued growth as we expand banking services to those areas which have traditionally been underserved and which, by entering such markets, will enable us to establish new customer bases. We also believe that delivering banking services which are integrated with our existing business and product groups helps us to provide viable opportunities to the sections of the rural and semi-urban customer base that

is consistent with our targeted customer profile throughout India.

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Cross-sell our broad financial product portfolio across our customer base

We are able to offer our complete suite of financial products across our branch network, including in our rural locations. By matching our broad customer base with our ability to offer our complete suite of products to both rural and urban customers across the retail banking, wholesale banking and treasury product lines, we believe that we can continue to generate organic growth by cross-selling different products by proactively offering our customers complementary products as their relationships with us develop and their financial needs grow and evolve.

Continue our investments in technology to support our digital strategy

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching our customers. As a result, we are continuously investing in technology as a means of improving our customers banking experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with their banking accounts with us. While we currently provide a range of options for customers to access their accounts, including net banking, telephone banking, and banking applications on mobile devices, we believe additional investments in our technology infrastructure to further develop our digital strategy will allow us to cross-sell a wider range of products on our digital platform in response to our customers needs and thereby expand our relationship with our customers across a range of customer segments. We believe a comprehensive digital strategy will provide benefits in developing long-term customer relationships by allowing customers to interact with us and access their accounts wherever and whenever they desire.

Maintain strong asset quality through disciplined credit risk management

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our gross non-performing customer assets as a percentage of total customer assets was 1.0% as of September 30, 2014 and our net non-performing customer assets as a percentage of net customer assets was 0.3% as of September 30, 2014. As of September 30, 2014, our gross restructured loans as a percentage of gross non-performing loans were 8.2%. We believe we can maintain strong asset quality appropriate to the loan portfolio composition while achieving growth.

Maintain a low cost of funds

We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging our strengths and expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing. Our average cost of funds (including equity) was at 5.0% for the first six months of fiscal 2015 and 5.2% for the first six months of fiscal 2014. Our current and savings account deposits were 43% of our total deposits as of September 30, 2014.

Our Principal Business Activities

Our principal business activities consist of retail banking, wholesale banking and treasury operations. The following table sets forth our net revenues attributable to our reportable segments in accordance with the guidelines issued by the RBI, for the last three fiscal years and for the six month periods ended September 30, 2013 and September 30, 2014.

	Year ended March 31,						
	2012		2013		2014		
	(in millions, except percentages)						
Retail banking	Rs. 140,761.6	82.2%	Rs. 173,367.6	82.7%	Rs. 199,306.9	US$ 3,321.8	81.0%
Wholesale banking	29,098.7	17.0%	32,100.7	15.3%	39,302.8	655.0	16.0%
Treasury operations	1,289.9	0.8%	4,097.6	2.0%	7,368.8	122.8	3.0%
Net revenue	**Rs. 171,150.2**	**100.0%**	**Rs. 209,565.9**	**100.0%**	**Rs. 245,978.5**	**US$ 4,099.6**	**100.0%**

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	Six months ended September 30,			
	2013		2014	
	(in millions, except percentages)			
Retail banking	Rs. 94,136.6	81.8%	Rs. 113,762.0	82.0%
Wholesale banking	18,170.2	15.8%	23,844.5	17.2%
Treasury operations	2,798.0	2.4%	Rs. 1,123.4	0.8%
Net revenue	**Rs. 115,104.8**	**100.0%**	**Rs. 138,729.9**	**100.0%**

Retail Banking

Overview

We consider ourselves a one-stop shop for the financial needs of upper and middle income individuals. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Our retail banking loan products include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes, which together account for more than a third of our total retail banking loans. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business. We also have specific products designed for lower income individuals through our Sustainable Livelihood Initiative (SLI). Through this initiative, we reach out to the un-banked and under-banked segments of the Indian population.

We actively market our services through our branches and alternate sales channels, as well as through our relationships with automobile dealers and corporate clients. We seek to establish a relationship with a retail customer and then expand it by offering more products. As part of our growth strategy we continue to expand our distribution channels so as to make it easier for the customer to do business with us. We believe this strategy, together with the general growth of the Indian economy and the Indian upper and middle classes, affords us significant opportunities for growth.

As of September 30, 2014, we had 3,600 branches and 11,515 ATMs in 2,272 cities and towns. We also provide telephone banking, internet and mobile banking to our customers. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to regulatory guidelines/approvals.

Retail Loans and Other Asset Products

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two-wheeler loans, credit cards and loans against securities. Our retail loans were 67.8% of our gross loans of which 18.2% were unsecured as of March 31, 2014. Our retail loans were 68.4% of our gross loans as of September 30, 2014. Apart from our branches, we use our ATM screens and the internet to promote our loan products and we employ additional sales methods depending on the type of products. We perform our own credit analyses of the borrowers and the value of the collateral, if the loan is secured. See Risk Management Credit Risk Retail Credit Risk . We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral in many cases, we generally obtain post-dated checks covering all payments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. We also sometimes obtain instructions to debit the customer s account directly for making of payments. Our unsecured personal loans, which are not supported by any collateral, are a greater credit risk for us than our secured loan portfolio. We may be unable to collect in part or at all on an unsecured personal loan in the event of non-payment by the borrower. Accordingly, personal loans are granted at a higher loan yield since they

carry a higher credit risk as compared to secured loans. Also see Risk Factors Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance .

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The following table shows the value and share of our retail credit products:

	At September 30, 2014 Value (in millions)		% of Total Value
Retail Loans:			
Auto loans	Rs. 444,160.2	US$ 7,173.1	18.7%
Personal loans / Credit Cards	390,864.1	6,312.4	16.5%
Retail business banking	571,515.9	9,229.9	24.1%
Commercial vehicle and construction equipment finance	283,444.5	4,577.6	12.0%
Housing loans	195,715.8	3,160.8	8.3%
Other retail loans	471,355.8	7,612.3	19.9%
Total retail loans	2,357,056.3	38,066.2	99.4%
Mortgage-backed securities	1,569.8	25.4	0.1%
Asset-backed securities	11,927.1	192.6	0.5%
Total retail assets	Rs. 2,370,553.2	US$ 38,284.1	100.0%

Note: The figures above exclude securitized-out receivables. Mortgaged-backed securities and asset-backed securities are reflected at fair values.

Auto Loans

We offer loans at fixed interest rates for financing new and used automobile purchases. In addition to our general marketing efforts for retail loans, we market this product through our relationships with car dealers, direct sales agents, corporate packages and joint promotion programs with automobile manufacturers.

Personal Loans / Credit Cards

We offer unsecured personal loans at fixed rates to specific customer segments, including salaried individuals and self-employed professionals. In addition, we offer unsecured personal loans to small businesses and individual businessmen.

We also offer credit cards from the VISA and MasterCard stable, including gold, silver, corporate, platinum, titanium, signature, infinite, regalia, superia and world credit cards. During fiscal 2014, the Bank launched three premium variants of credit cards under the Diners brand under an exclusive arrangement with Diners. This will enable the Bank to cater to the specific needs of super-premium customers requiring global card benefits. We had approximately 5.1 million cards outstanding as of March 31, 2014, as against 5.6 million as of March 31, 2012, primarily as a result of a rationalization exercise undertaken by the Bank to identify and eliminate inactive cards and focus more on card activation. We had 5.5 million cards outstanding as of September 30, 2014.

Retail Business Banking

We address the borrowing needs of the community of small businessmen primarily located near our bank branches by offering facilities such as credit lines, term loans for expansion or addition of facilities and discounting of receivables. We classify these business banking loans as a retail product. Such lending is typically secured with current assets as

well as immovable property and fixed assets in some cases. We also offer letters of credit, guarantees and other basic trade finance products, foreign exchange and cash management services to such businesses.

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Commercial Vehicles and Construction Equipment Finance

We provide secured financing for commercial vehicles and provide working capital, bank guarantees and trade advances to transport operators. In addition to funding domestic assets, we also finance imported assets for which we open foreign letters of credit and offer treasury services, such as forward exchange covers. We coordinate with manufacturers to jointly promote our financing options to their clients.

Housing Loans

We provide home loans through an arrangement with our principal shareholder, HDFC Limited. Under this arrangement we sell loans provided by HDFC Limited through our branches. HDFC Limited approves and disburses the loans, which are kept on in their books, and we receive a sourcing fee for these loans. We have an option but not an obligation to purchase up to 70% (or 55% in case all the loans purchased qualified for priority sector lending) of the fully disbursed home loans sourced under this arrangement through either the issue of mortgage backed pass through certificates (PTCs) or a direct assignment of the loans. The balance is retained by HDFC Limited.

Other Retail Loans

Two-Wheeler Loans

We offer loans for financing the purchase of scooters and motorcycles. We market this product in ways similar to our marketing of auto loans.

Loans Against Securities

We offer loans against equity shares, mutual fund units, bonds issued by the RBI and other securities that are on our approved list. We limit our loans against equity shares to Rs. 2.0 million per retail customer in line with regulatory guidelines and limit the amount of our total exposure secured by particular securities. We lend only against shares in book-entry (dematerialized) form, which ensures that we obtain perfected and first-priority security interests. The minimum margin for lending against shares is prescribed by the RBI.

We also offer loans which primarily include overdrafts against time deposits, health care equipment financing loans, tractor loans, loans against gold and ornaments, loans to self-help groups and small loans to farmers.

Loan Assignments

We purchase loan portfolios, generally in India, from other banks, financial institutions and financial companies, which are similar to asset-backed securities, except that such loans are not represented by PTCs. Some of these loans also qualify toward our directed lending obligations.

Kisan Gold Card (Agri Loans)

Under the Kisan Gold Card, funds are extended to farmers in accordance with the RBI s Kisan Credit Card (KCC) scheme in order to assist the farmers in financing certain farming expenses, such as the production of crops, post-harvest repair and maintenance and the domestic consumption needs of the farmers. The amount of funding available is based on the farmer s cropping pattern, the amount of land under utilization and the scale of financing and asset costs. The Bank offers both cash credit and term loan facilities under this product.

Loans Against Gold Jewelry

We offer loans against gold jewelry to specific customer segments, including women and farmers. Such loans are offered with monthly interest payments and a bullet maturity. These loans also have margin

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requirements in the event of a decrease in the value of the gold collateral due to fluctuations in market prices of gold. Loans against gold jewelry are also extended to existing auto loan, personal loan or home loan customers in order to cater to their additional funding needs.

Retail Deposit Products

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented approximately 78.2% of our total deposits as of March 31, 2014 and 81.1% of our total deposits as of September 30, 2014. The following chart shows the value of our retail deposits by our various deposit products as at March 31, 2014 and September 30, 2014.

	At March 31, 2014			At September 30, 2014		
	Value (in millions)		% of total	Value (in millions)		% of total
Savings	Rs. 1,007,857.6	US$ 16,797.6	35.1%	Rs. 1,080,441.2	US$ 17,449.0	34.1%
Current	352,581.5	5,876.4	12.3%	359,726.1	5,809.5	11.4%
Time	1,507,758.6	25,129.3	52.6%	1,724,585.0	27,851.8	54.5%
Total	**Rs. 2,868,197.7**	**US$ 47,803.3**	**100.0%**	**Rs. 3,164,752.3**	**US$ 51,110.3**	**100.0%**

Our individual retail account holders have access to the benefits of a wide range of direct banking services, including debit and ATM cards, access to internet and phone banking services, access to our growing branch and ATM network, access to our other distribution channels and eligibility for utility bill payments and other services. Our retail deposit products include the following:

Savings accounts, which are demand deposits, primarily for individuals and trusts.

Current accounts, which are non-interest bearing checking accounts designed primarily for business customers. Customers have a choice of regular and premium product offerings with different minimum average quarterly account balance requirements.

Time deposits, which pay a fixed return over a predetermined time period.

We also offer special value-added accounts, which offer our customers added value and convenience. These include a time deposit account that allows for automatic transfers from a time deposit account to a savings account, as well as a time deposit account with an automatic overdraft facility.

Other Retail Services and Products

Debit Cards

We had around 17.4 million debit cards outstanding as of March 31, 2014 as compared to 14.1 million as of March 31, 2012. We had 17.9 million debit cards outstanding as of September 30, 2014. The cards can be used at ATMs and point-of-sales terminals in India and in other countries across the world.

Individual Depositary Accounts

We provide depositary accounts to individual retail customers for holding debt and equity instruments. Securities traded on the Indian exchanges are generally not held through a broker s account or in a street name. Instead, an individual has his own account with a depositary participant. Depositary participants, including us, provide services through the major depositaries established by the two major stock exchanges. Depositary participants record ownership details and effectuate transfers in book-entry form on behalf of the buyers and sellers of securities. We provide a complete package of services, including account opening, registration of transfers and other transactions and information reporting.

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Mutual Fund Sales

We offer our retail customers units in most of the large and reputable mutual funds in India. In some cases we earn front-end commissions for new sales and additional fees in subsequent years. We distribute mutual fund products primarily through our branches and our private banking advisors.

Insurance

We have arrangements with HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited to distribute their life insurance and general insurance products respectively, to our customers. We earn upfront commissions on new premiums collected as well as some trailing income in subsequent years in some cases while the policy is still in force. Our commission income for the fiscal 2014 includes fees (net of service tax) of Rs. 3,375.6 million in respect of life insurance business and Rs. 1,166.9 million in respect of general insurance business.

Investment Advice

We offer our customers a broad range of investment advice, including advice regarding the purchase of Indian debt, equity shares and mutual funds. We provide our high net worth private banking customers with a personal investment advisor who can consult with them on their individual investment needs.

Bill Payment Services

We offer our customers utility bill payment services for leading utility companies, including electricity, telephone and internet service providers. Customers can also review and access their bill details through our direct banking channels. We believe this is a valuable convenience that we offer our customers. We offer these services to customers through multiple distribution channels ATMs, telephone banking, internet banking and mobile telephone banking.

Corporate Salary Accounts

We offer Corporate Salary Accounts, which allow employers to make salary payments to a group of employees with a single transfer. We then transfer the funds into the employees individual accounts and offer them preferred services, such as lower minimum balance requirements. As of September 30, 2014, these accounts constituted 29% of our retail savings deposits by value.

Non-Resident Indian Services

Non-resident Indians are an important target market segment for us given their relative affluence and strong ties with family members in India. Our non-resident deposits amounted to Rs. 622.1 billion as of September 30, 2014. As an accelerated measure to increase foreign currency inflows into the country, the RBI had, in the second half of fiscal 2014, permitted banks in India to raise FCNR (B) deposits within a specified time period and in turn swap them into rupees with the RBI at concessional swap rates. The RBI has exempted these FCNR (B) deposits from the legal reserve requirements. The RBI also permitted exclusion of loans made in India against these FCNR (B) deposits from the ANBC computation for priority sector lending targets. Our time deposits include US$ 3.4 billion deposits raised by us under the RBI window for FCNR deposits.

Retail Foreign Exchange

We purchase foreign currency from and sell foreign currency to retail customers in the form of cash, traveler s checks, demand drafts, foreign exchange cards and other remittances. We also carry out foreign currency check collections.

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Customers and Marketing

Our target market for our retail services is comprised of upper and middle income individuals and high net worth customers. As of September 30, 2014, 16% of our retail deposit customers contributed 78% of our retail deposits. These deposits include the time deposits raised by us under the RBI window for FCNR deposits. We market our products through our branches, telemarketing and a dedicated sales staff for niche market segments. We also use third-party agents and direct sales associates to market certain products and to identify prospective new customers.

Additionally, we obtain new customers through joint marketing efforts with our wholesale banking department, such as our Corporate Salary Account package. We cross-sell many of our retail products to our customers. We also market our auto loan and two-wheeler loan products through joint efforts with relevant manufacturers and distributors.

We have programs that target other particular segments of the retail market. For example, our private and preferred banking programs provide customized financial planning to high net worth individuals. Private banking customers receive a personal investment advisor who serves as their single-point contact and compiles personalized portfolio tracking products, including mutual fund and equity tracking statements. Our private banking program also offers equity investment advisory products. While not as service-intensive as our private banking program, preferred banking offers similar services to a slightly broader target segment. Top revenue-generating customers of our preferred banking program are channeled into our private banking program.

We also have a strong commitment to financial inclusion programs to extend banking services to underserved populations. Our SLI targets lower income individuals to finance their economic activity, and also provide skill training, credit counseling, and market linkages for better price discovery. Through this initiative we reach out to the un-banked and under-banked segments of the Indian population.

Wholesale Banking

Overview

We provide our corporate and institutional clients a wide array of commercial banking products and transactional services.

Our principal commercial banking products include a range of financing products, documentary credits (primarily letters of credit) and bank guarantees, foreign exchange and derivative products, investment banking services and corporate deposit products. Our financing products include loans, overdrafts, bill discounting and credit substitutes, such as commercial papers, debentures, preference shares and other funded products. Our foreign exchange and derivatives products assist corporations in managing their currency and interest rate exposures.

For our commercial banking products, our customers include companies that are part of private sector business houses, public sector enterprises and multinational corporations, as well as small and mid-sized businesses. Our customers also include suppliers and distributors of corporations to whom we provide credit facilities and with whom we thereby establish relationships as part of a supply chain initiative for both our commercial banking products and transactional services. We aim to provide our corporate customers with high quality customized service. We have relationship managers who focus on particular clients and who work with teams that specialize in providing specific products and services, such as cash management and treasury advisory services.

Loans to small and medium enterprises, which are generally in the nature of loans for commercial vehicles, construction equipment and business purposes, are included as part of our retail banking business. We group these

loans as part of our retail banking business considering, among other things, the customer profile, the

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nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business.

Our principal transactional services include cash management services, capital markets transactional services and correspondent banking services. We provide physical and electronic payment and collection mechanisms to a range of corporations, financial institutions and government entities. Our capital markets transactional services include custodial services for mutual funds and clearing bank services for the major Indian stock exchanges and commodity exchanges. In addition, we provide correspondent banking services, including cash management services and funds transfers, to foreign banks and co-operative banks.

Commercial Banking Products

Commercial Loan Products and Credit Substitutes

Our principal financing products are working capital facilities and term loans. Working capital facilities primarily consist of cash credit facilities and bill discounting. Cash credit facilities are revolving credits provided to our customers that are secured by working capital such as inventory and accounts receivable. Bill discounting consists of short-term loans which are secured by bills of exchange that have been accepted by our customers or drawn on another bank. In many cases, we provide a package of working capital financing that may consist of loans and a cash credit facility as well as documentary credits or bank guarantees. Term loans consist of short-term loans and medium-term loans which are typically loans of up to five years in duration. Approximately 90% of our loans are denominated in rupees with the balance being denominated in various foreign currencies, principally the U.S. dollar.

We also purchase credit substitutes, which are typically comprised of commercial paper and debentures issued by the same customers with whom we have a lending relationship in our wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and we bear the same customer risk as we do for loans extended to these customers. Additionally, the yield and maturity terms are generally directly negotiated by us with the issuer.

The following table sets forth the asset allocation of our commercial loans and financing products by asset type. For accounting purposes, we classify commercial paper and debentures as credit substitutes (which in turn are classified as investments).

	As of March 31,		As of September 30,	
	2013	2014	2014	2014
	(in millions)			
Gross commercial loans	Rs. 808,742.1	Rs. 1,039,923.6	Rs. 1,091,319.5	US$ 17,624.7
Credit substitutes:				
Commercial paper	Rs. 39,802.6	Rs. 42,031.6	Rs. 89,114.5	US$ 1,439.2
Non-convertible debentures	6,820.0	23,115.5	10,718.7	173.1
Total credit substitutes	Rs. 46,622.6	Rs. 65,147.1	Rs. 99,833.2	US$ 1,612.3
Gross commercial loans plus credit substitutes	Rs. 855,364.7	Rs. 1,105,070.7	Rs. 1,191,152.7	US$ 19,237.0

While we generally lend on a cash-flow basis, we also require collateral from a large number of our borrowers. As of September 30, 2014, 69.9% of the aggregate principal amount of our gross wholesale loans was secured by collateral (Rs. 328.1 billion in aggregate principal amount of loans were unsecured). However, collateral securing each individual loan may not be adequate in relation to the value of the loan. All borrowers must meet our internal credit assessment procedures, regardless of whether the loan is secured. See Risk Management Credit Risk Wholesale Credit Risk .

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We price our loans based on a combination of our own cost of funds, market rates, tenor of the loan, our rating of the customer and the overall revenues from the customer. An individual loan is priced on a fixed or floating rate, the pricing is based on a margin that depends on the credit assessment of the borrower. We are required to follow the Base Rate System while pricing our loans. For a detailed discussion of these requirements, see Supervision and Regulation Regulations Relating to Making Loans .

The RBI requires banks to lend to specific sectors of the economy. For a detailed discussion of these requirements, see Supervision and Regulation Directed Lending .

Bill Collection, Documentary Credits and Bank Guarantees

We provide bill collection, documentary credit facilities and bank guarantees for our corporate customers. Documentary credits and bank guarantees are typically provided on a revolving basis. The following table sets forth, for the periods indicated, the value of transactions processed with respect to our bill collection, documentary credits and bank guarantees:

	As of March 31,		As of September 30,	
	2013	2014	2014	2014
		(in millions)		
Bill collection	Rs. 3,857,516.1	Rs. 3,609,043.4	Rs. 1,692,797.5	US$ 27,338.5
Documentary credits	598,307.0	785,059.7	527,733.0	8,522.8
Bank guarantees	245,625.5	275,705.6	91,545.6	1,478.5
Total	Rs. 4,701,448.6	Rs. 4,669,808.7	Rs. 2,312,076.1	US$ 37,339.7

Bill collection: We provide bill collection services for our corporate clients in which we collect bills on behalf of a corporate client from the bank of our client s customer. We do not advance funds to our client until receipt of payment.

Documentary credits: We issue documentary credit facilities on behalf of our customers for trade financing, sourcing of raw materials and capital equipment purchases.

Bank guarantees: We provide bank guarantees on behalf of our customers to guarantee their payment or performance obligations. A small part of our guarantee portfolio consists of margin guarantees to brokers issued in favor of stock exchanges.

Foreign Exchange and Derivatives

Our foreign exchange and derivative product offering to our customers covers a range of products, including foreign exchange and interest rate transactions and hedging solutions, such as spot and forward foreign exchange contracts, forward rate agreements, currency swaps, currency options and interest rate derivatives. These transactions enable our customers to transfer, modify or reduce their foreign exchange and interest rate risks. A specified group of relationship managers from our treasury front office works on such product offerings jointly with the relationship managers from Wholesale Banking.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amounts at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees. A forward rate agreement gives the buyer the

ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer, the right but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

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We enter into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with our customers, similar to our transactions with inter-bank participants. To support our clients activities, we are an active participant in the Indian inter-bank foreign exchange market. We also trade, to a more limited extent, for our own account. We also engage in proprietary trades of interest rate swaps and use them as part of our asset liability management.

The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts with our customers as of March 31, 2012, 2013, 2014, and as of September 30, 2014 together with the fair values on each reporting date.

As of March 31,									
2012		2013		2014		As of September 30, 2014			
Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	
(in millions)									
Rs. 399,622.3	Rs. 1,496.4	Rs. 372,123.4	Rs. 381.9	Rs. 214,014.0	Rs. 653.5	Rs. 323,066.1	Rs. 78.3	US$	5,217.3
Rs. 433,469.2	Rs. 8,346.0	Rs. 499,620.6	Rs. 4,216.5	Rs. 543,568.8	Rs. 5,536.3	Rs. 627,646.1	Rs. 1,159.7	US$	10,136.4

Investment Banking

Our Investment Banking Group offers services in the debt and equity capital markets. The group has arranged financing for clients across sectors including telecom, toll roads, steel, energy, chemicals and cement. The group advised on aggregate issuances of over Rs. 100 billion worth of corporate bonds across public sector undertakings, financial institutions and the Bank s corporate clients during fiscal 2014. In the advisory business, the Bank advised and closed transactions in capital goods, agrochemicals and the banking, financial services and insurance (BFSI) sector. In the equity capital markets business, the group has advised clients on public offerings and buy-back of shares.

Wholesale Deposit Products

As of September 30, 2014, we had wholesale deposits aggregating over Rs. 739.1 billion, which represented 18.9% of our total deposits. We offer both non-interest bearing current accounts and time deposits. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs. 10.0 million) so long as the rates booked on a day are the same for all customers of that deposit size for that maturity. See Selected

Statistical Information for further information about our total deposits.

Transactional Services

Cash Management Services

We provide cash management services in India. Our services make it easier for our corporate customers to expedite inter-city check collections, make payments to their suppliers more efficiently, optimize liquidity and reduce interest costs. In addition to benefiting from the cash float, which reduces our overall cost of funds, we may also earn commissions for these services.

Our primary cash management service is check collection and payment. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we can effectively provide nationwide collection and disbursement systems for our corporate clients. This is especially important because there is no nationwide payment system in India, and checks must generally be returned to the city from which written, in order to be cleared. Because of mail delivery delays and the variations in city-based inter-bank clearing practices, check collections can be slow and unpredictable, and can lead to uncertainty and inefficiencies in cash management. We believe we have a strong position in this area relative to most other participants in this market.

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Our wholesale banking clients also use our cash management services. These clients include Indian private sector companies, public sector undertakings and multinational companies. We also provide these services to Indian insurance companies, mutual funds, brokers, financial institutions and various government entities.

We have also implemented a straight-through processing solution to link our wholesale banking and retail banking systems. This has led to reduced manual intervention in transferring funds between the corporate accounts which are in the wholesale banking system and beneficiary accounts residing in retail banking systems. This initiative helps reduce transaction costs. We have a large number of commercial clients using our corporate Internet banking for financial transactions with their vendors, dealers and employees who bank with us.

Clearing Bank Services for Stock and Commodity Exchanges

We serve as a cash-clearing bank for major stock and commodity exchanges in India, including the National Stock Exchange of India Limited and the BSE Limited. As a clearing bank, we provide the exchanges or their clearing corporations with a means for collecting cash payments due to them from their members or custodians and a means of making payments to these institutions. We make payments once the broker or custodian deposits the funds with us. In addition to benefiting from the cash float, which reduces our overall cost of funds, in certain cases we also earn commissions on such services.

Custodial Services

We provide custodial services principally to Indian mutual funds, as well as to domestic and international financial institutions. These services include safekeeping of securities and collection of dividend and interest payments on securities. Most of the securities under our custody are in book-entry (dematerialized) form, although we provide custody for securities in physical form as well for our wholesale banking clients. We earn revenue from these services based on the value of assets under safekeeping and the value of transactions handled.

Correspondent Banking Services

We act as a correspondent bank for co-operative banks, co-operative societies and foreign banks. We provide cash management services, funds transfers and services, such as letters of credit, foreign exchange transactions and foreign check collection. We earn revenue on a fee-for-service basis and benefit from the cash float, which reduces our overall cost of funds.

We are well positioned to offer this service to co-operative banks and foreign banks in light of the structure of the Indian banking industry and our p---------- ANNEX A AGREEMENT AND PLAN OF MERGER DATED AS OF DECEMBER 31, 2003 ---------- AGREEMENT AND PLAN OF MERGER BY AND AMONG ANNALY MORTGAGE MANAGEMENT, INC., FIXED INCOME DISCOUNT ADVISORY COMPANY, FDC MERGER SUB, INC. AND THE PERSONS SIGNATORY HERETO DATED AS OF DECEMBER 31, 2003 ARTICLE I THE MERGER.....2 SECTION 1.1 The Merger.....2 SECTION 1.2 Closing.....2 SECTION 1.3 Effective Time.....2 SECTION 1.4 Effects of the Merger.....2 SECTION 1.5 Articles and By-Laws.....3 SECTION 1.6 Board and Officers of the Surviving Corporation.....3 SECTION 1.7 Merger Consideration; Conversion of Shares; Cancellation of Shares.....3 SECTION 1.8 Closing Merger Consideration.....4 SECTION 1.9

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II Preamble Second Annual Period 1.9(d)(i) Second Period Amount 1.9(d)(xx) Second Year Carryover 1.9(d)(xxi) Securities Act 2.3(a) Seller Preamble vii Cross Reference Term in Agreement ---------- Selling Expenses 5.13(f) Shelf Registration Statement 5.13(a) SRO 2.3(a) Surviving Corporation 1.1 Tax Returns 3.10(d) Taxes 3.10(d) Third Annual Period 1.9(d)(i) Third Period Amount 1.9(d)(xxii) Third Party Claim 9.3(a) Total Compensation Amount 1.9(d)(xxiii) Transfer 5.11(f)(i) Under common control with 10.8(b)(ii) Valuation Price 9.4(f) VWAP 1.9(d)(xxiv) viii AGREEMENT AND PLAN OF MERGER THIS AGREEMENT AND PLAN OF MERGER, dated as of December 31, 2003 (this "Agreement"), by and among ANNALY MORTGAGE MANAGEMENT, INC., a Maryland corporation ("Parent"), FDC MERGER SUB, INC., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), FIXED INCOME DISCOUNT ADVISORY COMPANY, a Delaware corporation (the "Company") and each of the persons who are signatories hereto (hereinafter referred to individually as a "Seller" and collectively as the "Sellers"). WHEREAS, it is proposed that Merger Sub will merge with and into the Company (the "Merger"), with the Company continuing as the surviving corporation, in accordance with the General Corporation Law of the State of Delaware ("Delaware Law"), upon the terms and subject to the conditions set forth herein; WHEREAS, a special committee (the "Parent Special Committee") comprised of all of the members of the Board of Directors of Parent (the "Parent Board") who are not directors, officers, employees or affiliates of the Company, has received the written opinion of Lehman Brothers Inc. (the "Parent Financial Advisor") that, based on and subject to the various assumptions and qualifications set forth in such opinion, as of the date of such opinion, the Merger Consideration (as hereinafter defined) is fair to Parent from a financial point of view; WHEREAS, the Parent Special Committee has determined that it is in the best interests of the shareholders of Parent (the "Parent Shareholders") (other than the Company and its affiliates) to approve this Agreement and the transactions contemplated hereby, including the Merger, and has recommended to the Parent Board that the Parent Board adopt, and recommend that the Parent Shareholders approve, this Agreement and the transactions contemplated hereby, including the Merger; WHEREAS, the Parent Board has determined that it is in the best interests of the Parent Shareholders to approve this Agreement and the transactions contemplated hereby, including the Merger, has determined that the Merger is advisable, and has adopted, and resolved to recommend that the Parent Shareholders approve as required by the rules of the New York Stock Exchange (the "NYSE") (with the shares of Parent Common Stock (as defined) held by the Sellers voted in direct proportion to the shares of Parent Common Stock held by the Parent Shareholders who are not Sellers) this

Agreement and the transactions contemplated hereby, including the Merger, upon the terms and subject to the conditions of this Agreement; WHEREAS, the Board of Directors of the Company (the "Company Board") has determined that it is in the best interests of the shareholders of the Company (the "Company Shareholders") to approve this Agreement and the transactions contemplated hereby, including the Merger, has declared the Merger advisable, and has adopted, and resolved to recommend that the Company Shareholders approve, this Agreement and the transactions contemplated hereby, including the Merger, upon the terms and subject to the conditions of this Agreement; A-1 WHEREAS, the Company Shareholders, concurrently with the execution of this Agreement, have executed a unanimous written consent of the Company Shareholders approving this Agreement and the transactions contemplated hereby, including the Merger; WHEREAS, for federal income tax purposes, it is intended that the Merger will qualify as a reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and that this Agreement will constitute a plan of reorganization under Sections 354 and 361 of the Code; and WHEREAS, in order to induce Parent to enter into this Agreement, certain shareholders, directors and executive officers of the Company have entered into employment agreements (which include non-competition covenants that constitute an integral part of the consideration hereunder by the Sellers); NOW, THEREFORE, in consideration of the promises and the representations, warranties, covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound hereby, Parent, the Company, the Sellers and Merger Sub hereby agree as follows: ARTICLE I THE MERGER SECTION 1.1 THE MERGER. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with Delaware Law, at the Effective Time (as defined), Merger Sub shall be merged with and into the Company. As a result of the Merger, the separate corporate existence of Merger Sub shall cease, and the Company shall continue as the surviving corporation of the Merger (the "Surviving Corporation"). SECTION 1.2 CLOSING. The closing of the Merger (the "Closing") will take place at the offices of Morrison & Foerster LLP, 1290 Avenue of the Americas, New York, NY, at 10:00 a.m. on a mutually agreeable date to be specified by the parties hereto, which (subject to satisfaction or waiver of all of the conditions set forth in Article VI) shall be no later than the second business day after satisfaction or waiver of the conditions set forth in Section 6.1(a) and Section 6.1(b) (the "Closing Date"), unless otherwise agreed in writing by the parties hereto. SECTION 1.3 EFFECTIVE TIME. As promptly as practicable after the satisfaction or, if permissible, waiver of the conditions set forth in Article VI, the parties hereto shall cause the Merger to be consummated by filing a certificate of merger (the "Certificate of Merger") with the Secretary of State of the State of Delaware, in such form as is required by, and executed in accordance with, the relevant provisions of Delaware Law (the date and time of such filing being the "Effective Time"). SECTION 1.4 EFFECTS OF THE MERGER. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving A-2 Corporation, and all debts, liabilities, obligations, restrictions, disabilities and duties of the Company and Merger Sub shall become the debts, liabilities, obligations, restrictions, disabilities and duties of the Surviving Corporation. SECTION 1.5 ARTICLES AND BY-LAWS. As of the Effective Time, the Certificate of Incorporation and By-Laws of the Company, in each case as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation and By-Laws of the Surviving Corporation. SECTION 1.6 BOARD AND OFFICERS OF THE SURVIVING CORPORATION. The directors of Merger Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation following the Merger, each to hold office until the earlier of such person's resignation or removal or until a successor is duly elected and qualified, as the case may be. The officers of the Company immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation following the Merger, each to hold office until the earlier of such person's resignation or removal or until a successor is duly elected and qualified, as the case may be. SECTION 1.7 MERGER CONSIDERATION; CONVERSION OF SHARES; CANCELLATION OF SHARES. (a) Each share of common stock of the Company (the "Company Common Stock" or "Company Shares") issued and outstanding immediately prior to the Effective Time shall be canceled, and shall by virtue of the Merger and without any action on the part of the holder thereof, be converted automatically into the right to receive the Closing Merger Consideration and the Contingent Merger Consideration (collectively, the "Merger Consideration") subject to and upon the terms and conditions provided herein. (b) At the Effective Time, all shares of the Company Common Stock converted pursuant to Section 1.7(a) shall automatically be canceled and retired and cease to exist, and each holder of a certificate ("Certificate") representing any such shares of

Company Common Stock (each, a "Record Holder") shall cease to have any rights with respect thereto, except the right to receive the Closing Merger Consideration in accordance with Section 1.8 and the Contingent Merger Consideration in accordance with Section 1.9. (c) Each share of common stock, without par value per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and become one validly issued, fully paid and nonassessable share of common stock, par value $.01, of the Surviving Corporation. (d) The right of a Record Holder to receive the Closing Merger Consideration in accordance with Section 1.8 and the Contingent Merger Consideration (if any) in accordance with Section 1.9 may not be transferred or assigned except consistent with applicable law and (i)by operation of law, (ii) by will or the laws of descent or distribution, (iii) to the Record Holder's spouse, parent, descendents or siblings (collectively, the "Immediate Family"), (iv) to a trust, the sole beneficiaries of which are the Record Holder and/or the Record Holder's Immediate Family, (v) to an entity wholly owned by the Record Holder and/or the Record Holder's Immediate Family, (vi) to Parent or (vii) upon dissolution of an entity to its beneficial owners. Permitted transfers will be recognized by Parent only upon receipt of written notice and A-3 such documents as Parent may require, including, without limitation, such transferee's agreement to be bound by the terms and conditions of this Agreement. Until such recognition, Parent may treat the party recorded on its books as a Record Holder as the absolute owner of the right to receive the Closing Merger Consideration and the Contingent Merger Consideration (if any). SECTION 1.8 CLOSING MERGER CONSIDERATION. (a) For each share of Company Common Stock canceled pursuant to Section 1.7(a), the Record Holder thereof shall be entitled to receive a number of validly issued, fully paid and nonassessable shares of common stock of the Parent (the "Parent Common Stock" or "Parent Shares") equal to (i) $40,500,000 divided by (ii) the Parent Closing Price (as defined) divided by (iii) the number of shares of Company Common Stock canceled pursuant to Section 1.7(a) (subject to further adjustment (if any) required pursuant to Section 1.13(a)) (the "Closing Merger Consideration"). (b) As used in this Agreement, (i) the "Parent Closing Price" shall equal the Closing Price of Parent Common Stock for the trading day prior to January 2, 2004, and (ii) the "Closing Price" of Parent Common Stock on any trading day shall mean the closing price per share of the Parent Common Stock on the NYSE (as reported on the NYSE Composite Tape). (c) The issuance and delivery to a Record Holder of the Closing Merger Consideration is subject to compliance with the exchange procedures set forth in Section 1.12. SECTION 1.9 CONTINGENT MERGER CONSIDERATION. (a) For each share of Company Common Stock canceled pursuant to Section 1.7(a), the Record Holder thereof shall be entitled to receive, on each Contingent Payment Date, the Contingent Merger Consideration (if any) that is payable with respect to the Annual Period immediately preceding such Contingent Payment Date; subject, however, to Parent's obligation to make payment of any Contingent Merger Consideration at the time and to the extent required pursuant to Sections 1.11(c) and (d) below. (b) Schedule 1.9(b) sets forth, for each Annual Period, a "Revenue Target" and an "Operating Margin Target." For each Annual Period, the condition (the "Earn-out Condition") to the full amount of the Contingent Merger Consideration becoming due is that (i) the Adjusted Company Revenue for such Annual Period equal or exceed the Revenue Target for such Annual Period and (ii) the Adjusted Margin for such Annual Period equal or exceed the Operating Margin Target for such Annual Period. For any Annual Period, the Earn-out Condition will be deemed not to have been satisfied if either the applicable Revenue Target in clause (i) or Operating Margin Target in clause (ii) of the immediately preceding sentence has not been equaled or exceeded. For each Annual Period, the condition (the "Proportional Earn-out Condition") to a portion of the Contingent Merger Consideration becoming due is that the Applicable Percentage (as defined below) for such Annual Period equals or exceeds 0.8. (c) The issuance and delivery to a Record Holder of the Contingent Merger Consideration is subject to compliance with the exchange procedures set forth in Section 1.12. (d) For the purpose of determining the Contingent Merger Consideration (if any), the following terms shall have the meanings assigned to them in this Section 1.9: (i) The "First Annual Period" means the 12 month period ending December 31, 2004; the "Second Annual Period" means the 12 month period ending A-4 December 31, 2005; and the "Third Annual Period" means the 12 month period ending December 31, 2006. "Annual Period" shall refer to any of the foregoing periods as the context may require and "Annual Periods" shall refer collectively to all three such periods. (ii) "Acquired Business" means any new investment advisory account relationships, asset management relationships, managed accounts or similar investment management service relationships that the Surviving Corporation acquires after the Effective Time and for which it pays any form of consideration to a third party, including, without limitation, any cash or cash equivalents or other marketable securities, any equity interests or carried interests, any assumption of debt or provision of credit support, any finders' fees, any compensation arrangements or anything else of value that constitutes consideration to such third party for the

transfer of such account or other relationships to the Surviving Corporation or any of its subsidiaries; provided, however, that any investment advisory account relationship, asset management relationship, managed account or similar investment management service relationship or other account relationship acquired by the Surviving Corporation after the Effective Time as a result of its marketing activities, the marketing activities of its agents or distributors (which may be entitled to receive a portion of any management or other fees generated by such relationship) or otherwise, and which does not involve an up-front payment of consideration to a third party not exceeding $200,000 (excluding reimbursement of out-of-pocket costs and expenses) shall not constitute an Acquired Business. (iii) "Actual Compensation Amount" means, with respect to any Annual Period, an amount equal to the actual amount of compensation, salaries, bonus payments and employee benefit expenses paid to or accrued for the benefit of employees of the Surviving Corporation during such Annual Period; provided that the Actual Compensation Amount shall not include any compensation, salaries, bonus payments and employee benefit expenses directly attributable to any Acquired Business. (iv) "Adjusted Company Revenue" means, with respect to any Annual Period, the aggregate amount of revenue earned by the Surviving Corporation during such Annual Period in accordance with generally accepted accounting principles ("GAAP"), as consistently applied by the Surviving Corporation less an amount equal to the Implied Annaly Revenue for such Annual Period; provided that Adjusted Company Revenue shall not include any revenues of the Surviving Corporation that are attributable to any Acquired Business unless the inclusion of revenues attributable to a particular Acquired Business is approved by a majority of the members of the Parent Board who are not Sellers or officers or employees of the Surviving Corporation, which approval may be conditional on the Representative's agreement (on behalf of the Sellers) to one or more adjustments as such members may propose to the Revenue Targets, Operating Margin Targets and/or other terms and conditions of this Section 1.9. (v) "Adjusted Annual Expenses" means, with respect to an Annual Period, the Annual Expenses for such Annual Period, minus the Annaly Support Expenses for such Annual Period. (vi) "Adjusted Margin" means, with respect to an Annual Period, a decimal amount (expressed as a percentage) equal to (i) the Adjusted Company Revenue for such A-5 Annual Period minus the Adjusted Annual Expenses for such Annual Period, divided by (ii) the Adjusted Company Revenue for such Annual Period. (vii) "Annaly Factor" means, with respect to an Annual Period, (i) the Implied Annaly Revenue for such Annual Period divided by (ii) the sum of the Adjusted Company Revenue for such Annual Period and the Implied Annaly Revenues for such Annual Period. (viii) "Annaly Support Expenses" means, with respect to an Annual Period, (i) the Annual Expenses multiplied by (ii) the Annaly Factor. (ix) "Annual Assets under Management" means, with respect to an Annual Period, the sum of the total assets (excluding plant, property and equipment and other similar non-investment assets) at Parent as at the end of its fiscal quarters as reported in its quarterly financial reports included in its Form 10-Q's filed for the first three fiscal quarters of such Annual Period and as at the end of its fiscal year as reported in its annual financial reports included in its Form 10-K filed for such Annual Period, divided by 4. (x) "Annual Expenses" means, with respect to any Annual Period, all expenses incurred by the Surviving Corporation during such Annual Period in accordance with GAAP as consistently applied by the Surviving Corporation, provided that (A) Annual Expenses shall not include: (x) any professional fees and expenses incurred in connection with the consummation of the Merger contemplated hereby, (y) any operating expenses directly attributable to an Acquired Business, and (z) any provision for federal, state or city income taxes (or similar taxes based on the Surviving Corporation's net income); and (B) the aggregate amount of compensation expenses included in Annual Expenses shall not exceed the Total Compensation Amount for such Annual Period. (xi) "Applicable Percentage" means, with respect to an Annual Period, the percentage (expressed as a decimal) equal to the product of (i) the Revenue Percentage for such Annual Period and (ii) the Margin Percentage for such Annual Period. (xii) "Average Price" for an Annual Period means the average of the VWAPs of Parent Common Stock for the first 20 consecutive trading days following the end of such Annual Period. (xiii) "Calculated Compensation Amount" means, with respect to any Annual Period, an amount equal to the sum of (i) 0.5 multiplied by the Adjusted Company Revenue for such Annual Period and (ii) 0.45 multiplied by the Implied Annaly Revenue for such Annual Period. (xiv) "Contingent Merger Consideration" means: (A) with respect to the First Annual Period, (i) if the Earn-out Condition for such Annual Period has been satisfied, a number of fully paid and nonassessable shares of Parent Common Stock equal to (x) $22,770,000 divided by (y) the Average Price for the First Annual Period divided by (z) the number of shares of Company Common Stock A-6 canceled pursuant to Section 1.7(a) (subject to further adjustment (if any) required pursuant to Section 1.13(b)); and (ii) if the Earn-out Condition for the First Annual Period has not been satisfied, but the Proportional Earn-out Condition for such Annual Period has been satisfied, a number of

fully paid and nonassessable shares of Parent Common Stock equal to (w) $22,770,000 multiplied by (x) the Applicable Percentage divided by (y) the Average Price for the First Annual Period divided by (z) the number of shares of Company Common Stock canceled pursuant to Section 1.7(a) (subject to further adjustment (if any) required pursuant to Section 1.13(b)), and (iii) if neither the Earn-out Condition nor the Proportional Earn-out Condition for the First Annual Period has been satisfied, zero; (B) with respect to the Second Annual Period, (i) if the Earn-out Condition for the Second Annual Period has been satisfied, a number of fully paid and nonassessable shares of Parent Common Stock equal to (x) the Second Period Amount divided by (y) the Average Price for the Second Annual Period divided by (z) the number of shares of Company Common Stock canceled pursuant to Section 1.7(a) (subject to further adjustment (if any) required pursuant to Section 1.13(b)), (ii) if the Earn-out Condition for the Second Annual Period has not been satisfied, but the Proportional Earn-out Condition for such Annual Period has been satisfied, a number of fully paid and nonassessable shares of Parent Common Stock equal to (w) the Second Period Amount multiplied by (x) the Applicable Percentage divided by (y) the Average Price for the Second Annual Period divided by (z) the number of shares of Company Common Stock canceled pursuant to Section 1.7(a) (subject to further adjustment (if any) required pursuant to Section 1.13(b)), and (iii) if neither the Earn-out Condition nor the Proportional Earn-out Condition for the Second Annual Period has been satisfied, zero; and (C) with respect to the Third Annual Period, (i) if the Earn-out Condition for the Third Annual Period has been satisfied, a number of fully paid and nonassessable shares of Parent Common Stock equal to (x) the Third Period Amount divided by (y) the Average Price for the Third Annual Period divided by (z) the number of shares of Company Common Stock canceled pursuant to Section 1.7(a) (subject to further adjustment (if any) required pursuant to Section 1.13(b)), (ii) if the Earn-out Condition for the Third Annual Period has not been satisfied, but the Proportional Earn-out Condition for such Annual Period has been satisfied, a number of fully paid and nonassessable shares of Parent Common Stock equal to (w) the Third Period Amount multiplied by (x) the Applicable Percentage divided by (y) the Average Price for the Third Annual Period divided by (z) the number of shares of Company Common Stock canceled pursuant to Section 1.7(a) (subject to further adjustment (if any) required pursuant to Section 1.13(b)), and A-7 (iii) if neither the Earn-out Condition nor the Proportional Earn-out Condition for the Third Annual Period has been satisfied, zero. (xv) "Contingent Payment Date" means, with respect to an Annual Period, three business days after Parent's delivery of the Earn-out Statement (as defined below) for such Annual Period. (xvi) "First Year Carryover" means the amount (if any) by which (i) $22,770,000 exceeds (ii) the product of $22,770,000 and the Applicable Percentage for the First Annual Period. (xvii) "Implied Annaly Revenue" means, for any Annual Period, the product of (i) .00125 (12.5 basis points) and (ii) the greater of (A) Average Assets under Management at the Parent for such Annual Period and (B) ten (10) times the Average Shareholders' Equity for such Annual Period. The parties acknowledge that the only circumstances under which it is expected that clause (B) of this definition might exceed clause (A) of this definition is where Parent has reduced its leverage and that any such reduction, should it occur, shall be effected by Parent in the ordinary course of its business in a manner consistent with its past practices or at a level below the specified guidelines of the Parent with notice provided to the Parent Board. For purposes of this definition, "Average Shareholders' Equity" means, for an Annual Period, the sum of the Parent's Shareholders' Equity as reported in its quarterly financial reports included in its Form 10-Q's filed for the first three fiscal quarters of such Annual Period and in its annual financial reports included in its Form 10-K filed for such Annual Period, divided by four (4). (xviii) "Margin Percentage" means, with respect an Annual Period, the lesser of (i) 1.00 and (ii) the percentage (expressed as a decimal) that the Adjusted Margin for such Annual Period represents of the Operating Margin Target for such Annual Period. (xix) "Revenue Percentage" means, with respect to an Annual Period, the lesser of (i) 1.00 and (ii) the percentage (expressed as a decimal) that the Adjusted Company Revenue for such Annual Period represents of the Revenue Target for such Annual Period. (xx) "Second Period Amount" means (i) $13,365,000 if the Earn-out Condition has been satisfied in the First Annual Period, (ii) $36,135,000 if neither the Earn-out Condition nor the Proportional Earn-out Condition has not been satisfied in the First Annual Period and (iii) the sum of (x) $13,365,000 and (y) the First Year Carryover, if the Earn-out Condition has not been satisfied in the First Annual Period, but the Proportional Earn-out Condition has been satisfied in the First Annual Period. (xxi) "Second Year Carryover" means the amount (if any) by which (i) the Second Period Amount exceeds (ii) the product of the Second Period Amount and the Applicable Percentage for the Second Annual Period. (xxii) "Third Period Amount" means (i) $13,365,000 if the Earn-out Condition has been satisfied in the Second Annual Period; (ii) $26,730,000 if the Earn-out Condition has been satisfied in the First Annual Period and neither the Earn-out Condition nor the Proportional Earn-out Condition

has been satisfied in the Second Annual Period; (iii) A-8 $49,500,000 if the Earn-out Condition has not been satisfied in both the First Annual Period and the Second Annual Period and the Proportional Earn-out Condition has not been satisfied in both the First Annual Period and the Second Annual Period; (iv) the sum of (x) $26,730,000 and (y) the First Year Carryover, if the Earn-out Condition is not satisfied in the First Annual Period, but the Proportional Earn-out Condition has been satisfied in the First Annual Period and neither the Earn-out Condition nor the Proportional Earn-out Condition has been satisfied in the Second Annual Period and (v) the sum of (x) $13,365,000 and (y) the Second Year Carryover, if the Earn-out Condition has not been satisfied in the Second Annual Period, but the Proportional Earn-out Condition has been satisfied in the Second Annual Period. (xxiii) "Total Compensation Amount" means, with respect to any Annual Period, an amount equal to the lesser of (i) the Actual Compensation Amount and (ii) the Calculated Compensation Amount. (xxiv) "VWAP" of Parent Common Stock on any trading day shall mean the volume weighted average price of the Parent Common Stock as reported by Bloomberg LP for such trading day. (e) OPERATION OF SURVIVING CORPORATION. Until the end of the Third Annual Period, Parent will cause the Surviving Corporation to be operated as a separate business unit which shall conduct its business so that the investment management fees arising out of its business are separated from all other fees earned by Parent and its other subsidiaries or to maintain separate financial records and books of account so as to enable the Surviving Corporation to have a record of the investment management, consulting or other revenues and fees arising out of its business that is separate from all other fees earned by Parent and its other subsidiaries. Notwithstanding anything contained herein to the contrary, until the end of the Third Annual Period Parent shall cause the business of the Surviving Corporation in all material respects to be operated in its ordinary course of business, consistent with past practices of the Company, unless the Representative shall have consented in writing to any operations that do not comply with the foregoing; provided that Parent will not be required to obtain any such consent from the Representative with respect to any such operations at any time that the Representative no longer represents Sellers having an aggregate Allocable Share equal to at least 75%. SECTION 1.10 INITIAL DETERMINATION OF ADJUSTED REVENUE AND ADJUSTED MARGIN. (a) For each Annual Period, Parent will prepare, and have audited and certified by its independent accountants, an income statement and balance sheet for the Surviving Corporation (the "Annual Financial Statements"), which Annual Financial Statements shall be prepared in accordance with GAAP, as consistently applied by Parent. (b) For each Annual Period, Parent shall prepare a statement of the Contingent Merger Consideration (the "Earn-out Statement") in which it shall set forth its determination of Adjusted Company Revenue and Adjusted Margin for such Annual Period. It is agreed that, for purposes of this Agreement, the determination of Adjusted Company Revenue and Adjusted Margin shall be derived from the Annual Financial Statements and the financial books and records of the Surviving Corporation, Parent and its affiliates (including the work papers of Parent's independent accountants) to the extent necessary to determine all appropriate adjustments and eliminations; provided, however, that for purposes of any calculation or A-9 determination of Adjusted Company Revenue or Adjusted Margin, GAAP as in effect as of the Effective Date and as consistently applied by the Company will be applied. SECTION 1.11 FINAL DETERMINATION OF CONTINGENT MERGER CONSIDERATION. (a) On or prior to 60 days after the end of an Annual Period, Parent shall deliver to the Representative (as defined below) the Earn-out Statement setting forth Parent's determination of the Adjusted Company Revenue and the Adjusted Margin of the Surviving Corporation for the Annual Period, together with a calculation of the Contingent Merger Consideration (if any) due for such Annual Period. If the Record Holders do not agree that the Earn-out Statement correctly states the Adjusted Company Revenue or the Adjusted Margin for the Annual Period, or properly calculates the Contingent Merger Consideration, the Representative shall promptly (but not later than 30 days after the delivery of the Earn-out Statement) give written notice to Parent of any exceptions thereto (in reasonable detail describing the nature of the disagreement asserted). If the Representative and Parent reconcile their differences in writing within 30 days after written notice of any exceptions is delivered to Parent, the Earn-out Statement shall be adjusted accordingly and shall thereupon become binding, final and conclusive upon all of the parties hereto and enforceable in a court of law. If the Representative and Parent are unable to reconcile their differences in writing within 30 days after written notice of any exceptions is delivered to Parent, the items in dispute shall be submitted to the New York City office of a mutually-acceptable accounting firm selected from among the four largest accounting firms in the United States in terms of gross revenues (the "Independent Auditors") for final determination, and the Earn-out Statement shall be deemed adjusted in accordance with the findings of the Independent Auditors and shall become final and conclusive upon all of the parties hereto and enforceable in a court of law. The Independent Auditors shall consider only the

items in dispute and shall be instructed to act within 20 days (or such longer period as the Representative and Parent may agree) to resolve all items in dispute. If the Representative does not give notice of any exception within 30 days after the delivery of the Earn-out Statement, or if the Representative gives written notification of the Company Shareholders' acceptance of the Earn-out Statement prior to the end of such 30 day period, the amounts set forth in the Earn-out Statement shall thereupon become binding, final and conclusive upon all of the parties hereto and enforceable in a court of law. For purposes of this Section 1.11, the members of the Parent Board and the Audit Committee of the Parent Board who are not Sellers or officers or employees of the Surviving Corporation shall take all action on behalf of Parent. (b) The books and records of the Surviving Corporation and Parent shall be made available during normal business hours upon reasonable advance notice at the principal office of the Surviving Corporation or Parent, whichever is applicable, (x) to the parties hereto, with respect to the Surviving Corporation, (y) to the Representative and its advisors, with respect to Parent and (z) with respect to the Surviving Corporation and Parent, to the Independent Auditors to the extent required to make or review the calculations required under Section 1.11(a). The parties hereto shall cause the Surviving Corporation and Parent to make arrangements to make available to the Independent Auditors and the Representative any back-up materials generated by the Surviving Corporation, Parent and/or their respective representatives in preparing the Earn-out Statement and/or to support a position which is contrary to the decision taken by the other party with respect to the Earn-out Statement. (c) If the resolution of any such dispute under Section 11.1(a) results in any A-10 Contingent Merger Consideration becoming due that would not otherwise have been due based on the Earn-out Statement as originally presented by Parent, then Parent shall pay such Contingent Merger Consideration no later than three business days after the date on which such dispute has been resolved pursuant to Section 11.1(a). (d) If, with respect to any Annual Period, Parent fails to deliver the Earn-out Statement within the 60 day period specified in Section 1.11(a) above, the Representative gives written notice to the Parent of such failure and such failure remains unremedied until the fifteenth day following Parent's receipt of such notice, then Parent shall be obligated to pay to the Sellers the amount of Contingent Merger Consideration that would have been due had the Earn-out Condition with respect to such Annual Period been satisfied; provided that if such Earn-out Statement is delivered within 90 days after such fifteenth day, then the parties shall apply Section 1.11(a) to reach a final determination of the Contingent Merger Consideration for such Annual Period and if the amount so determined is less than the amount theretofore paid pursuant to this Section 1.11(d), each of the Sellers shall be obligated to return to Parent promptly following Parent's written demand to the Representative the portion of the Contingent Merger Consideration that such Seller received in excess of the amount so determined. SECTION 1.12 EXCHANGE PROCEDURES. (a) Prior to the Effective Time, Parent shall appoint a commercial bank or trust company reasonably satisfactory to the Company to act as exchange agent in the Merger (the "Exchange Agent"). At or prior to the Effective Time, Parent shall deposit with the Exchange Agent, in trust for the benefit of the Record Holders, the Closing Merger Consideration issuable pursuant to Section 1.8 in exchange for outstanding shares of Company Common Stock in the Merger pursuant to Section 1.8. Parent agrees to make available to the Exchange Agent from time to time, as needed, cash sufficient to pay cash in lieu of fractional shares pursuant to Section 1.12(g) and any dividends and other distributions pursuant to Section 1.12(f). (b) At the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of transfers of the Company Common Stock on the records of the Company. From and after the Effective Time, the Record Holders of Certificates representing ownership of the Company Common Stock outstanding immediately prior to the Effective Time shall cease to have rights with respect to such Company Common Stock, except as otherwise provided for herein. The shares of Parent Common Stock issuable in the Merger shall be deemed to have been issued at the Effective Time. On or after the Effective Time, any Certificates presented to the Exchange Agent or Parent for any reason shall be converted into the applicable Closing Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional shares of Parent Common Stock to which the holders thereof are entitled pursuant to Section 1.12(g) and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 1.12(f) without interest. (c) As soon as reasonably practicable after the Effective Time, Parent and the Surviving Corporation shall cause the Exchange Agent to mail to each Record Holder of a Certificate (i) a letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, and which letter shall be in such form and have such other provisions as Parent may A-11 reasonably specify, and (ii) instructions for effecting the surrender of such Certificates in exchange for the Closing Merger Consideration. Upon surrender of a Certificate to the Exchange

Agent together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor (A) shares of Parent Common Stock representing, in the aggregate, the whole number of shares that such holder has the right to receive pursuant to Section 1.8, and (B) a check in the amount equal to the cash that such holder has the right to receive pursuant to the provisions of this Article I, including cash in lieu of any fractional shares of applicable Parent Common Stock pursuant to Section 1.12(g) and any dividends or other distributions pursuant to Section 1.12(f) (after giving effect to any required tax withholdings from cash payments), and in each case the Certificate so surrendered shall forthwith be canceled. No interest will be paid or will accrue on any cash payable pursuant to this Article I, including cash payable pursuant to Section 1.12(f) or Section 1.12(g). (d) A Record Holder is not entitled to receive Contingent Merger Consideration (if any) until he or she exchanges his or her Certificates in accordance with Section 1.12(c) or otherwise complies with Section 1.12(e). (e) If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and the agreement by such Person to provide an indemnity against any claim that may be made against Parent, any of its affiliates, the Surviving Corporation or the Exchange Agent with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Closing Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional shares of Parent Common Stock, and unpaid dividends and distributions on shares of Parent Common Stock deliverable in respect thereof, pursuant to this Agreement. (f) No dividends or other distributions declared or made with respect to shares of Parent Common Stock with a record date after the Effective Time shall be paid to the Record Holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock that such holder would be entitled to receive upon surrender of such Certificate and no cash payment in lieu of fractional shares of Parent Common Stock shall be paid to any such Record Holder pursuant to Section 1.12(g) until such Record Holder shall surrender such Certificate in accordance with this Section 1.12. Subject to the effect of applicable Laws, following surrender of any such Certificate, there shall be paid to such Record Holder of shares of Parent Common Stock issuable in exchange therefor, without interest, (a) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional shares of Parent Common Stock to which such holder is entitled pursuant to Section 1.12(g) and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock, and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such shares of Parent Common Stock. (g) (i) No certificates or scrip or shares of Parent Common Stock representing A-12 fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a stockholder of Parent or a holder of shares of Parent Common Stock. (ii) Notwithstanding any other provision of this Agreement, each Record Holder who would otherwise have been entitled to receive, as part of the Merger Consideration, a fraction of a share of Parent Common Stock shall receive from Parent, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a share of Parent Common Stock multiplied by (ii) (A) in the case of the Closing Merger Consideration, the Parent Closing Price and (B) in the case of any Contingent Merger Consideration, the Average Price for such Contingent Merger Consideration. (h) None of Parent, Merger Sub, the Company, the Surviving Corporation or the Exchange Agent shall be liable to any Person in respect of any Closing Merger Consideration or Contingent Merger Consideration, any dividends or distributions with respect thereto or any cash in lieu of fractional shares of applicable Parent Common Stock, in each case delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law. If any Certificate shall not have been surrendered prior to six months after the Effective Time (or immediately prior to such earlier date on which any Closing Merger Consideration, any dividends or distributions payable to the holder of such Certificate or any cash payable in lieu of fractional shares of Parent Common Stock pursuant to this Article I, would otherwise escheat to or become the property of any public official pursuant to any applicable abandoned property, escheat or similar law), any such Closing Merger Consideration, dividends or distributions in respect thereof or such cash, to the extent permitted by applicable law, shall be delivered to Parent, upon demand, and any holders of Company Common Stock who have not theretofore complied with the provisions of this Article I shall thereafter look only to Parent as general creditor thereof for satisfaction of their claims for the payment of such Closing Merger Consideration, dividends or distributions in

respect thereof or such cash (without any interest thereon). (i) The Exchange Agent or the Surviving Corporation shall be entitled to deduct and withhold from the Closing Merger Consideration and the Contingent Merger Consideration (if any) otherwise payable pursuant to Sections 1.8(a) and 1.9(a) of this Agreement to any Record Holder such amounts as the Exchange Agent or Merger Sub is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by the Exchange Agent or the Surviving Corporation, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Record Holder in respect of which such deduction and withholding was made by the Exchange Agent or the Surviving Corporation. (j) No dissenters' or appraisal rights shall be available with respect to the Merger. SECTION 1.13 CERTAIN ADJUSTMENTS. (a) In the event that, subsequent to the date of this Agreement but prior to the Effective Time, the shares of Parent Common Stock issued and outstanding shall, through a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the capitalization of Parent, increase or A-13 decrease in number or be changed into or exchanged for a different kind or number of securities, then an appropriate and proportionate adjustment shall be made to the Parent Closing Price used to calculate the Closing Merger Consideration. (b) For the purposes of determining the Contingent Merger Consideration for any Annual Period, if the shares of Parent Common Stock issued and outstanding shall, through a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the capitalization of Parent, increase or decrease in number or be changed into or exchanged for a different kind or number of securities, (i) during the period of 20 trading days used to calculate the Average Price with respect to such Annual Period, then an appropriate and proportionate adjustment shall be made to the VWAPs of Parent Common Stock for each trading day in such period occurring prior to the effectiveness of such increase or decrease and such adjusted VWAPs shall, together with the VWAPs for the days in such period, be used to calculate the Average Price with respect to such Contingent Merger Consideration, and (ii) following the period of 20 trading days used to calculate the Average Price with respect to such Annual Period but prior to the Contingent Payment Date for such Contingent Merger Consideration, then an appropriate and proportionate adjustment shall be made to the Average Price used to calculate the Contingent Merger Consideration for such Annual Period. SECTION 1.14 REIT PROVISIONS. Parent shall maintain ownership of 100% of the common stock of Merger Sub (the "Merger Sub Common Stock") and any other equity securities of Merger Sub at all times prior to the Effective Time. Parent shall make an election as provided in Section 856(l)(1) of the Code, together with the Surviving Corporation, to treat the Surviving Corporation as a "taxable REIT subsidiary" immediately following the Effective Time. SECTION 1.15 ESCROW. (a) The parties agree that all Merger Securities that are paid as part of the Closing Merger Consideration and all Merger Securities that are paid as part of the Contingent Merger Consideration at any time during the Basic Survival Period (all such Merger Securities being collectively referred to as the "Initial Escrowed Shares") shall be deposited with an escrow agent (the "Escrow Agent") selected by and mutually acceptable to the parties and shall be held and distributed by such Escrow Agent pursuant to the terms of a mutually acceptable escrow agreement among Parent, the Representative and the Escrow Agent (the "Escrow Agreement"). (b) The parties agree that the Escrow Agreement shall provide that (i) the Merger Securities held hereunder may be released to the Sellers for Permitted Withdrawals (as defined below); (ii) all Merger Securities other than Retained Securities (as defined below) held in escrow at the end of the Basic Survival Period shall be released and transferred to the Custodian referred to in Section 5.11 below; and (iii) from time to time during the Basic Survival Period the Parent may, in connection with any indemnification claims made by it in good faith under Section 9.1, designate all or any portion of the Merger Securities then held in escrow as "Retained Securities" by giving written notice to the Escrow Agent and the Representative along with a reasonable description of the facts or events giving rise to the claim; provided that the aggregate number of Retained Securities as of the end of the Basic Survival Period shall not exceed the Maximum Number (as defined below). The Escrow Agreement shall further provide that Retained Securities shall continue to be held in escrow until the earlier of (i) mutual written agreement of the Representative and the Parent and (ii) a release of the Retained Securities A-14 pursuant to a final, non-appealable order of a court of competent jurisdiction (a "Final Order") but only to the extent of such Damages claimed by Parent; provided, that promptly following any Final Order delivered after the expiration of the Basic Survival Period and the payment of the portion of the Returned Securities applicable to such Final Order to Parent, any remaining Retained Securities that have not been designated for any other pending claim shall be released to Sellers. The Escrow Agreement shall further provide that (i) Parent shall disburse (or cause to be disbursed) to each Seller with respect to the Merger Securities held under the Escrow

Agreement all cash dividends payable with respect thereto (other than cash dividends that constitute a dividend or other distribution paid in the event of a dissolution, liquidation or winding up of Parent or a return of capital and such cash dividends shall not be retained in escrow or be subject to the Escrow Agreement), and (ii) any securities or cash received (other than cash dividends that do not constitute a dividend or other distribution paid in the event of a dissolution, liquidation or winding up of Parent or a return of capital) as the result of ownership of the Merger Securities, including, but not by way of limitation, warrants, options and securities received as a stock dividend, stock split or combination, or as a result of a recapitalization, reorganization, exchange, substitution or other similar change in Parent's capital structure, shall be retained in escrow in the same manner and subject to the same conditions and restrictions as the Merger Securities with respect to which they were issued. For so long as any Escrowed Shares are held in escrow, the Sellers shall be the record and beneficial owners of such shares, and will have the right to vote or not vote such shares. (c) As used in this Agreement, "Permitted Withdrawals" mean withdrawals of Merger Securities (i) to the extent necessary to generate proceeds to cover any Tax obligations of a Seller for imputed interest on the Contingent Merger Consideration, or (ii) made with the approval of a majority of the members of the Parent Board who are not Sellers or officers or employees of the Surviving Corporation. (d) As used in this Agreement, "Escrowed Shares" means, at any time, the portion of the Initial Escrowed Shares that remains on deposit with the Escrow Agent pursuant to the Escrow Agreement. (e) As used in this Agreement, the "Maximum Number" means the number of Merger Shares that, when multiplied by the Period End Price, results in an amount equal to (or not exceeding by more than the Period End Price) 150% of the aggregate amount of Damages that have been claimed by Parent in accordance with Article IX prior to, and remain outstanding as of, the end of the Basic Survival Period; and "Period End Price" means the VWAP of the Parent Common Stock on the last day of the Basic Survival Period (or if such day is not a trading day for Parent Common Stock, then on the first day prior thereto that is such a trading day). ARTICLE II REPRESENTATIONS AND WARRANTIES OF PARENT Except as set forth in the forms, reports and documents filed by Parent with the Securities and Exchange Commission (the "SEC") since January 1, 2002 (the "Parent SEC Reports"), A-15 Parent represents and warrants to the Company and the Sellers as follows, in each case as of the date of this Agreement, unless otherwise set forth herein or in the Parent SEC Reports: SECTION 2.1 ORGANIZATION AND QUALIFICATION OF PARENT. (a) Parent and each of its subsidiaries is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has all requisite corporate or other power, as the case may be, and authority to own, lease and operate its properties and to carry on its businesses as now being conducted. (b) Each of Parent and its subsidiaries is duly qualified or licensed and in good standing (with respect to jurisdictions which recognize such concept) to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. The term "Parent Material Adverse Effect" means any change or effect that individually or in the aggregate is or would reasonably be expected to be materially adverse to (i) the business, results of operations or financial condition of Parent and its subsidiaries, taken as a whole, other than any change or effect arising out of a decline or deterioration in the economy in general or the industry in which Parent and its subsidiaries operate, or (ii) the ability of Parent to consummate the transactions contemplated hereby without material delay. SECTION 2.2 CORPORATE AUTHORIZATION. Parent has all necessary corporate power and authority to execute and deliver this Agreement and, subject, in the case of the Merger, to the approval by the Parent Shareholders and the satisfaction of any other conditions set forth in this Agreement, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Parent Board (based on the unanimous recommendation of the Parent Special Committee), and no other corporate proceedings on the part of either of them is necessary to authorize this Agreement or to consummate the transactions contemplated hereby (other than, with respect to the Merger, the approval and adoption of this Agreement by Parent Shareholders as required by the rules of the NYSE at the Parent Special Meeting (as defined) (with the shares of Parent Common Stock held by the Sellers voted in direct proportion to the shares of Parent Common Stock held by the Parent Shareholders who are not Sellers) (the "Parent Shareholder Approval") prior to the consummation of the Merger in accordance with Delaware Law). This Agreement has been duly and validly executed and delivered by Parent and, assuming the due authorization, execution and delivery hereof by each of the Company, Merger Sub and the Sellers, constitutes the valid, legal and binding agreement of Parent, enforceable

against Parent in accordance with its terms. SECTION 2.3 CONSENTS AND APPROVALS; NO VIOLATIONS. (a) Except for such filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act of 1934, as amended (the "Exchange Act"), the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), the rules and regulations of NYSE, state securities or "blue sky" laws and the filing and recordation of the Certificate of Merger as required by Delaware and such other filings, permits, authorizations, consents and approvals the failure of A-16 which to be obtained or made would not, in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, no filing or registration with or notice to, and no permit, authorization, consent or approval of, any court or tribunal of competent jurisdiction in any jurisdiction or any foreign, federal, state or municipal governmental, regulatory or other administrative agency, department, commission, board, bureau, political subdivision or other authority or instrumentality including the National Association of Securities Dealers, Inc. ("NASD"), the SEC and any applicable domestic or foreign industry self-regulatory organization, including stock exchanges ("SRO") (each a "Regulatory Entity" and collectively, "Regulatory Entities") is necessary in connection with the execution and delivery by Parent of this Agreement or the consummation by Parent of the transactions contemplated hereby. (b) The execution, delivery and performance by Parent of this Agreement and all other agreements, documents, certificates or other instruments contemplated hereby, the fulfillment of and compliance with the respective terms and provisions hereof and thereof, and the consummation by Parent of the transactions contemplated hereby and thereby, do not and will not: (i) conflict with, or violate any provision of, the Articles of Incorporation or By-laws of Parent; (ii) subject to obtaining the Parent Shareholder Approval, to complying with the applicable requirements, if any, of the Securities Act, Exchange Act, state securities or "blue sky" laws, the HSR Act, the NYSE and the NASD, and to filing and recording the Certificate of Merger as required by Delaware Law, conflict with or violate any law applicable to Parent, or any of its assets; (iii) conflict with, result in any breach of, or constitute a default under (or an event that with notice or lapse of time or both would become a default) or result in the termination or acceleration of, or create in another person or entity, a put right, purchase obligation or similar right under, any agreement to which Parent is a party or by which Parent, or any of its assets, may be bound; or (iv) result in or require the creation or imposition of, or result in the acceleration of, any indebtedness or any encumbrance of any nature upon, or with respect to, Parent or any of the assets now owned or hereafter acquired by Parent, except for any such conflict or violation described in clause (ii) above, any such conflict, breach, default, or termination, acceleration or creation of any right described in clause (iii) above, or any such creation, imposition or acceleration described in clause (iv) above which, individually or in the aggregate, would not reasonably be expected to have a Parent Material Adverse Effect. SECTION 2.4 OPINION OF PARENT FINANCIAL ADVISOR. The Parent Financial Advisor has delivered to the Parent Special Committee its written opinion, dated the date of this Agreement, to the effect that, based on, and subject to the various assumptions and qualifications set forth in such opinion, as of the date of such opinion, the Merger Consideration (consisting of the Closing Merger Consideration and Contingent Merger Consideration) is fair to Parent from a financial point of view, a signed copy of which opinion has been delivered to the Company. SECTION 2.5 BROKERS. Other than the Parent Financial Advisor, no broker, finder, investment banker or other intermediary is entitled to any brokerage, finder's or other similar fee or commission or expense reimbursement in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of Parent or any of its affiliates. SECTION 2.6 CAPITALIZATION OF PARENT AND ITS SUBSIDIARIES. As of November 12, 2003, the authorized capital stock of Parent consists of 500,000,000 shares of capital stock, all of which are classified as Common Stock, par value $.01 per share, of which A-17 96,013,214 shares are issued and outstanding, and since such date and through the date hereof no Parent Shares have been issued other than upon the exercise of an option granted by Parent to purchase Parent Common Stock ("Parent Stock Options"). Other than Parent Shares, no capital stock of Parent has ever been issued or outstanding. All outstanding shares of capital stock of Parent are duly authorized, validly issued, fully paid and nonassessable. As of September 30, 2003, there are outstanding Parent Stock Options in respect of 1,118,534 Parent Shares at the exercise prices set forth in the Parent SEC Reports. Except as set forth above, there are outstanding (A) no shares of capital stock or other voting securities of Parent, (B) no securities of Parent or its subsidiaries convertible into or exchangeable or exercisable for shares of capital stock or voting securities of Parent, (C) no options, calls or other rights (including warrants or other contractual rights, including contingent rights) to acquire from Parent or its subsidiaries, and no obligations of Parent or its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, any capital stock, voting securities or securities convertible into or exchangeable or

exercisable for capital stock or voting securities of Parent and (D) no equity equivalents, interests in the ownership or earnings of Parent or its subsidiaries or other similar rights (including stock appreciation rights) (collectively, "Parent Securities"). There are no outstanding obligations of Parent or any of its subsidiaries to repurchase, redeem or otherwise acquire any Parent Securities or any capital stock, voting securities or other ownership interests in any subsidiary of Parent. SECTION 2.7 MERGER SUB ACTIONS. As of the date hereof, the authorized capital stock of Merger Sub consists of 1,000 shares of Merger Sub Common Stock, all of which are issued, outstanding and owned by Parent free and clear of all liens, charges or encumbrances of any nature whatsoever. Merger Sub has not incurred any obligations or conducted any business except as necessary and appropriate to effect the consummation of the Merger in accordance with this Agreement. ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY Except as set forth in the disclosure schedule delivered by the Company to Parent prior to the execution and delivery of this Agreement (the "Company Disclosure Schedule"), the Company represents and warrants to Parent as follows, in each case as of the date of this Agreement, unless otherwise set forth herein or in the Company Disclosure Schedule: SECTION 3.1 ORGANIZATION AND QUALIFICATION OF THE COMPANY. (a) The Company is a corporation, duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has all requisite corporate or other power, as the case may be, and authority to own, lease and operate its properties and to carry on its businesses as now being conducted. (b) The Company is duly qualified or licensed and in good standing (with respect to jurisdictions which recognize such concept) to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to A-18 be so duly qualified or licensed and in good standing would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. The term "Company Material Adverse Effect" means any change or effect that individually or in the aggregate is or would reasonably be expected to be materially adverse to (i) the business, results of operations or financial condition of the Company, other than any change or effect arising out of a decline or deterioration in the economy in general or the industry in which the Company operates, or (ii) the ability of the Company to consummate the transactions contemplated hereby without material delay. (c) The Company has no subsidiaries. (d) The Company does not hold equity securities of any issuer. Except as set forth in Section 3.1 of the Company Disclosure Schedule, the Company does not own or control any equity partnership or membership interests directly or indirectly in any partnership, limited liability company, joint venture or similar entity. SECTION 3.2 CORPORATE AUTHORIZATION. The Company has all necessary corporate power and authority to execute and deliver this Agreement, and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Company Board and no other corporate proceedings on the part of the Company Board is necessary to authorize this Agreement or to consummate the transactions contemplated hereby. Concurrently with the execution of this Agreement, the Company is delivering to Parent a copy of a written consent duly executed by all of the Company Shareholders, pursuant to which the Company Shareholders have unanimously approved this Agreement and the Merger in accordance with the applicable requirements of Delaware Law (the "Company Shareholder Approval"). No other approval is required to be obtained by the Company in order to execute and deliver this Agreement and to consummate the transaction contemplated hereby, including the Merger, except for such approvals as may be required under the HSR Act. This Agreement has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery hereof by each of Parent, Merger Sub and the Sellers, constitutes the valid, legal and binding agreement of the Company, enforceable against the Company in accordance with its terms. SECTION 3.3 REPORTS; FINANCIAL STATEMENTS. (a) (i) The Company has previously delivered to Parent the following financial statements (collectively, the "Company Financial Statements"): (A) the unaudited balance sheet of the Company as at November 30, 2003 (the "Company Interim Balance Sheet") and the related statement of income for the eleven-month period then ended (together with the Company Interim Balance Sheet, the "Company Interim Financial Statements"); (B) the unaudited balance sheet of the Company as at December 31, 2002 (the "Company 2002 Balance Sheet") and the related unaudited statement of income for the twelve-month period then ended (together A-19 with the Company 2002 Balance Sheet, the "Company 2002 Financial Statements"). (ii) The Company Financial Statements (A) are in accordance with the books and records of the Company, (B) fairly present in all material respects the financial condition of the Company as at the respective dates indicated and the results of operations of the Company for the respective periods indicated, and (C) have been prepared in accordance with GAAP, except for the

absence of complete footnote disclosure as required by GAAP and subject, in the case of the Company Interim Financial Statements, to normal and recurring year-end adjustments, which adjustments could not reasonably be expected to be, individually or in the aggregate, material in magnitude. (b) The Company has no obligations or liabilities of any nature (whether or not accrued, contingent, matured or unmatured and whether or not required to be reflected in financial statements in accordance with GAAP, and whether due or to become due) other than (i) those set forth or adequately provided for in the Company Interim Balance Sheet, (ii) those incurred in the ordinary course of business consistent with past practice since January 1, 2003, (iii) those that individually or in the aggregate do not exceed $50,000 and (iv) those set forth on Section 3.3 of the Company Disclosure Schedule. SECTION 3.4 ACCOUNTS RECEIVABLE. Other than as disclosed in Section 3.4 of the Company Disclosure Schedule, all of the accounts receivable of the Company shown or reflected on the Company Interim Financial Statements are valid and enforceable claims for services fully performed and subject to no set-off or counterclaim. Other than as disclosed in Section 3.4 of the Company Disclosure Schedule, the Company has no accounts or loans receivable from any Person which is affiliated with the Company or from any officer or employee of the Company or any Family Member of any Seller. For purposes of this Agreement, "Family Member" means, with respect to any individual, such individual's spouse, former spouse, parents, grandparents, children, grandchildren or siblings (and estates, trusts, partnerships or other entities and legal relationships of which a substantial majority in interest of the beneficiaries, owners, investors, partners, members or participants at all times in question are, directly or indirectly, one or more of the Persons described above and/or such individuals). SECTION 3.5 CONSENTS AND APPROVALS; NO VIOLATIONS. (a) Except as set forth in Section 3.5 of the Company Disclosure Schedule and except for such filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the HSR Act (collectively, with the approvals set forth in Section 3.5 of the Company Disclosure Schedule, the "Company Regulatory Approvals") and the filing and recordation of the Certificate of Merger as required by Delaware Law, no filing or registration with or notice to, and no permit, authorization, consent or approval of, any Regulatory Entity is necessary in connection with the execution and delivery by the Company of this Agreement or the consummation by the Company of the transactions contemplated hereby. (b) Except as set forth in Section 3.5 of the Company Disclosure Schedule, the execution, delivery and performance by the Company of this Agreement and all other agreements, documents, certificates or other instruments contemplated hereby, the fulfillment of and compliance with the respective terms and provisions hereof and thereof, and the A-20 consummation by the Company of the transactions contemplated hereby and thereby, do not and will not: (i) conflict with, or violate any provision of, the Certificate of Incorporation or By-laws of the Company; (ii) subject to obtaining the Company Regulatory Approvals, and to filing and recording the Certificate of Merger as required by Delaware Law, conflict with or violate any law applicable to the Company, or any of its assets; (iii) conflict with, result in any breach of, or constitute a default under (or an event that with notice or lapse of time or both would become a default) or result in the termination or acceleration of, or create in another Person a put right, purchase obligation or similar right under, any agreement to which the Company is a party or by which the Company, or any of its assets, may be bound; or (iv) result in or require the creation or imposition of, or result in the acceleration of, any indebtedness or any encumbrance of any nature upon, or with respect to, the Company or any of the assets now owned or hereafter acquired by the Company. SECTION 3.6 BROKERS. Other than RBC Capital Markets, no broker, finder, investment banker or other intermediary is entitled to any brokerage, finder's or other similar fee or commission or expense reimbursement in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of the Company or any of its affiliates. SECTION 3.7 INFORMATION. None of the information supplied or to be supplied by the Company in writing specifically for inclusion or incorporation by reference in (i) the Proxy Statement (as defined in Section 5.7(a) of this Agreement) or (ii) any other documents to be filed with the SEC or any other Regulatory Entity prior to the Effective Time will, at the respective times filed with the SEC or such other Regulatory Entity and, in addition, in the case of the Proxy Statement, at the date it or any amendment or supplement is mailed to the Parent Shareholders contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. SECTION 3.8 CAPITALIZATION OF THE COMPANY. The authorized capital stock of the Company consists of 3,000 shares of capital stock, all of which are classified as Common Stock, of which 750 shares are issued and outstanding. All outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable. Except as set forth above or as set forth in Section 3.8 of the Company

Disclosure Schedule, there are outstanding (A) no shares of capital stock or other voting securities of the Company, (B) no securities of the Company convertible into or exchangeable or exercisable for shares of capital stock or voting securities of the Company, (C) no options, calls or other rights (including warrants or other contractual rights, including contingent rights) to acquire from the Company or its subsidiaries, and no obligations of the Company to issue, deliver or sell, or cause to be issued, delivered or sold, any capital stock, voting securities or securities convertible into or exchangeable or exercisable for capital stock or voting securities of the Company and (D) no equity equivalents, interests in the ownership or earnings of the Company or other similar rights (including stock appreciation rights) (collectively, "Company Securities"). Except as set forth in Section 3.8 of the Company Disclosure Schedule, there are no outstanding obligations of the Company to repurchase, redeem or otherwise acquire any the Company Securities. SECTION 3.9 NO DEFAULTS. The Company is not in default or violation (and no event A-21 has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its Certificate of Incorporation or By-laws, (ii) any note, bond, mortgage, indenture, letter of credit, other evidence of indebtedness, franchise, permit, guarantee, lease, license, contract, agreement or other instrument or obligation to which the Company is a party or by which its properties or assets is bound, to the Company's knowledge, or (iii) any order, writ, injunction, decree, law, statute, rule or regulation applicable to the Company or any of its properties or assets. SECTION 3.10 TAXES. (a) The Company has duly and timely filed or caused to be filed all Tax Returns required to be filed by it and has paid in full or fully reserved against in the Company Financial Statements all Taxes, assessments and deficiencies due or claimed to be due by it to foreign, federal, state or local taxing authorities. Such Tax Returns are correct in all material respects, and the Company is not required to pay any Taxes for the periods covered by such Tax Return except as set forth in Section 3.10 of the Company Disclosure Schedule. Except as set forth in Section 3.10 of the Company Disclosure Schedule, the Tax Returns filed by the Company have not been, and are not being, to the knowledge of the Company, examined by the Internal Revenue Service (the "IRS") or other applicable taxing authorities for any period. Except as set forth in Section 3.10 of the Company Disclosure Schedule, all Taxes or estimates thereof that are due as of December 31, 2003, or are claimed or asserted by any taxing authority to be due as of such date, have been (a) timely and appropriately paid so as to avoid penalties for underpayment or (b) accrued for on the balance sheet as of December 31, 2003, as contained in the Company Financial Statements. Except as set forth in Section 3.10 of the Company Disclosure Schedule, the provisions for income and other Taxes payable reflected in the Company Financial Statements make adequate provision for all then accrued and unpaid Taxes of the Company. There are no tax liens (other than liens for Taxes which are not yet due and payable) on any of the properties of the Company, nor are there any pending or threatened examinations or Tax claims asserted. Except jurisdictions in which the Company has filed Tax Returns, no claim has ever been made by a taxing authority that the Company is or may be subject to taxation by that jurisdiction. True and correct copies of all Tax Returns since January 1, 2000 and all notices from foreign, federal, state and local taxing authorities, Tax examination reports and statements of deficiencies assessed against or agreed to by the Company in the Company's possession have been delivered to Parent. The Company has not been nor is it in violation (nor has any action been taken or omission occurred which, with notice or lapse of time or both, would be in violation) of any applicable law relating to the payment of withholding of Taxes. The Company has duly and timely withheld from salaries, wages and other compensation and paid over to the appropriate taxing authorities all amounts required to be so withheld and paid over for all periods under all applicable laws. Except as set forth in Section 3.10 of the Company Disclosure Schedule, the Company has never been a member of an "affiliated group" as defined in Section 1504(a) of the Code and is not the owner of an interest in a partnership, joint venture, trust, limited liability company or other entity or organization. No closing agreement pursuant to Section 7121 of the Code (or any predecessor provision) or any similar provision of any state, local, or foreign law has been entered into by or with respect to the Company or any assets of the Company. The Company has not agreed to and is not required to make any adjustment pursuant to Section 481(a) of the Code (or any predecessor provision) by reason of any change in any accounting method of the Company. The Company does not have any application pending with any taxing authority requesting permission for any changes in the Company accounting method, and the IRS has not proposed any such adjustment or change in A-22 accounting method. The Company is not a party to any tax sharing agreement or arrangement or indemnity agreement. The Company has not been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. (b) The Company has been a validly electing S corporation within the meaning of Sections 1361 and

1362 of the Code at all times during its existence and the Company will be an S corporation up to and including the day before the Closing Date. Except as set forth in Section 3.10 of the Company Disclosure Schedule, the Company would not be liable for any tax under Section 1374 of the Code if its assets were sold for their fair market value as of the Closing Date. (c) The Company has not made and is not obligated to make any payment (including any transfer of property or provision of any benefit) in connection with the transactions contemplated by this Agreement which, alone or aggregated with any other payment, would be an excess parachute payment within the meaning of Section 280(G) of the Code. (d) As used in this Agreement, "Taxes" shall mean any and all taxes, levies, duties, tariffs, imposts, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any taxing authority, including, without limitation: taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers' compensation, unemployment compensation, or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value added, or gains taxes and customs duties, tariffs, and similar charges. "Tax Returns" shall mean any return, declaration, report, claim for refund or information return or statement relating to Taxes filed with a taxing authority, including any schedule or attachment thereto, and including any amendment thereof. SECTION 3.11 OWNERSHIP OF PARENT CAPITAL STOCK. Except as listed on Section 3.11 of the Company Disclosure Schedule, as of the date hereof, neither the Company nor, to its knowledge, any of its affiliates, (i) beneficially owns (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of capital stock of Parent or securities convertible into or exchangeable for shares of capital stock of Parent. As used in this Agreement, "affiliate" shall have the meaning set forth in Rule 144 (as defined). SECTION 3.12 PERMITS AND LICENSES. (a) The Company has in effect all permits, licenses, exemptions, orders, and approvals necessary for it to own, lease, or operate its material assets and to carry on its business as now conducted, except for those permits, licenses, exemptions, orders, and approvals the absence of which would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, and there has occurred no suspension, revocation or cancellation under any such permits, licenses, exemptions, orders and approvals. A-23 (b) Except as set forth in Section 3.12 of the Company Disclosure Schedule, all officers, directors, and employees of the Company that are required, as a result of their positions with the Company, to be registered or licensed with the SEC or the NASD are currently registered or licensed in the appropriate capacity with the SEC or the NASD and all such registrations and licenses are in full force and effect and no suspension or cancellation of any of them is pending or, to the knowledge of the Company, threatened. SECTION 3.13 COMPLIANCE WITH LAWS. (a) Except as set forth in Section 3.13 of the Company Disclosure Schedule, the Company is not in violation of any federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, suitability requirements, permits, licenses, authorizations, orders or approvals applicable to its business or employees conducting its business. (b) Except as set forth in Section 3.13 of the Company Disclosure Schedule, the Company has not received any notification from any Regulatory Entity or the staff thereof (i) asserting that the Company is not in compliance with any federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, suitability requirements, or orders which such Regulatory Entity enforces, (ii) threatening in writing to revoke any permits, licenses, authorizations, order or approvals, or (iii) requiring the Company (x) to enter into or consent to the issuance of a cease and desist order, formal agreement, directive or memorandum of understanding, or (y) to adopt any board resolution or similar undertaking, which restricts materially the conduct of its business, or in any material manner relates to its capital adequacy, its credit or reserve policies, its management, or the payment of dividends. SECTION 3.14 ABSENCE OF CERTAIN CHANGES OR EVENTS. Except as disclosed in Schedule 3.14 to the Company Disclosure Schedule, since January 1, 2003, the Company has conducted its business only in the ordinary course and there has not been: (a) any circumstance, event, occurrence, change or effect that has had, individually or in the aggregate, a Company Material Adverse Effect, nor has there been any circumstance, event, occurrence, change or effect that with the passage of time would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect; (b) any authorization, declaration, setting aside or payment of any dividend or other distribution (whether in cash, shares or property) with respect to the Company Shares; (c) any split, combination or reclassification of any of the Company Shares; (d) any damage, destruction or loss, whether or not covered by insurance, that has or would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect; (e) any incurrence, assumption or guarantee by the Company of any outstanding amount of

indebtedness for borrowed money other than in the ordinary course of business in accordance with its customary practices; (f) any transaction or commitment made, or any contract or agreement entered into, by the Company relating to its assets or business (including the acquisition or A-24 disposition of any assets) or any loss or relinquishment by the Company of any material contract or other material right, other than transactions and commitments made, and contracts or agreements entered into, in the ordinary course of business in accordance with their customary practices; (g) any material modifications or amendments to any Investment Management Contracts or Material Contracts; (h) any increase in (or commitment, oral or written, to increase) the rate or terms (including, without limitation, any acceleration of the right to receive payment) of compensation payable or to become payable by the Company to any Seller who is also a director, officer, employee or consultant of the Company, or any new written employment agreements with any of such Persons or any new commitments (oral or written) with any Seller, other than as required by law or any contract or existing plan. (i) any increase in (or commitment, oral or written, to increase) the rate or terms (including, without limitation, any acceleration of the right to receive payment) of any bonus, severance, insurance, pension or other employee benefit plan or contract, payment or arrangement made to, for or with any Seller, other than, with respect to the Sellers, in the ordinary course of business; (j) any action or event taken by the Company that if taken or suffered after the date hereof would violate Section 5.1 of this Agreement; (k) any suspension of any license or permit issued to the Company or any impairment of its right to conduct its business; or (l) any change made prior to the date of this Agreement in accounting methods, principles or practices by the Company materially affecting its assets, liabilities or business, except insofar as may have been required by a change in GAAP. SECTION 3.15 LITIGATION; REGULATORY ACTION. Except as set forth in Section 3.15 of the Company Disclosure Schedule: (i) there is no litigation, suit, claim, action, proceeding or investigation ("Litigation") before any court, arbitrator, mediator or Regulatory Entity is pending against the Company and, to the Company's knowledge, no such Litigation has been threatened in writing or orally to the Company; (ii) neither the Company nor any of its properties is a party to or is subject to any order, decree, agreement, memorandum of understanding or similar arrangement with any Regulatory Entity; and (iii) the Company has not been notified by any Regulatory Entity to the effect that such Regulatory Entity is contemplating issuing or requesting any such order, decree, agreement, memorandum of understanding or similar submission. SECTION 3.16 TRANSACTIONS WITH AFFILIATES. Except as disclosed in Section 3.16 of the Company Disclosure Schedule, from January 1, 2003 through the date hereof there have been no transactions, agreements, arrangements or understandings between the Company, on the one hand, and the Company's affiliates (other than Parent), on the other hand. SECTION 3.17 NO DISSENTERS' RIGHTS. Nothing in the Certificate of Incorporation or the By-laws of the Company provides or would provide to any Person, including without A-25 limitation the Company Shareholders, upon execution of this Agreement or any other agreements, documents, certificates or other instruments contemplated hereby and consummation of the transactions contemplated hereby and thereby (including the Merger), rights of dissent and appraisal of any kind. SECTION 3.18 TECHNOLOGY AND INTELLECTUAL PROPERTY. Except as set forth in Section 3.18 of the Company Disclosure Schedule, the Company has (and upon consummation of the transactions contemplated hereby will have) ownership of, or such other rights by license, lease or other agreement in and to, all items of intangible property used in the conduct of its business as presently conducted, including, without limitation, trademarks and service marks, trade names, brand names, patents, copyrights, proprietary rights, logos, names, trademark applications, service mark applications and patent applications, including all rights to use the name "Fixed Income Discount Advisory Company" and "FIDAC" (collectively the "Intellectual Property"), as necessary to conduct the business of the Company as presently conducted. The Company has not infringed upon or violated any trademark, trade name, copyright, patent, trade secret right or other proprietary right of others, nor, to the knowledge of the Company, has any other Person infringed on a continuing basis any rights that the Company has in the Intellectual Property. The Company owns or licenses all computer software developed or currently used by it which is material to the conduct of its business as currently conducted and, to the knowledge of the Company, has the right to use such software without infringing upon the intellectual property rights (including trade secrets rights) of any third party. The Company has not received written notice of any claim respecting any such violation or infringement. SECTION 3.19 MATERIAL CONTRACTS. Section 3.19 of the Company Disclosure Schedule sets forth as of the date hereof a complete and accurate list of all leases for real property, all material leases for personal property and all material agreements, contracts, licenses, commitments and instruments to which the Company is a party or by which the Company or any of its assets or properties is bound or subject (each a "Material Contract" and collectively, the "Material Contracts").

Each Material Contract (excluding for these purposes, Investment Management Contracts, as hereinafter defined) is in full force and effect, and constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except, in each case, to the extent certain of the liability limitation provisions therein may be contrary to public policy as expressed in the Securities Act, the Exchange Act, the Investment Company Act of 1940, as amended (the "Investment Company Act"), the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act") and state "blue sky" laws, and the rules and regulations promulgated thereunder, and as limited by the effects of bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting creditors' rights generally and general principles of equity. True, correct and complete copies of all Material Contracts have been previously delivered by the Company to Parent. Except for Investment Management Contracts and Material Contracts, the Company is not on the date hereof a party to or bound by and none of its assets or properties is or may be subject to: (a) any contract or agreement not fully performed for the purchase by the Company for its own account of any commodity, material, services or equipment, including, without limitation, fixed assets, for a price in excess of $50,000; (b) any contract containing covenants limiting the freedom of the Company to A-26 engage or compete (geographically or otherwise) in any line of business or with any Person; (c) any agreement, oral or written, or understanding (i) for cash payments for client solicitations, or (ii) in respect of the sale or distribution of shares of the Company Funds; (d) any license agreement (as licensor or licensee) providing for future payments in excess of $50,000 which by its terms does not terminate or is not terminable without penalty by the Company upon notice of 60 days or less; (e) any indenture, mortgage, promissory note, loan agreement, guaranty or other agreement or commitment for the borrowing of money, by the Company in excess of $100,000; (f) any contract or agreement involving payments based on profits or revenues of the Company; or (g) any other contract or agreement which creates future payment obligations of the Company in excess of $100,000 and which by its terms does not terminate or is not terminable without penalty by the Company upon notice of 60 days or less. SECTION 3.20 NO DEFAULT UNDER CONTRACTS. Neither the Company nor the manner in which it conducts its business is in breach or violation of, or in default under (with or without the giving of notice or the passage of time), any term or provision of any Material Contract (excluding, for purposes of this Section 3.20, any Investment Management Contract) to which it is a party or by which it is or may be bound or to which any of its properties or assets is or may be subject, the effect of which breach, violation or default, either individually or in the aggregate, has or would reasonably be expected to have a Company Material Adverse Effect. To the Company's knowledge, no other party is in material default of any such Material Contract. SECTION 3.21 INVESTMENT MANAGEMENT CONTRACTS. (a) Section 3.21 of the Company Disclosure Schedule sets forth a list of (i) all Clients as of the date hereof and (ii) the net assets in the account of each Client as of September 30, 2003. Each such Client is a party to an Investment Management Contract with the Company. The Company is in compliance with the terms of each Investment Management Contract and is not in default or breach under (with or without the giving of notice or the passage of time) any of the terms of any Investment Management Contract. Each Investment Management Contract is in full force and effect with respect to the Company and constitutes a legal, valid and binding obligation of such party thereto, enforceable against such party in accordance with its terms, except, in each case, to the extent certain of the liability limitation provisions therein may be contrary to public policy as expressed in the Securities Act, the Exchange Act, the Investment Company Act, the Investment Advisers Act and state "blue sky" laws, and the rules and regulations promulgated thereunder, and as limited by the effects of bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting creditors' rights generally and general principles of equity. Except as set forth in Section 3.21 of the Company Disclosure Schedule, no Investment Management Contract will become cancellable as a result of the Merger. Each Investment Management Contract reflects all significant terms of the investment management arrangement between the parties thereto and represents the entire material understanding of the parties thereto with reference to A-27 the transactions contemplated thereby. True, correct and complete copies of each Investment Management Contract, including a current fee schedule, have been delivered to Parent. Except as set forth in Section 3.21 of the Company Disclosure Schedule, the Company has not received notice that any Client intends or has threatened to terminate its Investment Management Contract. (b) As used in this Agreement: (i) "Client" means any client to which the Company provides investment management, investment advisory, including sub-advisory services, underwriting, distribution or administrative services on the date of this Agreement (as the term is used in the Advisers Act Rule 203(b)(3)-1); and (ii) "Investment Management Contract" means a contract or agreement in effect on the date hereof or entered into after the date hereof, relating to the Company's rendering of investment management or investment advisory services,

including sub-advisory services, underwriting or distribution services or any administrative services to any Person. SECTION 3.22 KEY MAN LIFE INSURANCE. The Company does not maintain key man life insurance for any of its employees or executives SECTION 3.23 EMPLOYEES. (a) Except as set forth in Section 3.23 of the Company Disclosure Schedule, the Company is not a party to or bound by any contract, arrangement, commitment or understanding as of the date hereof, with respect to the employment of any directors, executive officers, key employees or material consultants (other than oral contracts of employment at will). (b) The Company does not sponsor any (i) life, health, accident, disability or any other "employee welfare benefit plan", as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) pension, profit sharing, deferred compensation, retirement, bonus, or any other "employee pension benefit plan", as defined in Section 3(2) of ERISA or (iii) any other deferred compensation, severance, bonus, restricted stock or restricted property, stock option or stock purchase plans, or any similar employee benefit plans (each a "Plan" and collectively, the "Plans"), whether or not such plans or obligations are of a legally binding nature or are in the nature of informal understandings. (c) The Company does not maintain, or contribute to, any "multiemployer plan." (d) Within the preceding five years neither the Company nor any other trade or business (whether or not incorporated) which is under common control with the company (as defined in Section 4001 of ERISA) has terminated, withdrawn from, or discontinued contributions to, any multiemployer pension benefit plan or a pension benefit plan to which more than one employer contributes, subject to Title IV of ERISA. (e) Neither the Company nor any other trade or business (whether or not incorporated) which is under common control with the Company (as defined in Section 4001 of ERISA) has terminated any single employer pension benefit plan subject to Title IV of ERISA. A-28 SECTION 3.24 DERIVATIVE INSTRUMENTS. As of the date hereof, there are no swaps, caps, floors, futures, forward contracts, option agreements, and any other derivative financial instruments, contracts or arrangements entered into for the account of the Company. Any swaps, caps, floors, futures, forward contracts, option agreements, and any other derivative financial instruments, contracts or arrangements entered into for the account of a Client of the Company were entered into in accordance with, in all material respects, the applicable Investment Management Agreement. SECTION 3.25 BUSINESS; REGISTRATIONS. (a) The Company is duly registered as an investment adviser under the Investment Advisers Act and is duly registered, licensed or qualified as an investment adviser in all jurisdictions where such registration, licensing or qualification is required in order to conduct its business. Except as set forth in Section 3.25 of the Company Disclosure Schedule, the Company is in compliance in all material respects with all applicable foreign, federal and state laws requiring registration, licensing or qualification as an investment adviser. The Company has delivered or made available to Parent true, correct and complete copies of its most recent Form ADV, as amended to date, and has made available true, correct and complete copies of all foreign and state registration forms, as amended to date. The information contained in such forms was true, correct and complete in all material aspects at the time of filing and has been amended or modified as required by applicable law. (b) The Company is not, nor as of the Closing will it be, an "investment company," within the meaning of the Investment Company Act, which is required to be registered as such under such Act. The Company is not, nor as of the Closing will it be, a "broker" or "dealer" within the meaning of the Exchange Act. The Company is not, nor as of the Closing will it be, a commodity trading advisor or a commodity pool operator which is required to be registered as such with the Commodity Futures Trading Commission (the "CFTC") or the National Futures Association. Copies of all inspection reports or similar documents furnished to the Company by the SEC, the CFTC or state or foreign regulatory authorities since January 1, 1998 are listed on Section 3.25 of the Company Disclosure Schedule and have been provided to Parent. The Company is not required to disclose any information to clients under Rule 206(4)-4 promulgated under the Investment Advisers Act. (c) Each Seller and each other Person "associated" (as defined under the Investment Advisers Act) with the Company holds all permits, licenses, certificates of authority, exemptions, orders, and approvals that are required in connection with the conduct of the business as presently conducted. Such permits and licenses are in full force and effect, except where the failure to be in full force and effect would not have a Company Material Adverse Effect. SECTION 3.26 CERTAIN ADDITIONAL REPRESENTATIONS AND WARRANTIES AS TO THE COMPANY FUNDS. With respect to the representations and warranties in this Section 3.26 as to the funds for which the Company provides advisory or management services and which are sponsored by the Company (excluding those collective vehicles where the Company's services are limited to advisory and sub-advisory services) (the "Company Funds"), such representations and warranties are to the knowledge of the Company. (a) Section 3.26 of the Company Disclosure Schedule sets forth a true, A-29 complete and correct list, as of the date hereof, of each Company Fund for which the

Company acts as investment adviser, sub-adviser or manager (including any entities organized under the laws of jurisdictions outside the United States). Each Company Fund is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has the requisite corporate, trust or partnership power and authority, and possesses all rights, licenses, authorizations and approvals, from Regulatory Entities or otherwise, necessary to entitle it to use its name, to own, lease or otherwise hold its properties and assets and to carry on its business as it is now conducted and to perform its obligations under any agreements to which it is a party, and is duly qualified, licensed or registered to do business in each jurisdiction where it is required to do so under applicable law. The Company has delivered or made available to Parent a list of all such jurisdictions where each Company Fund is qualified. (b) None of the Company Funds is, or as of the Closing will be, an "investment company," within the meaning of the Investment Company Act, which is required to be registered as such under such Act. None of the Company Funds is, or as of the Closing will be, a "broker" or "dealer" within the meaning of the Exchange Act. None of the Company Funds is, or as of the Closing will be, a commodity trading advisor or a commodity pool operator which is required to be registered as such with the CFTC or the National Futures Association. Copies of all inspection reports or similar documents furnished to any Company Fund by the SEC, the CFTC or state or foreign regulatory authorities since January 1, 1998 are listed on Section 3.26 of the Company Disclosure Schedule and have been provided to Parent. None of the Company Funds is required to disclose any information to clients under Rule 206(4)-4 promulgated under the Investment Advisers Act. (c) Each of the Company Funds is in compliance in all material respects with all applicable laws, and any rules and regulations of any self-regulatory organization having jurisdiction over such Company Fund. (d) Each of the Company Funds has been operated in compliance in all material respects with its respective objectives, policies and restrictions, including those set forth in the applicable prospectus and registration statement, if any, for that Company Fund or governing instruments for a Client. (e) Each Company Fund has issued its shares or interests pursuant to valid exemptions under the Securities Act and applicable state securities or "blue sky" laws. The offerings and sales of the shares and interests in the Company Funds complied with applicable law. Each Company Fund's investments have been made in accordance with its investment policies and restrictions set forth in its registration statement in effect at the time the investments were made and at all times when the investments were held. No stop order suspending the effectiveness of any registration statement has been issued and no proceedings for that purpose have been instituted or, to the knowledge of the Company, are contemplated. A-30 ARTICLE IV REPRESENTATION AND WARRANTIES OF THE SELLERS Each Seller represents and warrants to Parent as follows, with respect to only itself and in each case as of the date of this Agreement. SECTION 4.1 INVESTMENT PURPOSE. Such Seller is acquiring the Parent Shares comprising the Merger Consideration (the "Merger Securities") for its own account and not with a view toward, or for resale in connection with, the sale or distribution thereof. SECTION 4.2 ACCREDITED INVESTOR STATUS. Such Seller is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D. SECTION 4.3 RELIANCE ON EXEMPTIONS. Such Seller understands that the Merger Securities are being offered and issued in reliance on specific exemptions from the registration requirements of the United States federal and state securities laws and that Parent is relying in part upon the truth and accuracy of, and such Seller's compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Seller set forth herein in order to determine the availability of such exemptions and the eligibility of such Seller to acquire the Merger Securities. SECTION 4.4 INFORMATION. Such Seller and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of Parent and materials relating to the issuance of the Merger Securities that have been requested by such Seller. Such Seller and its advisors, if any, have been afforded the opportunity to ask questions of Parent. Such Seller understands that its investment in the Merger Securities involves a high degree of risk. Such Seller has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Merger Securities. SECTION 4.5 NO GOVERNMENTAL REVIEW. Such Seller understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Merger Securities or the fairness or suitability of the investment in the Merger Securities, nor have such authorities passed upon or endorsed the merits of the offering of the Merger Securities. SECTION 4.6 TRANSFER OR RESALE. Such Seller understands that: (i) the Merger Securities have not been and are not being registered under the Securities Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred unless (A) subsequently registered thereunder, (B) such Seller shall have delivered to Parent an opinion of counsel, in a generally acceptable form, to the effect that such Merger Securities to be sold, assigned or

transferred may be sold, assigned or transferred pursuant to an exemption from such registration, or (C) such Seller provides Parent with assurance, reasonably acceptable to Parent, that such Merger Securities can be sold, assigned or transferred pursuant to Rule 144 promulgated under the Securities Act, (or a successor rule thereto) ("Rule 144"); (ii) any sale of the Merger Securities made in reliance on Rule 144 may be made only in accordance with the terms of Rule 144 and further, if Rule 144 is not applicable, any resale of the Merger Securities A-31 under circumstances in which the Seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the Securities Act) may require compliance with some other exemption under the Securities Act or the rules and regulations of the SEC thereunder; (iii) neither Parent nor any other Person is under any obligation to register the Merger Securities under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder, except as provided in Sections 5.7 and 5.13; and (iv) the transferability of the Merger Securities is subject to the additional restrictions on transfer set forth in Section 5.11. SECTION 4.7 LEGENDS. Such Seller understands that the certificates or other instruments representing the Merger Securities shall bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such stock certificates): THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR (II) UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT. SECTION 4.8 AUTHORIZATION; ENFORCEMENT; VALIDITY. This Agreement has been duly and validly executed and delivered by such Seller and, assuming the due authorization, execution and delivery hereof by each of the Parent, the Company and Merger Sub, constitutes the valid, legal and binding agreement of Seller, enforceable against Seller in accordance with its terms, except as limited by the effects of bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting creditors' rights generally and general principals of equity. SECTION 4.9 OWNERSHIP OF COMPANY SHARES. Such Seller is the lawful owner, of record and beneficially, of the Company Shares purportedly owned by such Seller (which are those Company Shares listed opposite such Seller's name on Schedule A) and has good and marketable title to such Company Shares, free and clear of any and all liens, charges or encumbrances of any nature whatsoever, except for Taxes not yet due and payable and as set forth in the Restricted Stock Agreements applicable to each Seller. Except as set forth in the Restricted Stock Agreements applicable to each Seller, there are no restrictions on the transferability of the Company Shares held by such Seller imposed by any agreement to which either the Company or such Seller is a party and no Person has any preemptive or other purchase rights with respect to the sale of any Company Shares held by such Seller. SECTION 4.10 NO OTHER AGREEMENTS TO SELL. Such Seller has no legal obligation, absolute or contingent, to any Person or entity other than Parent to sell its Company Shares, to effect any merger, consolidation or other reorganization the Company or to enter into any agreement with respect thereto. Such Seller has not made a commitment or entered into A-32 negotiations to sell or transfer any part of the assets of the Company other than in the ordinary course of its business. ARTICLE V COVENANTS SECTION 5.1 CONDUCT OF BUSINESS OF THE COMPANY. Except as expressly contemplated or permitted by this Agreement or as set forth in Section 5.1 of the Company Disclosure Schedule, during the period from the date hereof to the Effective Time, the Company will conduct its operations only in the ordinary course of business consistent with past practice, and shall use commercially reasonable efforts to preserve intact its current business organizations, keep available the service of its current officers and preserve its relationships with customers, suppliers and others having business dealings with them. Without limiting the generality of the foregoing, and except (x) as otherwise contemplated by this Agreement, (y) as set forth in Section 5.1 of the Company Disclosure Schedule, or (z) in the ordinary course of business consistent with past practice, from and after the date hereof and prior to the earlier of (i) the Effective Time or (ii) termination of this Agreement, the Company will not, without the prior written consent of Parent: (a) amend its Certificate of Incorporation or By-laws; (b) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities or equity equivalents (including any stock options or stock appreciation rights); (c) split, combine or reclassify any shares of its capital stock, declare, set aside or pay any

dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to its shareholders in their capacity as such or redeem or otherwise acquire any of its securities, except for S-corporation distributions in the ordinary course with respect to the year ended December 31, 2003 and except as provided in Section 5.14 below; (d) except as may be required as a result of a change in law or in GAAP, change any of the accounting principles or practices used by it and maintain its books and records other than in accordance with GAAP consistently applied; (e) take any action, or omit to take any action, which action or omission could reasonably be expected to terminate or jeopardize Parent's continuing status as a real estate investment trust ("REIT") or the Surviving Corporation's ability to qualify as a taxable REIT subsidiary following the Merger or would subject Parent or the Surviving Corporation to any U.S. federal income or excise Tax; (f) enter into any agreement with an affiliate (other than the Parent or any of its subsidiaries), except in accordance with the terms of any contract or compensation A-33 arrangement in effect on the date hereof; (g) increase any compensation or enter into or amend any employment, severance or other arrangement with any Seller, any officer or director of the Company, or any employee of the Company earning more than $100,000 per annum, other than as required by law or any contract or existing plan or in connection with new hires; (h) revoke the Company's election to be taxed as an S corporation within the meaning of Sections 1361 and 1362 of the Code, or take, or fail to use commercially reasonable efforts to not allow, any action other than the conversion of the Company Common Stock pursuant to this Agreement that would result in the termination of the Company's status as a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code; (i) other than as required by law, adopt any new employee benefit plan or materially amend any existing plans or rights; and (j) take, or agree in writing or otherwise to take, (i) any of the actions described in Sections 5.1(a) through 5.1(f) to the extent that such actions would be prohibited thereby, or (ii) any action which would result in any of the material conditions to the Merger set forth herein not being satisfied; SECTION 5.2 CONDUCT OF BUSINESS OF PARENT. Except (x) as otherwise contemplated by this Agreement or (y) in the ordinary course of business consistent with past practice, from and after the date hereof and prior to the earlier of (i) the Effective Time or (ii) termination of this Agreement, the Parent will not, without the prior written consent of Company: (a) amend its Certificate of Incorporation or By-laws; (b) take any action, or omit to take any action, which action or omission could reasonably be expected to terminate or jeopardize Parent's continuing status as a REIT or the Surviving Corporation's ability to qualify as a taxable REIT subsidiary following the Merger or would subject Company or the Sellers to any U.S. federal income or excise Tax; (c) take, or agree in writing or otherwise to take, any action that requires the approval of the Parent Shareholders; (d) take, or agree in writing or otherwise to take, (i) any of the actions described in Sections 5.2(a) through 5.2(c) to the extent that such actions would be prohibited thereby, or (ii) any action which would result in any of the material conditions to the Merger set forth herein not being satisfied. SECTION 5.3 OTHER ACTIONS. Parent, the Company and the Sellers shall use commercially reasonable efforts not to take any action that would result any of the conditions to the Merger set forth in Article VI not being satisfied. SECTION 5.4 NO SOLICITATION. The Company and each of the Sellers shall not, and the Company shall cause its affiliates not to, directly or indirectly, solicit any inquiries or proposals or enter into or continue any discussions, negotiations or agreements relating to the A-34 sale or exchange of any Company Shares or the merger, consolidation or other reorganization of the Company with, or any direct or indirect disposition of a significant amount of the Company's assets or business to, any person other than Parent or its subsidiaries or provide any assistance or any information to or otherwise cooperate with any person in connection with any such inquiry, proposal or transaction. In the event that the Company or any Seller receives an unsolicited offer for such a transaction or becomes aware that a third party intends to make such an offer, the Company or such Seller will provide Parent with notice thereof as soon as practicable after receipt, including the identity of the prospective purchaser or soliciting party. SECTION 5.5 ADDITIONAL AGREEMENTS; REASONABLE EFFORTS. (a) Subject to the terms and conditions herein provided, each of the parties hereto agrees to use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including (i) contesting any legal proceeding challenging the Merger and (ii) the execution of any additional instruments necessary or convenient to consummate the transactions contemplated hereby. Subject to the terms and conditions of this Agreement, each party hereto agrees to use commercially reasonable efforts to cause the Effective Time to occur as soon as practicable after the Parent Shareholder Approval with respect to the Merger. In case at any

time after the Effective Time any further action is necessary to carry out the purposes of this Agreement, the proper officers and directors of each party hereto shall take all such necessary action. The Company, the Sellers, Merger Sub and Parent each will use commercially reasonable efforts to obtain consents, approvals or waivers of all third parties and Regulatory Entities necessary, proper or advisable for the consummation of the transactions contemplated by this Agreement (other than any consents, approvals or waivers of any third party or Regulatory Entities with respect to any Investment Management Contract); provided, that nothing contained herein shall require the Sellers, the Company, Merger Sub or Parent to agree to hold separate or to divest or dispose of any of such entity's respective businesses, properties or assets or cease engaging in any business or otherwise take any action which, individually or in the aggregate, could reasonably be expected to impair the ability of the Surviving Corporation in any material respect to own and operate the respective assets and businesses of the Company, or the Parent to continue to own the assets and engage in the businesses which it currently owns or engages in, after giving effect to the Merger. Notwithstanding anything to the contrary contained in this Section 5.5, neither Parent, the Company nor the Sellers will be required to pay any money, furnish any consideration, modify any agreement or incur any liability or obligation in order to satisfy its obligations to obtain consents, approvals or waivers of any third party (other than a Regulatory Entity) under this Section 5.5. (b) The parties hereto agree that they will consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all Regulatory Entities and other third parties necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other apprised of the status of matters relating to completion of the transactions contemplated hereby. (c) Subject to applicable laws governing the exchange of information, each of the Company and Parent will, upon request, furnish the other party with all information concerning itself, its subsidiaries, directors, officers and shareholders and such other matters as A-35 may be reasonably necessary or advisable in connection with any filing, notice or application made by or on behalf of such other party or any of its subsidiaries to any third party or Regulatory Entity. (d) The Company and Parent shall promptly advise each other upon receiving any communication from any Regulatory Entity whose consent or approval is required for consummation of the transactions contemplated by this Agreement. (e) With respect to the exercise or enforcement of any of the rights or remedies of Parent pursuant to this agreement, the members of the Parent Board and the Audit Committee of the Parent Board who are not Sellers or officers or employees of the Surviving Corporation shall make all determinations and take all actions on behalf of Parent. (f) The Sellers acknowledge that all Company employees participate in Plans maintained by Parent and that there is no requirement to transition such Company employees from Plans maintained by the Company. (g) Each of the Sellers has entered into as of the date hereof an employment agreement with the Parent which agreement shall become effective at the Effective Time. SECTION 5.6 PUBLIC ANNOUNCEMENTS. The Company and Parent will consult with each other and give each other reasonable advance notice before issuing any press release or otherwise making any public statements with respect to the transactions contemplated hereby, including the Merger. Each party hereto shall incorporate in the press release or other public statement such information as shall reasonably be requested to be included therein by the other party hereto. Notwithstanding the foregoing, either party hereto may, without the prior consent of the other party, issue any press release or make any public announcement that may be required by law or the rules or requirements of any Regulatory Entity, if it has used its commercially reasonable efforts to consult with the other party but has been unable to do so in a timely manner. SECTION 5.7 PREPARATION OF THE PROXY STATEMENT. (a) After the date hereof, Parent shall (in cooperation with Merger Sub, the Company and the Sellers) promptly prepare and Parent shall file with the SEC as soon as practicable a Registration Statement on Form S-4 (the "Form S-4") under the Securities Act, with respect to the Merger Securities issuable in the Merger, a portion of which Registration Statement shall also serve as the proxy statement with respect to the meeting of the Parent Shareholders in connection with the Merger (the "Proxy Statement/Prospectus"). The parties will cause the Form S-4 and the Proxy Statement/Prospectus to comply as to form in all material respects with the applicable provisions of the Securities Act, the Exchange Act and the rules and regulations promulgated thereunder. Parent shall use commercially reasonable efforts, and the Company and the Sellers will cooperate with Parent, to have the Form S-4 declared effective by the SEC as promptly as practicable. Parent shall use its commercially reasonable efforts to obtain, prior to the effective date of the Form S-4, all necessary state securities law or "blue sky" permits or approvals required to carry out the transactions contemplated by this Agreement. The Proxy Statement and each amendment or supplement thereto, at the time of mailing thereof and at the time of the meeting of the Parent Shareholders, and the Form S-4 and each amendment or supplement A-36 thereto, at the time it is filed or becomes effective, will not include an untrue

statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the Company, Parent and the Sellers agrees that the written information provided by it specifically for inclusion in the Proxy Statement/Prospectus and each amendment thereto, at the time of mailing thereof and at the time of the meeting of the Parent Shareholders, or, in the case of the Form S-4 or any amendment or supplements thereto, at the time it is filed or becomes effective, will not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Parent will advise the Company and Merger Sub promptly after it receives notice thereof, of the time when the Form S-4 has become effective or any supplement or amendment has been filed, the issuance of any stop order, the suspension of the qualification of the Merger Securities Shares issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for additional information. Parent shall use its commercially reasonable efforts to cause the Proxy Statement/Prospectus to be mailed to the Parent Shareholders at the earliest practicable date as permitted by the SEC. If any time prior to the Effective Time any event relating to or affecting the Parent, the Company or the Sellers shall occur as a result of which it is necessary, in the opinion of counsel for the Parent or the counsel of the Company, to supplement or amend the Proxy Statement/Prospectus in order to make such document not misleading in light of the circumstances existing at the time approval of the stockholders of Parent is sought, Parent, the Company and the Sellers, respectively, will notify the others thereof. If Parent determines that such an amendment or supplement is required, the Company and the Sellers will cooperate with Parent in filing, and Parent will prepare and file, an amendment or supplement with the SEC and, if required by law or NYSE rule or applicable state securities authorities such that such document, as so supplemented or amended, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances existing at such time, not misleading, and Parent will, as required by law, disseminate to the Parent Shareholders such amendment or supplement. (b) Parent covenants that the Proxy Statement/Prospectus shall include the recommendation of the Parent Board and of the Parent Special Committee that the Parent Shareholders approve the Merger, this Agreement and the other transactions contemplated hereby. (c) Parent will take all action necessary in accordance with applicable law and its charter documents and by-laws to convene a meeting of its shareholders (the "Parent Special Meeting") as promptly as practicable to consider and vote upon or otherwise to obtain the consent of its shareholders, as required, to the transactions contemplated hereby. Subject to Sections 5.3 and 5.7(b), Parent and the Parent Board shall each take all lawful action and shall use commercially reasonable efforts to solicit such consent, including, without limitation, timely mailing of the Proxy Statement. (d) During the period from the date hereof through the earlier of (x) the date on which the Merger is consummated or (y) the date on which this Agreement is terminated according to its terms, the Company and the Sellers, shall cast or cause to be cast all votes attributable to the Parent Shares owned of record by the Company or the Sellers, at any annual or A-37 special meeting of shareholders of Parent, including any adjournments or postponements thereof, or in connection with any written consent or other vote of shareholders of Parent, so that the percentage of such Parent Shares voted in favor of the adoption of this Agreement and the approval of the Merger is the same as the Affirmative Percentage, the percentage of such Parent Shares voted against such adoption and approval is the same as the Negative Percentage and the percentage of such Parent Shares present but abstaining (and voting neither in favor of nor against such adoption and approval) is the same as the Abstention Percentage. For purposes hereof, the "Affirmative Percentage" equals the percentage of all votes cast by Parent Shareholders who are not Sellers that represent votes in favor of the adoption of the Agreement and Approval of the Merger; "Negative Percentage" equals the percentage of all votes cast by Parent Shareholders who are not Sellers that represent votes against such adoption and approval; and "Abstention Percentage" equals the percentage of all votes cast by Parent Shareholders who are not Sellers that count neither as votes in favor of nor against such adoption and approval. (e) The Sellers covenant to take no action to revoke or rescind the Company Shareholder Approval prior to the Effective Time. SECTION 5.8 ACCESS TO INFORMATION. Between the date hereof and the Effective Time, the Company, upon reasonable notice and during ordinary business hours, will grant Parent and its authorized representatives reasonable access to its employees, offices and other facilities and books and records as Parent may, from time to time, reasonably request in connection with the completion of the transactions contemplated hereby. SECTION 5.9 MERGER SUB ACTIONS. Prior to the Effective Time, Parent agrees that Merger Sub shall not issue any shares of its capital stock. Merger Sub shall take, and Parent shall use its commercially reasonable efforts to cause Merger Sub to

take, all actions necessary and appropriate to consummate the Merger, subject to the terms and conditions of this Agreement. Merger Sub shall not, and Parent shall cause Merger Sub not to, incur any obligations or conduct any business except as necessary and appropriate to effect the consummation of the Merger in accordance with this Agreement. SECTION 5.10 ADVICE OF CHANGES. The Company and the Sellers, on the one hand, and Parent, on the other, shall promptly advise the other party upon learning of any change or event having, or that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on it or which it believes would or would be reasonably expected to cause or constitute a material breach of any of its representations, warranties or covenants contained herein that would reasonably be expected to result in a failure of the conditions set forth in Sections 6.2 and 6.3 to be satisfied. SECTION 5.11 RESTRICTIONS ON TRANSFER. In addition to, and without limiting, Sections 4.6 and 4.7 hereof, each Seller agrees to the additional transfer restrictions set forth in this Section 5.11 with respect to the Merger Securities to be issued to such Seller: (a) Except for Permitted Transfers, such Seller shall not sell or otherwise Transfer: (i) the Closing Merger Consideration for a period of three years from the Closing Date; (ii) the Contingent Merger Consideration (if any) with respect to the First Annual Period for a period of two years from the sixty-third day following the end of an Annual Period (or, if any A-38 such date is not a business day, the first business day following such date) (the "Reference Date") for such Annual Period; and (iii) the Contingent Merger Consideration (if any) with respect to the Second and Third Annual Periods for a period of one year from the Reference Date for such Annual Periods. (b) The parties shall identify a mutually acceptable third party to act as custodian of the Merger Securities during the periods referred to in Section 5.11(a) (the "Custodian"). Any Escrowed Shares released by the Escrow Agent at the end of the Basic Survival Period as contemplated by Section 1.15(b) above shall be delivered into the possession of the Custodian. Any Contingent Merger Consideration paid by Parent after the end of the Basic Survival Period shall be delivered into the possession of the Custodian. All Merger Securities so delivered to the Custodian shall continue to be held by the Custodian until: (i) the transfer restrictions provided for in clause (a) above with respect to such Merger Securities have lapsed; or (ii) Transferred pursuant to any Permitted Transfer except for those referred to in clause (i) in the definition thereof. (c) Parent shall disburse (or cause to be disbursed) to each Seller with respect to the Merger Securities held in the possession of the Custodian all cash dividends received as a result of the ownership of the Merger Securities. (d) Any securities received as the result of ownership of the Merger Securities, including, but not by way of limitation, warrants, options and securities received as a stock dividend, stock split or combination, or as a result of a recapitalization, reorganization, exchange, substitution or other similar change in Parent's capital structure, shall be retained by the Custodian in the same manner and subject to the same conditions and restrictions as the Merger Securities with respect to which they were issued. (e) Each Seller that is an affiliate of the Company for the purposes of Rule 145 promulgated under the Securities Act ("Rule 145") further agrees that, without limiting any of the other provisions of this Section 5.11 or this Agreement, such Seller will not effect any resales of any Merger Securities it receives hereunder except to the extent such resales comply with the provisions of paragraph (d) of Rule 145. For purposes of this provision, the Company has identified the following Sellers as affiliates of the Company: Michael A.J. Farrell, Wellington J. Denahan, Kathryn F. Fagan and Jennifer A. Karve. (f) As used in this Section 5.11: (i) "Transfer" of the Merger Securities shall be construed broadly and shall include any issuance, sale, assignment, transfer, participation, gift, bequest, distribution, or other disposition thereof, or any pledge or hypothecation thereof, placement of a lien thereon or grant of a security interest therein or other encumbrance thereon, including any direct or indirect transfer of any of the economic benefits or risks of ownership of such Merger Securities, in each case whether voluntary or involuntary or by operation of law or otherwise; and (ii) "Permitted Transfers" shall mean any Transfers made by a Seller (i) to a transferee described in clauses (i) through (vi) of Section 1.7(d) hereof; (ii) to the extent necessary to generate proceeds to cover any Tax obligations of a Seller for imputed interest on A-39 the Contingent Merger Consideration; (iii) pursuant to a tender in response to a tender offer; (iv) pursuant to a merger or consolidation in which Parent is acquired (v) with the approval of a majority of the members of the Parent Board who are not Sellers or officers or employees of the Surviving Corporation; and (vi) pursuant to hedging transactions, provided that such hedging (a) does not impair the value of the Merger Consideration with respect to such Seller's indemnification obligations pursuant to Article IX hereof and (b) is not in violation of or prohibited by Parent's insider trading policy as from time to time in effect. SECTION 5.12 INDEMNIFICATION; DIRECTORS' AND OFFICERS' INSURANCE. (a) From and after the Effective Time, Parent agrees that it shall cause the Surviving Corporation to provide exculpation and indemnification for each Person who is now or has been at any time prior to the date hereof or who becomes such prior to the Effective Time, an officer or

director or employee of the Company, at least to the same extent provided under the Certificate of Incorporation or By-laws of the Company, as in effect on the date hereof; provided, that such exculpation and indemnification covers actions on or prior to the Effective Time, including, without limitation, all transactions contemplated by this Agreement. Parent shall, or shall cause the Surviving Corporation to and the Surviving Corporation shall advance expenses as incurred to the fullest extent Parent or the Surviving Corporation would have been required to do so under the Certificate of Incorporation or By-laws of the Company, as in effect on the date hereof, provided the Person to whom expenses are advanced provides an undertaking to repay such advances if it is finally determined by a court of competent jurisdiction that such person is not entitled to indemnification. Parent shall cause the Surviving Corporation to and the Surviving Corporation shall maintain in effect for a period of six years, the current errors and omissions policies maintained by the Company with respect to claims arising from facts or events that occurred on or before the Effective Time, including without limitation, in respect of the transactions contemplated by this Agreement; provided, that Parent shall not be required to pay or to cause the Surviving Corporation to pay aggregate annual premiums for insurance under this Section 5.12 in excess of 200% of the aggregate annual premium paid by the Company as of the date of this Agreement for such purpose, but in such case Parent shall cause the Surviving Corporation to purchase such coverage as the Surviving Corporation may reasonably obtain for such amount. (b) If the Surviving Corporation or any of its respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each such case the successors and assigns of such entity shall assume the obligations set forth in this Section 5.12, which obligations are expressly intended to be for the irrevocable benefit of, and shall be enforceable by, each director and officer covered hereby. SECTION 5.13 REGISTRATION RIGHTS. (a) SHELF REGISTRATIONS. (i) With respect to the Contingent Merger Consideration received on each Contingent Payment Date (or after such date pursuant to Sections 1.9 through 1.11), the Sellers owning 5 % or more of the Contingent Merger Consideration then outstanding (the "Initiating A-40 Holders") may deliver at any time to Parent a written request (a "Demand Notice") for Parent to file a registration statement on Form S-3 (the "Form S-3") registering under the Securities Act the resale of all or any portion of the Contingent Merger Consideration then outstanding (collectively, the "Shelf Registration Statement"). Such Shelf Registration Statement will state that the Sellers named as selling shareholders therein may sell, subject to the limitations set forth in this Agreement and any other limitations arising under applicable law, all or any part of the Merger Securities issued to them from time to time in transactions on the exchange on which such Merger Securities are listed (or, if such shares are listed on the Nasdaq National Market, in such market), in negotiated transactions, through the writing of options on the shares, through a combination of such methods of sale, or in any other manner, as appropriate, at prices related to market prices prevailing at the time of sale, or at negotiated prices. In any such request made pursuant to this Section 5.13, each Seller shall specify the number of shares of Contingent Merger Consideration to be registered. Any such request shall be delivered to Parent and the other Sellers in accordance with the provisions of Section 10.5 of this Agreement. Upon the receipt of such notice from the Initiating Holders that they have requested a Shelf Registration Statement, each of such other Sellers shall be entitled for a period of 30 days from the date of receipt of such notice to deliver a written request to Parent specifying the number of such Seller's shares of Contingent Merger Consideration to be included in such Shelf Registration Statement. (ii) Upon receipt of a Demand Notice, Parent shall file the Shelf Registration Statement within 45 days of such receipt. Parent will use its commercially reasonable efforts to cause such Shelf Registration Statement to become effective as promptly as practicable and to cause each prospectus contained therein to continue to meet the requirements of Section 10(a) of the Securities Act until the shares of Contingent Merger Consideration to which such prospectus relates have been deregistered. At any time after two years following the Contingent Payment Date pursuant to which any Merger Securities were issued, Parent may deregister any such Merger Securities registered under a Shelf Registration Statement that are held by a Seller all of whose shares may then be sold without registration under paragraph (k) of Rule 144. At any time after 5 years following the Contingent Payment Date pursuant to which any Merger Securities were issued, Parent may, on one occasion only, deregister any such Merger Securities registered under a Shelf Registration Statement that are held by a Seller who is eligible to sell such Merger Securities pursuant to the volume limitations described in paragraph (e)(1) of Rule 144 and subject to the other conditions of such Rule; provided that if any such Merger Securities are so deregistered, the Sellers holding such Merger Securities shall have one additional right to require a Shelf Registration Statement in accordance with and subject to the terms of this Section 5.13(a) to cover such Merger Securities. (iii) Notwithstanding the foregoing, in no

event shall Parent be required to effect more than a total of one Shelf Registration Statement in connection with each payment of Contingent Merger Consideration; provided that such obligation shall be deemed satisfied only when a Shelf Registration Statement covering all shares requested to be included in such Shelf Registration has become effective; and provided further that in establishing any such Shelf Registration Statement Parent, at its option, may combine thereunder any prior registrations effected pursuant to this Section 5.13(a) as permitted under Rule 429 promulgated under the Securities Act (or any successor rule). A-41 (b) INCIDENTAL REGISTRATIONS. (i) If Parent at any time (other than pursuant to Sections 5.13(a) hereof) proposes to register any of its shares of Common Stock under the Securities Act for sale to the public, for its own account (except with respect to registration statements on Forms S-4 or S-8, another form not available for registering shares for sale to the public for cash), each such time it will give written notice to each Seller of its intention so to do at least 20 days prior to the filing of the registration statement. Upon the written request of any Seller, given within 20 days after the such Seller's receipt of any such notice, to register all or any portion of the Contingent Merger Consideration then held by such Seller, Parent will use its commercially reasonable efforts to cause such Contingent Merger Consideration to be included in the securities to be covered by the registration statement proposed to be filed by Parent, all to the extent requisite to permit the sale or other disposition by such Seller (in accordance with its written request) of the shares so registered; provided that Parent's obligation under this sentence is subject the terms and conditions set forth in Section 5.13(b)(ii) below. In the event that any registration pursuant to this Section 5.13(b)(i) shall be, in whole or in part, an underwritten public offering, any request by a Seller pursuant to this Section 5.13(b)(i) to register shares shall specify that either (i) such shares are to be included in the underwriting on the same terms and conditions as the shares of Common Stock otherwise being sold through underwriters under such registration or (ii) such shares are to be sold in the open market without any underwriting, on terms and conditions comparable to those normally applicable to offerings of common stock in reasonably similar circumstances. (ii) The right of a Seller to have any of its Contingent Merger Consideration included in any underwriting offering referred to in Section 5.13(b)(i) is subject to the following limitations: (A) If the underwriting or similar committee of the Board of Directors of Parent shall determine, in consultation with the managing underwriter, that the inclusion of such Contingent Merger Consideration would adversely affect the marketing of the securities to be sold by Parent or is otherwise detrimental to or inadvisable for Parent, then Parent based on such determination may exclude all or any portion of such Contingent Merger Consideration from such registration statement; and (B) If no such determination is made by the underwriting committee, the managing underwriters may nevertheless reduce (pro rata among the requesting Sellers) the Contingent Merger Consideration to that has been requested to be included if and to the extent that the managing underwriter shall be of the opinion that such inclusion would adversely affect the marketing of the securities to be sold by Parent therein; provided that, without limiting the generality of the foregoing, it is further acknowledged and agreed that Parent (based on the advice of such committee and/or the managing underwriters) or the managing underwriters may determine (in making their determination under clauses (A) or (B) above) that due to the expedited manner in which an A-42 offer is proceeding or may proceed it is impractical to give any notice to the Sellers thereby and that the Contingent Merger Consideration of the Sellers shall be excluded from such offering without any such notice being given to the Sellers and without Parent being in breach of any of its obligations hereunder. (c) Notwithstanding anything to the contrary contained in this Section 5.13, in the event that there is an underwritten offering of securities of Parent pursuant to a registration covering shares and a Seller who is an affiliate of Parent does not elect to sell his or her shares to the underwriters of Parent's securities in connection with such offering, such affiliate shall agree to be bound by customary selling restrictions in connection with such offering, the term of which shall be no less than 90 days from the date such offering is completed. (d) If and whenever Parent is required by the provisions of Section 5.13 hereof to use its commercially reasonable efforts to effect the registration of any shares under the Securities Act, Parent will, as expeditiously as possible: (i) prepare and file with the Commission a registration statement on Form S-3 or other form of general applicability satisfactory to the managing underwriter selected as herein provided with respect to such securities, if any, and use its commercially reasonable efforts to cause such registration statement to become and remain effective for the period required hereby; (ii) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for the period specified in paragraph (a) above and as comply with the provisions of the Securities Act with respect to the disposition of all shares covered by such registration statement in accordance with the Sellers' intended method of disposition set forth in such registration

statement for such period; (iii) furnish to each Seller and to each underwriter such number of copies of the registration statement and the prospectus included therein (including each preliminary prospectus) as such persons may reasonably request in order to facilitate the public sale or other disposition of the shares covered by such registration statement; (iv) use its commercially reasonable efforts to register or qualify the shares covered by such registration statement under the securities or blue sky laws of such jurisdictions as the Sellers or the managing underwriter shall reasonably request; PROVIDED, HOWEVER, that Parent shall not for any such purpose be required to qualify generally to transact business as a foreign corporation in any jurisdiction where it is not so qualified or to consent to general service of process in any such jurisdiction; (v) promptly notify each Seller under such registration statement and each underwriter, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus contained in such registration statement, as then in effect, includes an untrue statement of a material fact or A-43 omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing; (vi) in the case of Sections 5.13(b) only, use its best efforts to furnish, at the request of any Seller, on the date that shares are delivered to the underwriters for sale pursuant to such registration: (i) an opinion dated such date of counsel representing Parent for the purposes of such registration, addressed to the underwriters and to such Seller, stating that such registration statement has become effective under the Securities Act and that (A) to the best knowledge of such counsel, no stop order suspending the effectiveness thereof has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Securities Act, (B) the registration statement, the related prospectus, and each amendment or supplement thereof, comply as to form in all material respects with the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder (except that such counsel need not express any opinion as to financial statements contained therein) and (C) to such other effects as may reasonably be requested by counsel for the underwriters or by such Seller or its counsel, and (ii) a letter dated such date from the independent public accountants retained by Parent, addressed to the underwriters and to such Seller, stating that they are independent public accountants within the meaning of the Securities Act and that, in the opinion of such accountants, the financial statements of Parent included in the registration statement or the related prospectus, or any amendment or supplement thereof, comply as to form in all material respects with the applicable accounting requirements of the Securities Act, and such letter shall additionally cover such other financial matters (including information as to the period ending no more than five business days prior to the date of such letter) with respect to the registration in respect of which such letter is being given as such underwriters or such Seller may reasonably request; and (vii) make available for inspection by each Seller, any underwriter participating in any distribution pursuant to such registration statement, and any attorney, accountant or other agent retained by such Seller or underwriter, all financial and other records, pertinent corporate documents and properties of Parent, and cause Parent's officers, directors and employees to supply all information reasonably requested by any such Seller, underwriter, attorney, accountant or agent in connection with such registration statement. For purposes of Section 5.13(a) and (b) hereof, the period of distribution of shares in such firm commitment underwritten public offering shall be deemed to extend until each underwriter has completed the distribution of all securities purchased by it and the period of distribution of shares in any other registration shall be deemed to extend until the sale of all shares covered thereby. (e) In connection with each registration hereunder, the Sellers participating therein will furnish to Parent in writing such information with respect to themselves and the proposed distribution by them as shall be reasonably necessary in order to assure compliance with federal and applicable state securities laws. (f) In connection with each registration pursuant to Section 5.13(b) hereof covering an underwritten public offering, Parent agrees to enter into a written agreement with the managing underwriter selected in the manner herein provided in such form and containing such A-44 provisions as are customary in the securities business for such an arrangement between major underwriters and companies of Parent's size and investment stature, and containing the provisions applicable to Parent set forth herein. (g) All expenses incurred by Parent in complying with Section 5.13 above, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for Parent, fees incurred in connection with the state securities or "blue sky" laws, fees of the National Association of Securities Dealers, Inc., transfer taxes, fees of transfer agents and registrars and costs of issuance, but excluding any Selling Expenses, are herein called "Registration Expenses". All underwriting discounts and selling commissions applicable to the sale of shares are herein called "Selling Expenses." Parent will pay all Registration Expenses in connection with each registration statement filed pursuant to this Agreement. All Selling Expenses in connection with

any registration statement filed pursuant to this Agreement shall be borne by the participating Sellers in proportion to the number of shares sold by each, or by such persons other than Parent (except to the extent Parent shall be a Seller) as they may agree. (h) No Seller may sell Merger Securities under this Section 5.13 in violation of any contractual restrictions on resale to which such Seller is subject pursuant to this Agreement. (i) As a condition to any Seller participating in any registration statement pursuant to this Section 5.13, such Seller shall be required to (i) complete such selling shareholder questionnaires as are customarily required to be completed by selling shareholders in connection with their participation in a resale shelf registration statement and (ii) to the extent no already provided for in this Section 5.13, make such representations and warranties, and agree to such covenants as are customarily made and agreed to by selling shareholders in connection with being granted and/or exercising rights to require an issuer to register shares for public resale in the manner contemplated hereby. (j) Parent shall use commercially reasonable efforts to cause the Contingent Merger Securities to be approved for listing with any securities exchange on which the Parent Common Stock is then listed, subject to official notice of issuance. (k) (i) In the event of a registration of any of the shares under the Securities Act pursuant to this Section 5.13, Parent will indemnify and hold harmless each Seller participating therein and underwriter of such shares thereunder and each other person, if any, who controls such Seller or underwriter within the meaning of the Securities Act, against any and all losses, claims, damages or liabilities, joint or several, to which such Seller or underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each such Seller, each such underwriter and each such controlling A-45 person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, (1) that the indemnity agreement contained in this Section 5.13(k) shall not apply to amounts paid in settlement of any such loss, claim, damage or liability if such settlement is effected without the consent of Parent (which consent will not be unreasonably withheld or delayed) and (2) that Parent will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by such Seller, such underwriter or such controlling person in writing specifically for use in such registration statement or prospectus. (ii) In the event of a registration of any of the shares under the Securities Act pursuant to this Section 5.13, each Seller of such shares thereunder, severally and not jointly, will indemnify and hold harmless Parent and each person, if any, who controls Parent within the meaning of the Securities Act, each officer of Parent who signs the registration statement, each director of Parent and each underwriter from any and all losses, claims, damages or liabilities, joint or several, to which Parent or such officer or director or underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the registration statement under which such shares were registered, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse Parent and each such officer, director, underwriter and controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; and PROVIDED, HOWEVER, (1) that the indemnity agreement contained in this Section 5.13(k) shall not apply to amounts paid in settlement of any such loss, claim, damage or liability if such settlement is effected without the consent of the indemnifying Seller (which consent will not be unreasonably withheld or delayed) and (2) that such Seller will be liable hereunder in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with information pertaining to such Seller, as such, furnished in writing to Parent by such Seller specifically for use in such registration statement or prospectus; PROVIDED, FURTHER, HOWEVER, that the liability of each Seller hereunder shall be limited to the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the public offering price of the shares sold by such Seller under such

registration statement bears to the total public offering price of all securities sold thereunder, but not to exceed the proceeds received by such Seller from the sale of shares covered by such registration statement. (iii) Promptly after receipt by an indemnified party hereunder of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party in writing thereof, but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party other than under this Section 5.13(k). In case any such action shall be brought against any indemnified party and it shall notify the indemnifying A-46 party of the commencement thereof, the indemnifying party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such indemnified party, and, after notice from the indemnifying party to such indemnified party of its election so to assume and undertake the defense thereof, the indemnifying party shall not be liable to such indemnified party under this Section 5.13(k) for any legal expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; PROVIDED, HOWEVER, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be reasonable defenses available to it which are different from or additional to those available to the indemnifying party or if the interests of the indemnified party reasonably may be deemed to conflict with the interests of the indemnifying party, the indemnified party shall have the right to select a separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the expenses and fees of such separate counsel and other expenses related to such participation to be reimbursed by the indemnifying party as incurred. (l) In order to provide for just and equitable contribution in circumstances in which the benefits of the indemnity agreements provided for in Section 5.13(k) are for any reason held to be unavailable to the underwriters, Parent or each Seller of shares, then Parent will contribute to the damages paid by the several underwriters or each Seller of shares, the underwriters will contribute to the damages paid by Parent or each Seller of the shares, as the case may be, and each Seller of shares will contribute to the damages paid by the underwriters or Parent, as the case may be; PROVIDED that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any party who was not guilty of such fraudulent misrepresentation and no Seller shall be required to contribute any amount in excess of the proceeds received by such Seller from the sale of shares covered by such registration statement less the aggregate amount of any damages which such Seller and its controlling persons have otherwise been required to pay in respect of the same or any substantially similar claim. In determining the amount of contribution to which the respective parties are entitled, there shall be considered the relative benefits received by each party from the offering of the shares (taking into account the portion of the proceeds of the offering realized by each), the parties' relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate in the circumstances. Parent, the underwriters and each Seller of shares will agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the underwriters were treated as one entity for such purpose). No underwriter or person controlling such underwriter shall be obligated to make contribution hereunder which in the aggregate exceeds the total public offering price of the stock purchased by such underwriter under the underwriting agreement, less the aggregate amount of any damages which such underwriter and its controlling persons have otherwise been required to pay in respect of the same or any substantially similar claim. The underwriters' obligations to contribute shall be several in proportion to their respective underwriting obligations and not joint. For purpose of this Section 5.13(l), each person, if any, who controls an underwriter within the meaning of Section 15 of the Securities Act shall have the same rights to contribution as such underwriter; each director of Parent, each officer of Parent who signed the registration statement, and each person who controls each Seller of shares within the meaning of Section 15 of the Securities Act A-47 shall have the same rights to contribution as each Seller of shares. (m) Notwithstanding anything herein to the contrary, the indemnification and contribution obligations under Section 5.13(k) and 5.13(l) above shall not be subject to any of the limitations (including deductibles and caps) provided for in Section 9.4 hereof. (n) Notwithstanding anything herein to the contrary, a Seller may assign its rights under this Section 5.13 to any transferee referred to in and which complies with the provisions of Section 1.7(d). SECTION 5.14 PRE-CLOSING DIVIDEND. On or before the Closing Date, the Company shall declare a dividend and distribute to the Company Shareholders of record at such time the aggregate amount of 38% of the federal taxable income of the Company for the period January 1, 2004 through the Closing Date

(the "Pre-Closing Period") as reasonably estimated by the Company. Such estimate of the federal taxable income of the Company for the Pre-Closing Period shall be prepared in a manner consistent with the way that the Company has prepared its Form 1120-S in the past and shall also be prepared consistent with the manner in which the Company will compute line 21 of its Form 1120-S for the Pre-Closing Period. The Company shall prepare its estimate of its federal taxable income for the Pre-Closing Period 10 business days prior to the date of such distribution and shall present such estimate together with any relevant supporting documentation to Parent for its review. If Parent has any concerns as to the amount of such income or the amount of such distribution, the parties shall endeavor in good faith to resolve any such differences within the 10 day period before such distribution is to take place. The amount of such distribution shall be allocated among the Company Shareholders of the Company in proportion to the number of Company Shares held by each as of the record date of such distribution. SECTION 5.15 CLIENT CONSENTS. To the extent that the rights of the Company under any Investment Management Contract, may not be assigned without the consent or approval of another party thereto, and/or in the case of the Company Funds, the shareholders and independent trustees thereof, the Sellers shall cause the Company to use commercially reasonable efforts to obtain any such consent prior to the Closing (collectively, the "Client Consents"), including, without limitation, (i) following the procedures for obtaining "negative consents" where appropriate, in accordance with the Investment Advisers Act and the Investment Company Act and (ii) obtaining approval of any Company Fund boards and shareholders if required with respect to such Company Funds. In connection with the foregoing, the Company shall keep the Parent reasonably updated with respect to the effort to obtain the Client Consents. Notwithstanding anything to the contrary contained in this Section 5.15, neither the Company nor the Sellers will be required to pay any money, furnish any consideration, modify any agreement or incur any liability or obligation in order to satisfy its obligations under this Section 5.15. SECTION 5.16 ESCROW AGENT. Between the date hereof and Closing, each of the Sellers and the Parent shall use commercially reasonable efforts to negotiate and agree upon the Escrow Agreement and to duly execute and deliver the Escrow Agreement at Closing. A-48 ARTICLE VI CONDITIONS TO CONSUMMATION OF THE MERGER SECTION 6.1 CONDITIONS TO EACH PARTY'S OBLIGATIONS TO EFFECT THE MERGER. The respective obligations of the Company, Parent and the Sellers to effect the transactions contemplated hereby are subject to the satisfaction or waiver at or prior to the Effective Time of the following conditions: (a) this Agreement and the Merger shall have been approved at the Parent Special Meeting by Parent Shareholders representing a majority of the outstanding Parent Shares entitled to vote at the Parent Special Meeting; (b) the Company Shareholder Approval executed concurrently with this Agreement shall remain in full force and effect; (c) All necessary filings, if any, pursuant to the HSR Act and any applicable foreign antitrust law or rule shall have been made and all applicable waiting periods thereunder shall have expired or been terminated. (d) the Merger Securities to be issued on the Closing Date shall have been approved for listing on the NYSE, subject to official notice of issuance; (e) except as would not reasonably be expected to have a Material Adverse Effect, all approvals, consents and authorizations of, filings and registrations with, and applications and notifications to all third parties and Regulatory Entities required for the consummation of the Merger shall have been obtained or made and shall be in full force and effect and all waiting periods required by applicable law shall have expired; (f) no existing or future statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or enforced by any Regulatory Entity which has the effect of making the consummation of either of the Merger illegal or prevents or prohibits consummation of the Merger, and no action by any Regulatory Entity shall have been instituted or threatened which questions the validity or legality of the Merger or the transactions contemplated hereby and which could reasonably be expected to damage Parent or the Company if the transactions contemplated hereunder are consummated; (g) Parent, the Representative and the Escrow Agent shall have entered into the Escrow Agreement. SECTION 6.2 CONDITIONS TO THE OBLIGATIONS OF PARENT. The obligation of Parent to effect the Merger and the transactions contemplated hereby is also subject to the satisfaction or waiver at or prior to the Effective Time of the following conditions: (a) The representations and warranties of the Company and the Sellers shall be true and correct as of the date of this Agreement and as of the Closing Date with the same effect as though made on and as of the Closing Date, except to the extent such representations and warranties speak as of a specific date and except to the extent the breaches of all the A-49 representations and warranties, if any (excluding, for this purpose, any qualifications as to materiality therein or in the Company Disclosure Schedule), in the aggregate, do not have a Company Material Adverse Effect. At the Closing, the Company shall have delivered to Parent a certificate signed by a senior officer to the foregoing effect with respect to the representations and warranties of the Company and each Seller shall have delivered to Parent a certificate signed

by such Seller to the foregoing effect with respect to the representations and warranties of such Seller. (b) The obligations of the Company and the Sellers to be performed at or before the Effective Time pursuant to the terms of this Agreement shall have been duly performed in all material respects (excluding, for this purpose, any qualification as to materiality therein), and at the Closing the Company shall have delivered to Parent a certificate signed by a senior officer to that effect. (c) There shall not have occurred any one or more events with respect to the Company between the date of this Agreement and the Closing Date which, individually or in the aggregate, had a material adverse effect on the business, operations, results of operations or financial condition of the Company. (d) Parent shall have received an opinion of Morrison & Foerster LLP in form and substance reasonably acceptable to Parent dated the Closing Date, to the effect that, on the basis of facts, representations and assumptions set forth or referred to in such opinion, following the Merger, the Surviving Corporation's organization and intended method of operation will enable it to meet the requirements for qualification and taxation as a taxable REIT subsidiary under Section 856(l) of the Code (with customary assumptions and qualifications and based on customary representations). (e) The Company shall have delivered to Parent an audited balance sheet of the Company as at December 30, 2003 and the related audited statements of income, cash flow and stockholders' equity for the year then ended (including footnotes thereto). SECTION 6.3 CONDITIONS TO THE OBLIGATIONS OF THE COMPANY. The obligation of the Company to effect the Merger and the transactions contemplated hereby is also subject to the satisfaction or waiver at or prior to the Effective Time of the following conditions: (a) The representations and warranties of Parent shall be true and correct as of the date of this Agreement and as of the Closing Date with the same effect as though made on and as of the Closing Date, except to the extent such representations and warranties speak as of a specific date and except to the extent the breaches of all the representations and warranties, if any (excluding, for this purpose, any qualifications as to materiality therein), in the aggregate, do not have a Parent Material Adverse Effect. At the Closing, Parent shall have delivered to the Company a certificate signed by a senior officer to that effect. (b) The obligations of Parent to be performed at or before the Effective Time pursuant to the terms of this Agreement shall have been duly performed in all material respects, and at the Closing Parent shall have delivered to the Company a certificate signed by a senior officer to that effect. A-50 SECTION 6.4 FRUSTRATION OF CLOSING CONDITIONS. Neither the Company nor Parent may rely on the failure of any condition set forth in Sections 6.1 through 6.3 to be satisfied if such failure was caused by such party's failure to use its commercially reasonable efforts to consummate the Merger and the transactions contemplated hereby, as required by and subject to Section 5.5. ARTICLE VII TERMINATION; AMENDMENT; WAIVER SECTION 7.1 TERMINATION. This Agreement may be terminated and the Merger contemplated hereby may be abandoned at any time prior to the Effective Time, whether before or after approval by the shareholders of Parent at the Parent Special Meeting or by the Company Shareholders: (a) by mutual written consent of the Company and Parent; (b) by the Company or Parent if (i) any Regulatory Entity shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action is or shall have become final and nonappealable; provided that no party may terminate this Agreement pursuant to this paragraph if such party has failed to fulfill its obligations under Section 5.5 of this Agreement; (ii) the Merger has not been consummated prior to May 31, 2004; provided that the right to terminate this Agreement under this Section 7.1(b)(ii) shall not be available to any party to this Agreement whose failure or whose affiliate's failure to perform any material covenant or obligation under this Agreement has been the primary cause of or resulted in the failure of the Merger to occur on or before such date; and (iii) the approval of this Agreement by the Parent Shareholders as provided in Section 6.1(a) shall not have been obtained at the Parent Special Meeting or any adjournment or postponement thereof; (c) by the Company or Parent if, prior to the Effective Time, the Parent Special Committee or the Parent Board shall have determined in good faith, based upon the written opinion of independent counsel, that the failure to withdraw or modify the Parent Special Committee or the Parent Board's approval or recommendation of this Agreement or the Merger will violate their fiduciary duties and, based on such determination, the Parent Special Committee or the Parent Board shall have resolved to effect such withdrawal or modification; (d) by Parent, if prior to the Effective Time, the Company Shareholders take action to revoke or rescind the Company Shareholder Approval; (e) by Parent if there has been a violation or breach by the Company or any Seller of any agreement, covenant, representation or warranty contained in this Agreement that has prevented or would prevent the satisfaction of the conditions set forth in Section 6.2 at the time of such breach or violation and such violation or breach has not been waived by Parent nor cured by the Company or such Seller prior to the earlier of (i) 30 business days after the giving of written notice to the Company of such breach and (ii) May 31, 2004; or A-51

(f) by the Company if there has been a violation or breach by Parent of any agreement, covenant, representation or warranty contained in this Agreement that has prevented or would prevent the satisfaction of the conditions set forth in Section 6.3 at the time of such breach or violation and such violation or breach has not been waived by the Company nor cured by Parent prior to the earlier of (i) 30 business days after the giving of written notice to Parent of such breach and (ii) May 31, 2004. The party desiring to terminate this Agreement pursuant to this Section 7.1 shall give written notice of such termination to the other party. SECTION 7.2 EFFECT OF TERMINATION. In the event of the termination and abandonment of this Agreement pursuant to Section 7.1, this Agreement shall forthwith become void and have no effect, without any liability on the part of any party hereto or its affiliates, directors, officers or shareholders, other than the provisions of this Section and Sections 2.5 and 3.6 and Article X which shall remain in full force and effect and survive any termination of this Agreement. Nothing contained in this Section shall relieve any party from liability for any willful breach of any representation, warranty, agreement, covenant or other provision of this Agreement or any agreement made as of the date hereof or subsequent thereto pursuant to this Agreement. SECTION 7.3 AMENDMENT. This Agreement may be amended by action taken by the Parent Special Committee, the Company and Merger Sub at any time before or after approval of the Merger by the Parent Shareholders, but, after any such approval, no amendment shall be made which requires the approval of such Parent Shareholders under applicable law without such approval. This Agreement may not be amended except by an instrument in writing signed on behalf of the parties hereto. SECTION 7.4 EXTENSION; WAIVER. At any time prior to the Effective Time, the Company and the Seller, on the one hand, and Parent or Merger Sub, on the other, may (i) extend the time for the performance of any of the obligations or other acts of the other parties, (ii) waive any inaccuracies in the representations and warranties of the other parties contained herein or in any document, certificate or writing delivered pursuant hereto, or (iii) waive compliance by the other parties with any of the agreements or conditions contained herein. Any agreement on the part of any party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party and expressly referring to this Agreement. The failure of any party hereto to assert any of its rights hereunder shall not constitute a waiver of such rights. ARTICLE VIII TAX MATTERS SECTION 8.1 TAX RETURNS. (a) Except as otherwise provided in Section 8.1(b), Parent shall prepare (or cause to be prepared) all Tax Returns of the Company for any taxable year ended after the Closing Date. With respect to any Tax Return relating to taxable periods which include periods preceding the Closing Date, Parent shall prepare (or cause to be prepared) A-52 such Tax Return in a manner consistent with past practices of the Company and shall provide the Representative with a reasonable opportunity to review such Tax Return at least 20 days prior to the filing thereof. (b) The Sellers shall prepare, or cause to be prepared, and file, or cause to be filed, all income Tax Returns of the Company required to be filed by the Company for any taxable year ended on or prior to the Closing Date in a manner consistent with past practices of the Company. The Sellers shall provide Parent with a reasonable opportunity to review such Tax Returns at least 20 days prior to the filing thereof. To the extent permitted by applicable law, the Sellers shall include any income, gain, loss, deduction or other tax items for such periods on their Tax Returns in a manner consistent with the Schedule K-1s furnished by the Company to the Sellers for such periods. SECTION 8.2 ASSISTANCE AND COOPERATION. From and after the Closing Date, the Company, each of the Sellers and Parent shall: (a) assist in all reasonable respects (and cause their respective affiliates to assist) the other parties in preparing any Tax Returns of the Company which another party is responsible for preparing and filing; (b) cooperate in all reasonable respects in preparing for any audits of, or disputes with taxing authorities regarding, any Tax Returns of the Company; (c) make available to the other parties and to any taxing authority as reasonably requested all information, records, and documents relating to Taxes of the Company; (d) provide timely notice to the other parties in writing of any pending or threatened tax audits or assessments of the Company for taxable periods for which another party may have a liability under Article VIII; (e) furnish the other parties with copies of all correspondence received from any taxing authority in connection with any tax audit or information request with respect to the Company with respect to any such taxable period; and (f) make available to each Seller and to any taxing authority as reasonably requested all information, records, and documents of the Company in connection with any matter relating to Taxes of such Seller. SECTION 8.3 CONTESTS AND PAYMENT PROCEDURES. (a) Notwithstanding anything to the contrary in this Agreement, the Representative shall, in consultation with Parent, control, manage and be responsible for any audit, contest, claim, proceeding or inquiry with respect to Taxes for any Pre-Closing Period and shall have the right to settle or contest any such audit, contest, claim, proceeding or inquiry; provided, however, that if any such settlement would materially and adversely impact a Tax Return of the Surviving

Corporation or Parent with respect to the period beginning the day after the Closing Date, Parent and the Representative shall mutually agree on the terms of such settlement. (b) Parent shall control, manage and solely be responsible for any audit, A-53 contest, claim, proceeding or inquiry with respect to any item relating to Taxes not covered by Section 8.3(a). ARTICLE IX INDEMNIFICATION SECTION 9.1 INDEMNIFICATION BY SELLERS. (a) From and after the Closing Date, each of the Sellers, severally and not jointly, hereby covenants and agrees to indemnify, defend and hold harmless Parent, and its subsidiaries and affiliates, from and against such Seller's Allocable Share (as defined in this Section 9.1) of any and all Damages incurred in connection with or arising out of or resulting from (i) any inaccuracy or breach of any representation or warranty made by the Company or the Sellers in or pursuant to this Agreement, the Company Disclosure Schedule or any other document, instrument, certificate or writing delivered pursuant hereto, including, without limitation, the representations and warranties made by the Company in Article III hereof and the Sellers in Article IV hereof, or (ii) any breach, non-compliance or nonfulfillment by the Company or the Sellers of any covenant, agreement or undertaking to be complied with or performed by them contained in or pursuant to this Agreement or any other document, instrument, certificate or writing delivered pursuant hereto. Notwithstanding the foregoing, the representations and warranties contained in Article IV hereof, and the covenants, agreements and undertakings made in this Agreement, to the extent such covenants, agreements and undertakings are covenants, agreements and undertakings of the Sellers (as opposed to the Company), are made severally by each Seller as to such Seller only, and any Seller who has breached any such representation, warranty or covenant as to himself or herself (but only such Seller) shall be liable for Damages arising from the breach thereof. (b) In addition to the indemnification provided in Section 9.1(a) above, from and after the Closing Date, each of the Sellers, severally and not jointly, hereby covenants and agrees to pay, or cause to be paid, and to indemnify, defend and hold harmless Parent and the Surviving Corporation from and against, such Seller's Allocable Share of all Taxes imposed on Parent or the Surviving Corporation with respect to taxable periods ending on or prior to the Closing Date or periods which include the Closing Date to the extent attributable to the income, business, property, assets, operations or reporting requirements of the Company prior to the Closing Date (including, without limitation, all Taxes referred to in the Company Disclosure Schedule as possible of assessment for taxable periods prior to the Closing Date or arising or resulting from, or attributable to, any of the transactions or actions contemplated pursuant to this Agreement). If a Tax audit is commenced or any Tax is claimed for any period of the Company prior to the Closing Date, such Tax audit or claim shall be treated as a lawsuit or enforcement action for purposes of Section 9.3 hereof; provided, that the Sellers shall be solely responsible for their Allocable Share of all liabilities and expenses arising therefrom (including, without limitation, Taxes, interest and penalties). (c) Each Seller acknowledges that Parent has entered into this Agreement in reliance upon, among other things, the indemnification provisions contained in this Section 9.1, and the Sellers agree that such provisions constitute reasonable and necessary protection for Parent in the context of the transactions provided for herein. As used herein, the "Allocable A-54 Share" of any Seller of the Damages payable by the Sellers pursuant to this Article IX shall be the percentage of the total Company Shares being sold pursuant to this Agreement as specified opposite such Seller's name on Schedule A hereto. SECTION 9.2 INDEMNIFICATION BY PARENT. (a) From and after the Closing Date, Parent hereby covenants and agrees to indemnify, defend and hold harmless the Sellers, from and against any and all Damages incurred in connection with or arising out of or resulting from any breach or inaccuracy of any representation or warranty, or any breach, non-compliance or nonfulfillment by Parent of any covenant, agreement or undertaking to be complied with or performed by it contained in or made pursuant to this Agreement or any other document, instrument, certificate or writing delivered pursuant hereto. (b) The Sellers acknowledge and agree that each Seller is a director, officer or employee of Parent, that the Sellers are the officers of Parent responsible for the day-to-day management of Parent (subject to oversight by the Parent Board) and the representations and warranties made herein by Parent and the covenants and obligations of Parent contained herein are, to a significant degree, made in reliance on information or services provided or to be provided by the Sellers. Accordingly, Parent, the Company and each Seller expressly agree that, notwithstanding anything to the contrary in Section 9.2(a), Parent shall have no liability or obligation to the Company or any Seller arising out of or in connection with the breach of any representation, warranty, covenant or agreement (including under this Article IX) contained herein to the extent that such breach is predicated upon (i) information provided by the Company or any Seller, (ii) information that was known to either the Company or any Seller, but not provided by the Company or such Seller to Parent or (iii) the failure of any Seller to provide any services that Parent could reasonably have expected such Seller to provide in his or her capacity as a director, officer

or employee of Parent (unless such failure results from such Seller's complying with any instructions given by the Parent Board or any committee thereof). The parties acknowledge that this Section 9.2(b) has been included herein solely for purposes of determining the scope of Parent's indemnification obligations under Section 9.2(a), and shall not be the basis for any other claims arising under this Agreement. SECTION 9.3 INDEMNIFICATION PROCEDURES. (a) In order for a party (the "indemnified party") to be entitled to any indemnification provided for under this Agreement in respect of, arising out of or involving, a claim made by any Person against the indemnified party (a "Third Party Claim"), such indemnified party must notify the indemnifying party in writing of the Third Party Claim within 10 Business Days after receipt by such indemnified party of written notice of the Third Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent the indemnifying party shall have been materially prejudiced as a result of such failure. Thereafter, the indemnified party shall deliver to the indemnifying party, promptly following the indemnified party's receipt thereof, copies of all notices and documents (including court papers) received by the indemnified party relating to the Third Party Claim. (b) If a Third Party Claim is made against an indemnified party, the indemnifying party shall be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the indemnifying party. Should the indemnifying party so elect to assume the defense of a Third Party Claim, the indemnifying party A-55 shall not be liable to the indemnified party for any legal expenses subsequently incurred by the indemnified party in connection with the defense thereof. If the indemnifying party assumes such defense, the indemnified party shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the indemnifying party, it being understood that the indemnifying party shall control such defense. The indemnifying party shall be liable for the fees and expenses of counsel employed by the indemnified party for any period during which the indemnifying party has not assumed the defense thereof. If the indemnifying party chooses to defend or prosecute a Third Party Claim, all the indemnified parties shall cooperate in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the indemnifying party's request) the provision to the indemnifying party of records and information that are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. (c) Notwithstanding clause (b) above, the indemnifying party shall not have the right to assume the defense of any Third Party Claim if (i) the indemnified party shall have been advised by counsel that there are one or more legal or equitable defenses available to the indemnified party which are different from or in addition to those available to the indemnifying party, and, in the reasonable opinion of the indemnified party, counsel for the indemnifying party could not adequately represent the interests of the indemnified party because such interests would be in conflict with those of the indemnifying party, or (ii) if an indemnified party determines in good faith that there is a reasonable probability that a Third Party claim may adversely affect it or its subsidiaries or affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, then the indemnified party may, by notice to the indemnifying party, assume the exclusive right to defend, compromise or settle such Third Party Claim, and the indemnifying party shall be responsible for the reasonable fees and expenses of counsel employed by the indemnified party in defending, compromising or settling such Third Party Claim; provided that the indemnifying party's liability with respect to any settlement or compromise shall be subject to Sections 9.3(d) and 9.4 below. (d) Whether or not the indemnifying party assumes the defense of a Third Party Claim, the indemnified party shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the indemnifying party's prior written consent (which consent shall not be unreasonably withheld). If the indemnifying party assumes the defense of a Third Party Claim, the indemnified party shall agree to any settlement, compromise or discharge of a Third Party Claim that the indemnifying party may recommend and that by its terms obligates the indemnifying party to pay the full amount of the liability in connection with such Third Party Claim, and which releases the indemnified party completely in connection with such Third Party Claim; provided that the indemnifying party shall not agree, without the indemnified party's consent, to the entry of any judgment, order, writ, settlement, compromise or decree that provides for injunctive or other nonmonetary relief affecting the indemnified party. (e) In the event any indemnified party should have a claim against any indemnifying party under Section 9.1 or 9.2 that does not involve a Third Party Claim being asserted against or sought to be collected from such indemnified party, the indemnified party shall deliver notice of such claim with reasonable promptness to the indemnifying party, along A-56 with a description of the nature and basis of the claim in reasonable detail. (f) With respect to any claim made by an indemnified party under Sections 9.1 or 9.2, the indemnified party shall provide to

the indemnifying party all information and documentation reasonably necessary to support and verify any claim that the indemnified party believes gives rise to the claim hereunder and shall give the indemnifying party reasonable access to all books, records and personnel in the possession or under the control of the indemnified party that would have bearing on such claim. SECTION 9.4 GENERAL INDEMNIFICATION PROVISIONS. (a) Notwithstanding any of the provisions of this Agreement, Parent shall not be entitled to make claims for Damages under Sections 9.1(a) hereof unless and until the aggregate of such claims exceeds $700,000 (the "Indemnification Threshold") and then only to the extent of such excess; provided, however, that the Indemnification Threshold shall not be applicable to claims by Parent for Damages arising from a breach by a Seller of any provisions of Sections 3.10 and 4.9 and Article VIII hereof (the "Excluded Provisions") or from an indemnification obligation arising under Section 9.1(b) hereof and any claim arising from a breach of any Excluded Provisions or from an indemnification obligation arising under Section 9.1(b) hereof shall not be taken into account for purposes of determining when the Indemnification Threshold has been met. Notwithstanding any of the provisions of this Agreement, in no event shall the aggregate indemnification obligations of the Sellers pursuant to Section 9.1(a) (except for any indemnification obligations arising from any breach of the Excluded Provisions) exceed the value of the Escrowed Shares as determined pursuant to Section 9.4(f) below. Notwithstanding anything herein to the contrary, all indemnification obligations of the Sellers pursuant to Section 9.1(a) (except for any indemnification obligations arising from any breach of the Excluded Provisions) shall be satisfied exclusively from the Escrowed Shares held under the Escrow Agreement and Parent shall have no other recourse against the Sellers with respect to such claims. (b) Parent shall be entitled to make claims for Damages under Section 9.1(a) with respect to a breach of any Excluded Provision and under Section 9.1(b) without such Damages having to exceed any threshold. The aggregate indemnification obligations of the Sellers with respect to the claims referred to in the immediately preceding sentence shall not be subject to any limitation. However, Parent shall not have any right, in connection with any such claims, to retain (or cause to be retained) under the Escrow Agreement any Merger Securities beyond the end of the Basic Survival Period unless Parent has properly made such a claim during the Basic Survival Period, it being further agreed that to the extent any such claims are made by Parent after the end of the Basic Survival Period, Parent shall have only a general unsecured claim against the Sellers with respect thereto. (c) The parties further agree that the possession of any Merger Securities by the Custodian pursuant to Section 5.11(b) is solely for the purpose of implementing the trading restrictions provided for therein and that any Merger Securities so held do not constitute additional collateral securing the performance of the Sellers' indemnification obligations under Section 9.1. (d) In the event that any time subsequent to an indemnification payment hereunder the Damages to the indemnified party are reduced by tax benefits or recovery, A-57 settlement or otherwise under any insurance coverage or third party claim, the amount of such reduction (less any cost, expense, premium or tax paid) will be promptly repaid to the indemnifying party. (e) For purposes of this Article IX, "Damages" means costs, losses, liabilities, damages, lawsuits, deficiencies, claims, Taxes and expenses (whether or not arising out of third-party claims or governmental examinations, inspections or audits), including, without limitation, interest, penalties, reasonable attorneys' fees and all amounts paid in investigation, defense or settlement of any of the foregoing; provided, however, that "Damages" shall not include punitive damages except to the extent of any punitive damages recovered by third parties. The term "Damages" is not limited to matters asserted by third parties against either the Sellers or against Parent or the Company, but includes Damages incurred or sustained by the Sellers or by Parent or by the Company in the absence of third party claims. (f) To the extent that any Escrowed Shares are applied in satisfaction of the Sellers' obligation to indemnify Parent for any Damages, the amount of such Damages deemed to have been satisfied thereby shall be determined as follows: (i) if Parent elects to retain such Escrowed Shares, then the amount of Damages deemed satisfied thereby shall equal the aggregate value of such Escrowed Shares based on the VWAP for the Parent Common Stock on the trading day on which such Escrowed Shares were released to Parent (or, if such day is not a trading day, then on the first day thereafter that is a trading day) (the "Release Price") and (ii) if Parent elects not to retain such Escrowed Shares, then Parent shall be obligated (subject to compliance with applicable securities laws) to use its commercially reasonable efforts to sell such Escrowed Shares in which case the amount of Damages deemed satisfied thereby shall equal the greater of (x) the actual net proceeds received by Parent from the sale of such Escrowed Shares and (y) the value of such Escrowed Shares based on the Valuation Price (as defined below). By no later than the first business day following the day on which Parent receives any Escrowed Shares to be applied as contemplated by this Section 9.4(f), Parent shall provide written notice to the Representative indicating whether or not it has elected to retain such Escrowed Shares; provided

that if Parent elects not to retain such Escrowed Shares, then Parent shall be obligated (subject to compliance with applicable securities laws) to proceed in a commercially reasonable manner to sell such Escrowed Shares and, provided further that if any of such Escrowed Shares remain unsold by the 30th day after such notice is given, then for purposes of clause (ii)(x) in the first sentence of this Section 9.4(f), such Escrowed Shares shall be deemed to have been sold at the VWAP on such 30th day (or, if such day is not a trading day, on the first trading day thereof), except that in such case Parent and the Representative may agree to additional adjustments to the amounts determined under this Section 9.4(f). As used in this Section 9.4(f), the "Valuation Price" shall mean (A) if the Release Price is greater than the Parent Closing Price, an amount equal to 90% of the Release Price and (B) if the Release Price is equal to or less than the Parent Closing Price, an amount equal to 80% of the Release Price. If Parent elects to sell any Escrowed Shares pursuant to clause (ii) of this Section 9.4(f), and the amount of Damages that would have been deemed satisfied pursuant to clause (i) of this Section 9.4(f) if Parent had elected to retain such Escrowed Shares exceeds the amount of Damages deemed to be satisfied under such clause (ii), then Parent shall be entitled under the Escrow Agreement to receive additional Retained Securities, to the extent available, for satisfaction of a Damage claim equal to such excess and the provisions of this Section 9.4(f) shall apply anew to any such additional Escrowed Shares received by Parent. A-58 (g) The indemnification provided in this Article IX shall be (in the absence of fraud) the sole and exclusive remedy for Damages available to Sellers, the Company, Parent, its subsidiaries and affiliates for breach of any of the terms, conditions, representations or warranties contained herein. As between the Sellers, on the one hand, and Parent and its affiliates, including without limitation after the Closing, the Company, on the other hand, the rights and obligations set forth in this Agreement will be (in the absence of fraud) the exclusive rights and obligations with respect to this Agreement, the events giving rise to this Agreement and the transactions provided for herein or contemplated hereby. Notwithstanding the foregoing, nothing contained in this Article IX shall prevent any party hereto from seeking and obtaining, as and to the extent permitted by applicable law, specific performance by the other party hereto of any of its obligations under this Agreement or injunctive relief against another party's activities in breach of this Agreement or any document or agreement executed in connection herewith. ARTICLE X MISCELLANEOUS SECTION 10.1 SURVIVAL. (a) All representations, warranties, covenants and obligations of the Company and the Sellers contained in this Agreement, the Company Disclosure Schedule or in any document, instrument, certificate or other writing delivered pursuant hereto shall survive the Closing and the consummation of the transactions contemplated hereby, subject in the case of the representations and warranties to the time limitations set forth in Section 10.1(b). (b) Notwithstanding anything to the contrary in Section 10.1(a), (i) the representations and warranties contained in Section 3.10, 3.24(b) and Article IV hereof which shall survive until the expiration of the applicable statute of limitations with respect to the matters contained therein, (ii) the representations and warranties contained in Section 4.9 shall survive indefinitely and (iii) all other representations and warranties contained herein shall survive for a period of 14 months from the Closing Date (the "Basic Survival Period"). Notwithstanding anything in this Agreement to the contrary, any Damages as to which a notice of claim has been given in writing prior to the expiration of the applicable period set forth above in this Section 10.1 shall survive until payment on other final resolution of such claim. (c) All statements contained in the Company Disclosure Schedule or in any certificate delivered at the Closing pursuant to the transactions contemplated hereby shall be deemed to be representations and warranties of the applicable party hereto contained herein. The right to indemnification, reimbursement or other remedy based upon such representations, warranties, covenants and obligations shall not be affected by any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with any such representation, warranty, covenant or obligation (except as provided in Section 9.2(b)). The waiver of any condition based upon the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, will not affect the right to indemnification, reimbursement or other remedy based upon such representations, warranties, covenants and obligations. A-59 SECTION 10.2 SET-OFF. Without limiting any other rights that Parent may have pursuant to this Agreement, Parent shall be entitled to set-off against any amount payable by it to any of the Sellers pursuant to this Agreement any amount determined by a final, non-appealable decision or order of any court of competent jurisdiction to be owed by the Company and/or the Sellers to Parent or any of its affiliates pursuant to this Agreement and/or the amount of any Damages against which Parent, or its affiliates is either (i) acknowledged in writing (as to both liability and amount) by the Representative or (ii) determined by a final, non-appealable decision or order of any court of competent

jurisdiction to be entitled to be indemnified by the Sellers pursuant to this Agreement. SECTION 10.3 EXPENSES; TRANSFER TAXES. All expenses incurred in connection with the transactions contemplated by this Agreement, shall be paid by the party incurring such expenses, except that if the Merger is consummated, the expenses of the Company and the Sellers incurred in connection with the transactions contemplated by this Agreement shall be paid by the Surviving Corporation; provided, however, that each of the Sellers, respectively, shall be responsible for any transfer Taxes imposed on such Seller by reason of the Merger and any deficiency, interest or penalty asserted with respect thereto. SECTION 10.4 ENTIRE AGREEMENT; ASSIGNMENT. This Agreement (including the documents and instruments referred to herein) (i) constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and (ii) shall not be assigned by operation of law or otherwise. SECTION 10.5 NOTICES. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand (including recognized courier service) or mailed, certified or registered mail with postage prepaid, or communicated by facsimile transmission (receipt confirmed), as follows: if to Parent or Merger Sub: Annaly Mortgage Management, Inc. 1211 Avenue of the Americas Suite 2902 New York, New York 10036 Facsimile No: (212) 696-9809 Attention: Spencer Browne with a copy to: Morrison & Foerster LLP 1290 Avenue of the Americas New York, New York 10104-0050 Facsimile No: (212) 468-7900 Attention: James R. Tanenbaum A-60 if to the Company: Fixed Income Discount Advisory Company 1211 Avenue of the Americas Suite 2902 New York, New York 10036 Facsimile No: (212) 696-9809 Attention: Michael A.J. Farrell with a copy to: Dechert LLP 4000 Bell Atlantic Tower 1717 Arch Street Philadelphia, Pennsylvania 19103 Facsimile No: (212) 696-9809 Attention: Christopher G. Karras if to the Seller: Michael A.J. Farrell c/o Fixed Income Discount Advisory Company 1211 Avenue of the Americas Suite 2902 New York, New York 10036 Facsimile No: (212) 696-9809 or to such other address as the person to whom notice is given may have previously furnished to the other in writing in the manner set forth above. Each such notice, request, demand, application, service of process and other communication shall be deemed to have been given (i) as of the date faxed or delivered (which, with respect to a recognized courier service, shall be deemed to mean the business day following the date sent), (ii) as of the fifth business day after the date mailed, or (iii) if given by any other means, only when actually received by the addressee. SECTION 10.6 GOVERNING LAW; CONSENT TO JURISDICTION; JURY WAIVER. Except for matters that are necessarily governed by Delaware Law, including the provisions of Article I hereof and the fiduciary duties of the Company Board, and by the Maryland Corporations and Associations Code, including the fiduciary duties of the Parent Board and the Parent Special Committee, which matters will be governed by the laws of the States of Delaware and Maryland, respectively, this Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to the principles of conflicts of law thereof. Each of the parties hereto (i) consents to submit itself to the personal jurisdiction of any court of the State of New York or the United States District Court for the Southern District of New York, in each case in the Borough of Manhattan, in the event any dispute arises out of this Agreement or any of the transactions contemplated hereby, (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (iii) agrees A-61 that it will not bring any action relating to this Agreement in any court other than a court of the State of New York or the United States District Court for the Southern District of New York, in each case in the Borough of Manhattan. Each party hereto waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any action or proceeding arising out of or relating to this Agreement. SECTION 10.7 ENFORCEMENT. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the State of New York or the United States District Court for the Southern District of New York, in each case in the Borough of Manhattan, in addition to any other remedy to which any party is entitled at law or in equity. SECTION 10.8 DESCRIPTIVE HEADINGS; SCHEDULES, INTERPRETATION. (a) The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement. Any matter disclosed pursuant to any Section of the Company Disclosure Schedule shall be deemed to qualify each representation and warranty of the Company, so long as the relevance of such matter to such representations and warranties is reasonably apparent on the face of the information disclosed. (b) As used in this

Agreement, (i) the term "includes" and the word "including" and words of similar import shall be deemed to be followed by the words "without limitation"; (ii) "control" (including its correlative meanings, "controlled by" and "under common control with") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of a person, whether through the ownership of securities or partnership or other interests, by contract or otherwise; (iii) "Person" means, as applicable, a natural person, firm, partnership, limited liability company, joint venture, corporation, association, business enterprise, joint stock company, unincorporated association, trust, Regulatory Entity (as defined in Section 2.3 hereof) or any other entity, whether acting in an individual, fiduciary or other capacity; (iv) words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other gender as the context requires; (v) the terms "hereof," "herein," and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article, Section, paragraph, Schedule and Exhibit references are to the Articles, Sections, paragraphs, Schedules and Exhibit to this Agreement unless otherwise specified; (vi) the word "or" shall not be exclusive; and (vii) the terms "subsidiary" and "affiliate", as used herein with reference to the Company, shall be deemed not to include Parent and its subsidiaries, and the term "affiliate", as used herein with reference to Parent, shall be deemed not to include the Company and its subsidiaries and affiliates, other than Parent and its subsidiaries. (c) As used in this Agreement, the phrases "to the Company's knowledge", "to the knowledge of the Company" or phrases of similar import shall mean the knowledge, A-62 collectively, of the following individuals: Michael A.J. Farrell, Wellington J. Denahan, Jennifer A. Karve and Kathryn F. Fagan; provided that for purposes of the foregoing, the knowledge of any such individual shall be deemed to consist of (i) any fact or matter of which such individual is actually aware and (ii) any fact or matter which such individual, acting prudently, could be expected to discover or become aware of through the conduct of a reasonable inquiry. SECTION 10.9 PARTIES IN INTEREST. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and its successors and permitted assigns, and except as provided in Article IX, nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement. SECTION 10.10 SEVERABILITY. If any term or other provision of this Agreement is invalid, illegal or unenforceable, all other provisions of this Agreement shall remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible. SECTION 10.11 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement. SECTION 10.12 SELLERS' REPRESENTATIVE. (a) Each Seller hereby irrevocably appoints Michael A.J. Farrell as such Seller's Representative (the "Representative"), attorney-in-fact and agent, with full power of substitution to act on behalf of such Seller in any litigation or arbitration involving this Agreement and to do or refrain from doing all such further acts and things, and to execute all such documents, as such Representative shall deem necessary or appropriate in connection with any of the transactions contemplated under this Agreement, including, without limitation, the power: (i) to take all action, on behalf of such Seller, necessary or desirable in connection with the waiver of any condition to the obligations of the Sellers to consummate the transactions contemplated by this Agreement; (ii) to take all action, on behalf of such Seller, necessary or desirable with respect to Section 1.9 through 1.11; (iii) to act for such Seller with regard to matters pertaining to indemnification referred to in this Agreement, including the power to compromise any claim on behalf of such Seller, to bring and transact matters of litigation and to refer matters to arbitration; (iv) to terminate this Agreement, on behalf of such Seller, if the Sellers are entitled to do so; A-63 (v) to give and receive all notices and communications to, on behalf of such Seller, be given or received under this Agreement and to receive service of process in connection with any claims under this Agreement, including service of process in connection with arbitration; and (vi) to take all actions which under this Agreement may be taken by the Representative and to do or refrain from doing any further act or deed on behalf of such Seller which Representative deems necessary or appropriate in his or its sole discretion relating to the subject matter of this Agreement (including the engagement of attorneys, accountants, financial advisors and agent at the expense of the Sellers) as fully and completely as such Seller could do if personally present. (b) If Michael A.J. Farrell (or any substitute Representative) dies or otherwise

becomes incapacitated and unable to serve as Representative, Wellington T. Denahan shall become Representative. The death or incapacity of any Seller shall not terminate the agency and power of attorney granted hereby to the Representative. The appointment of Representative shall be deemed coupled with an interest and shall be irrevocable. (c) Prior to the Closing, Sellers holding a majority of the Company Common Stock held by all Sellers may on one or more occasions designate a substitute Representative at which time the individual then acting as Representative shall no longer be the Representative and the substitute Representative shall be the Representative for all purposes under this Agreement. Following the Closing, Sellers holding a majority of the Parent Common Stock held by all Sellers may on one or more occasions designate a substitute Representative at which time the individual then acting as Representative shall no longer be the Representative and the substitute Representative shall be the Representative for all purposes under this Agreement. (d) Each Seller further agrees: (i) that in all matters in which action by Representative is required or permitted, Representative is authorized to act on behalf of such Seller, notwithstanding any dispute or disagreement among the Sellers or between the Sellers and Representative, and Parent shall be entitled to rely on any and all action taken by Representative under this Agreement without any liability to, or obligation to inquire of, any of the Sellers; (ii) that the power and authority of Representative, as described in this Agreement, shall continue in force until all rights and obligations of the Sellers under this Agreement shall have terminated, expired or been fully performed; (iii) to hereby forever release and discharge the Representative, the officers, directors, partners or employees of Representative, any of its or their respective Affiliates and any legal counsel and accountants for the Representative (collectively, the "Released Party") of and from any and all claims and demands of every kind and nature, known and unknown, suspected and unsuspected, disclosed and undisclosed, for damages actual and consequential, past, present and future, arising out of or in any way connected with the actions of the Released Party in connection with fulfilling the role of Representative as contemplated by this Agreement; and A-64 (iv) to the extent permitted by Law, to indemnify and hold harmless the Released Party against any losses, claims, expense, cause of action, damages or liabilities (joint or several) to which the Released Party may become subject in connection with fulfilling the role of Representative as contemplated by this Agreement; and to reimburse any Person intended to be indemnified pursuant to this section for any legal or other expenses as reasonably incurred by such Person in connection with investigating or defending any such loss, claim, damage, liability or action. A-65 IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the day and year first above written. ANNALY MORTGAGE MANAGEMENT, INC.: By: /s/ SPENCER BROWNE ---------- Name: Spencer Browne Title: Director FIXED INCOME DISCOUNT ADVISORY COMPANY: By: /s/ MICHAEL A.J. FARRELL ---------- Name: Michael A.J. Farrell Title: Director, President & CEO FDC MERGER SUB, INC.: By: /s/ SPENCER BROWNE ---------- Name: Spencer Browne Title: Director MICHAEL A.J. FARRELL: By: /s/ MICHAEL A.J. FARRELL ---------- WELLINGTON J. DENAHAN: By: /s/ WELLINGTON J. DENAHAN ---------- JENNIFER A. KARVE: By: /s/ JENNIFER A. KARVE ---------- KATHRYN F. FAGAN: By: /s/ KATHRYN F. FAGAN ---------- A-66 JEREMY DIAMOND: By: /s/ JEREMY DIAMOND ---------- RONALD D. KAZEL: By: /s/ RONALD D. KAZEL ---------- ROSE-MARIE LYGHT: By: /s/ ROSE-MARIE LYGHT ---------- KRISTOPHER R. KONRAD: By: /s/ KRISTOPHER R. KONRAD ---------- JAMES P. FORTESCUE: By: /s/ JAMES P. FORTESCUE ---------- A-67 SCHEDULE 1.9(B) EARN-OUT CONDITION ---------- ANNUAL PERIOD REVENUE TARGET OPERATING MARGIN TARGET ($ IN MILLIONS) ($ IN MILLIONS) ---------- 01/01/2004 - 12/31/2004 24.8 40% ---------- 01/01/2005 - 12/31/2005 36.7 40% ---------- 01/01/2006 - 12/31/2006 41.4 40% ---------- A-68 SCHEDULE A OWNERSHIP OF SELLER COMPANY SHARES ALLOCABLE SHARE ------ ---------- ---------- MICHAEL A.J. FARRELL 600 80% WELLINGTON J. DENAHAN 75 10% JENNIFER A. KARVE 22.5 3% KATHRYN F. FAGAN 15 2% JEREMY DIAMOND 7.5 1% RONALD D. KAZEL 7.5 1% ROSE-MARIE LYGHT 7.5 1% KRISTOPHER R. KONRAD 7.5 1% JAMES P. FORTESCUE 7.5 1% --- --- TOTAL: 750 100% A-69 AMENDMENT TO AGREEMENT AND

PLAN OF MERGER This Amendment (this "Amendment") to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 31, 2003, by and among Annaly Mortgage Management, Inc. ("Parent"), FDC Merger Sub, Inc. ("Merger Sub"), Fixed Income Discount Advisory Company (the "Company") and each of the persons who are signatories thereto (individually a "Seller" and collectively the "Sellers") is entered into as of April [9], 2004 by and among Parent, Merger Sub, the Company and the Sellers. Terms not otherwise defined in this Amendment shall have the meanings ascribed to them in the Merger Agreement. WHEREAS, pursuant to the Merger Agreement, Parent agreed (in cooperation with Merger Sub, the Company and the Sellers) to prepare and file with the SEC a Registration Statement on Form S-4 (the "Form S-4") under the Securities Act, with respect to the Merger Securities issuable in the Merger, with a portion of which Registration Statement to also serve as the proxy statement with respect to the meeting of the Parent Shareholders in connection with the Merger (collectively, the "Proxy Statement/Prospectus"). WHEREAS, the parties have agreed to not utilize the Proxy Statement/Prospectus with Form S-4 and to instead utilize a Schedule 14A proxy statement and to extend registration rights to the Closing Merger Consideration. NOW, THEREFORE, in consideration of the promises, terms and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows: 1. Section 5.7 of the Merger Agreement is hereby amended in its entirety as follows: "SECTION 5.7 Preparation of the Proxy Statement. (a) After the date hereof, Parent shall (in cooperation with Merger Sub, the Company and the Sellers) promptly prepare and file with the SEC as soon as practicable a proxy statement with respect to the meeting of the Parent Shareholders in connection with the Merger (the "Proxy Statement"). The parties will cause the Proxy Statement to comply as to form in all material respects with the applicable provisions of the Securities Act, the Exchange Act and the rules and regulations promulgated thereunder. The Proxy Statement and each amendment or supplement thereto, at the time of mailing thereof and at the time of the meeting of the Parent Shareholders, will not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements A-70 therein, in light of the circumstances under which they were made, not misleading. Each of the Company, Parent and the Sellers agrees that the written information provided by it specifically for inclusion in the Proxy Statement and each amendment thereto, at the time of mailing thereof and at the time of the meeting of the Parent Shareholders, will not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Parent shall use its commercially reasonable efforts to cause the Proxy Statement to be mailed to the Parent Shareholders at the earliest practicable date as permitted by the SEC. If any time prior to the Effective Time any event relating to or affecting the Parent, the Company or the Sellers shall occur as a result of which it is necessary, in the opinion of counsel for the Parent or the counsel of the Company, to supplement or amend the Proxy Statement in order to make such document not misleading in light of the circumstances existing at the time approval of the stockholders of Parent is sought, Parent, the Company and the Sellers, respectively, will notify the others thereof. If Parent determines that such an amendment or supplement is required, the Company and the Sellers will cooperate with Parent in filing, and Parent will prepare and file, an amendment or supplement with the SEC and, if required by law or NYSE rule or applicable state securities authorities, such that such document, as so supplemented or amended, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances existing at such time, not misleading, and Parent will, as required by law, disseminate to the Parent Shareholders such amendment or supplement. (b) Parent covenants that the Proxy Statement shall include the recommendation of the Parent Board and of the Parent Special Committee that the Parent Shareholders approve the Merger, this Agreement and the other transactions contemplated hereby. (c) Parent will take all action necessary in accordance with applicable law and its charter documents and by-laws to convene a meeting of its shareholders (the "Parent Special Meeting") as promptly as practicable to consider and vote upon or otherwise to obtain the consent of its shareholders, as required, to the transactions contemplated hereby. Subject to Sections 5.3 and 5.7(b), Parent and the Parent Board shall each take all lawful action and shall use commercially reasonable efforts to solicit such consent, including, without limitation, timely mailing of the Proxy Statement. (d) During the period from the date hereof through the earlier of (x) the date on which the Merger is consummated or (y) the date on which this Agreement is terminated according to its terms, the Company and the Sellers, shall cast or cause to be cast all votes attributable to the Parent Shares owned of record by the Company or the Sellers, at any annual or special meeting of shareholders of Parent, including any adjournments or postponements thereof, or in connection with any written consent or other vote

of shareholders of Parent, so that the percentage of such Parent Shares voted in favor of the adoption of this Agreement and the approval of the Merger is the same as the Affirmative Percentage, the percentage of such Parent Shares voted against such adoption and approval is the same as the Negative Percentage and the percentage of such Parent Shares present but abstaining (and voting neither in favor of nor against such adoption and approval) is the same as the Abstention Percentage. For purposes hereof, the "Affirmative Percentage" equals the percentage of all votes cast by Parent Shareholders A-71 who are not Sellers that represent votes in favor of the adoption of the Agreement and Approval of the Merger; "Negative Percentage" equals the percentage of all votes cast by Parent Shareholders who are not Sellers that represent votes against such adoption and approval; and "Abstention Percentage" equals the percentage of all votes cast by Parent Shareholders who are not Sellers that count neither as votes in favor of nor against such adoption and approval. (e) The Sellers covenant to take no action to revoke or rescind the Company Shareholder Approval prior to the Effective Time." 2. Sections 5.13(a) and (b) of the Merger Agreement are hereby deleted from the Merger Agreement and are hereby replaced in its entirety to read as follows: "SECTION 5.13 Registration Rights. (a) Shelf Registrations. (i) The Parent hereby covenants and agrees that promptly following the Effective Date it will file a registration statement on Form S-3 registering under the Securities Act the resale of all of the Closing Merger Consideration then outstanding (the "Closing Consideration Shelf Registration Statement"). Such Closing Consideration Shelf Registration Statement will state that the Sellers may sell, subject to the limitations set forth in this Agreement and any other limitations arising under applicable law, all or any part of the Merger Securities issued to them from time to time in transactions on the exchange on which such Merger Securities are listed (or, if such shares are listed on the Nasdaq National Market, in such market), in negotiated transactions, through the writing of options on the shares, through a combination of such methods of sale, or in any other manner, as appropriate, at prices related to market prices prevailing at the time of sale, or at negotiated prices. Parent will use its commercially reasonable efforts to cause such Closing Consideration Shelf Registration Statement to become effective as promptly as practicable after the Effective Date and to cause such Closing Consideration Shelf Registration Statement to remain effective and each prospectus contained therein to continue to meet the requirements of Section 10(a) of the Securities Act until the earlier of (A) such time that all of the shares of Closing Merger Consideration to which such prospectus relates have either been sold or (B) such time that each Seller is eligible to sell all of the Closing Merger Consideration pursuant to Rule 144 without any volume limitations. (ii) With respect to the Contingent Merger Consideration received on each Contingent Payment Date (or after such date pursuant to Sections 1.9 through 1.11), the Sellers owning 5 % or more of the Contingent Merger Consideration then outstanding (the "Initiating Holders") may deliver at any time to Parent a written request (a "Demand Notice") for Parent to file a registration statement on Form S-3 registering under the Securities Act the resale of all or any portion of the Contingent Merger A-72 Consideration then outstanding (the "Contingent Consideration Shelf Registration Statement," and together with the Closing Consideration Shelf Registration Statement, a "Shelf Registration Statement"). Such Contingent Consideration Shelf Registration Statement will state that the Sellers named as selling shareholders therein may sell, subject to the limitations set forth in this Agreement and any other limitations arising under applicable law, all or any part of the Merger Securities issued to them from time to time in transactions on the exchange on which such Merger Securities are listed (or, if such shares are listed on the Nasdaq National Market, in such market), in negotiated transactions, through the writing of options on the shares, through a combination of such methods of sale, or in any other manner, as appropriate, at prices related to market prices prevailing at the time of sale, or at negotiated prices. In any such request made pursuant to this Section 5.13, each Seller shall specify the number of shares of Contingent Merger Consideration to be registered. Any such request shall be delivered to Parent and the other Sellers in accordance with the provisions of Section 10.5 of this Agreement. Upon the receipt of such notice from the Initiating Holders that they have requested a Contingent Consideration Shelf Registration Statement, each of such other Sellers shall be entitled for a period of 30 days from the date of receipt of such notice to deliver a written request to Parent specifying the number of such Seller's shares of Contingent Merger Consideration to be included in such Contingent Consideration Shelf Registration Statement. (iii) Upon receipt of a Demand Notice, Parent shall file the Contingent Consideration Shelf Registration Statement within 45 days of such receipt. Parent will use its commercially reasonable efforts to cause such Contingent Consideration Shelf Registration Statement to become effective as promptly as practicable and to cause each prospectus contained therein to continue to meet the requirements of Section 10(a) of the Securities Act until the shares of Contingent Merger Consideration to which such prospectus relates have been deregistered. At any time after two years following the Contingent Payment Date

pursuant to which any Merger Securities were issued, Parent may deregister any such Merger Securities registered under a Contingent Consideration Shelf Registration Statement that are held by a Seller all of whose shares may then be sold without registration under paragraph (k) of Rule 144. At any time after 5 years following the Contingent Payment Date pursuant to which any Merger Securities were issued, Parent may, on one occasion only, deregister any such Merger Securities registered under a Contingent Consideration Shelf Registration Statement that are held by a Seller who is eligible to sell such Merger Securities pursuant to the volume limitations described in paragraph (e)(1) of Rule 144 and subject to the other conditions of such Rule; provided that if any such Merger Securities are so deregistered, the Sellers holding such Merger Securities shall have one additional right to require a Shelf Registration Statement in accordance with and subject to the terms of this Section 5.13(a) to cover such Merger Securities. (iv) Notwithstanding the foregoing, in no event shall Parent be required to effect more than a total of one Contingent Consideration Shelf Registration A-73 Statement pursuant to Section 5.13(a)(ii) in connection with each payment of Contingent Merger Consideration; provided that such obligations shall be deemed satisfied only when a Shelf Registration Statement covering all shares requested to be included in such Shelf Registration has become effective; and provided further that in establishing any such Shelf Registration Statement Parent, at its option, may combine thereunder any prior registrations effected pursuant to this Section 5.13(a) as permitted under Rule 429 promulgated under the Securities Act (or any successor rule). (b) Incidental Registrations. (i) If Parent at any time (other than pursuant to Sections 5.13(a) hereof) proposes to register any of its shares of Common Stock under the Securities Act for sale to the public, for its own account (except with respect to registration statements on Forms S-4 or S-8, another form not available for registering shares for sale to the public for cash), each such time it will give written notice to each Seller of its intention so to do at least 20 days prior to the filing of the registration statement. Upon the written request of any Seller, given within 20 days after the such Seller's receipt of any such notice, to register all or any portion of the Closing Merger Consideration and Contingent Merger Consideration then held by such Seller, Parent will use its commercially reasonable efforts to cause such Closing Merger Consideration and Contingent Merger Consideration to be included in the securities to be covered by the registration statement proposed to be filed by Parent, all to the extent requisite to permit the sale or other disposition by such Seller (in accordance with its written request) of the shares so registered; provided that Parent's obligation under this sentence is subject the terms and conditions set forth in Section 5.13(b)(ii) below. In the event that any registration pursuant to this Section 5.13(b)(i) shall be, in whole or in part, an underwritten public offering, any request by a Seller pursuant to this Section 5.13(b)(i) to register shares shall specify that either (i) such shares are to be included in the underwriting on the same terms and conditions as the shares of Common Stock otherwise being sold through underwriters under such registration or (ii) such shares are to be sold in the open market without any underwriting, on terms and conditions comparable to those normally applicable to offerings of common stock in reasonably similar circumstances. (ii) The right of a Seller to have any of its Contingent Merger Consideration or Closing Merger Consideration included in any underwriting offering referred to in Section 5.13(b)(i) is subject to the following limitations: (A) If the underwriting or similar committee of the Board of Directors of Parent shall determine, in consultation with the managing underwriter, that the inclusion of such Contingent Merger Consideration A-74 and/or Closing Merger Consideration would adversely affect the marketing of the securities to be sold by Parent or is otherwise detrimental to or inadvisable for Parent, then Parent based on such determination may exclude all or any portion of such Contingent Merger Consideration and/or Closing Merger Consideration from such registration statement; and (B) If no such determination is made by the underwriting committee, the managing underwriters may nevertheless reduce (pro rata among the requesting Sellers) the Contingent Merger Consideration or Closing Merger Consideration to that has been requested to be included if and to the extent that the managing underwriter shall be of the opinion that such inclusion would adversely affect the marketing of the securities to be sold by Parent therein; provided that, without limiting the generality of the foregoing, it is further acknowledged and agreed that Parent (based on the advice of such committee and/or the managing underwriters) or the managing underwriters may determine (in making their determination under clauses (A) or (B) above) that due to the expedited manner in which an offer is proceeding or may proceed it is impractical to give any notice to the Sellers thereby and that the Contingent Merger Consideration and/or Closing Merger Consideration of the Sellers shall be excluded from such offering without any such notice being given to the Sellers and without Parent being in breach of any of its obligations hereunder." 3. Section 7.1(b) is hereby amended in its entirety to read as follows: "(b) by the Company or Parent if (1) any Regulatory Entity shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action is

or shall have become final and nonappealable; provided that no party may terminate this Agreement pursuant to this paragraph if such party has failed to fulfill its obligations under Section 5.5 of this Agreement; (2) the Merger has not been consummated prior to June 30, 2004; provided that the right to terminate this Agreement under this Section 7.1(b)(ii) shall not be available to any party to this Agreement whose failure or whose affiliate's failure to perform any material covenant or obligation under this Agreement has been the primary cause of or resulted in the failure of the Merger to occur on or before such date; and (3) the approval of this Agreement by the Parent Shareholders as provided in Section 6.1(a) shall not have been obtained at the Parent Special Meeting or any adjournment or postponement thereof;" 4. Section 7.1(e) is hereby amended in its entirety to read as follows: "(e) by Parent if there has been a violation or breach by the Company or any Seller of any agreement, covenant, representation or warranty contained in this Agreement that has prevented or would prevent the satisfaction of the conditions set forth in Section 6.2 at the time of such breach or violation and such violation A-75 or breach has not been waived by Parent nor cured by the Company or such Seller prior to the earlier of (i) 30 business days after the giving of written notice to the Company of such breach and (ii) June 30, 2004; or" 5. Section 7.1(f) is hereby amended in its entirety to read as follows: "(f) by the Company if there has been a violation or breach by Parent of any agreement, covenant, representation or warranty contained in this Agreement that has prevented or would prevent the satisfaction of the conditions set forth in Section 6.3 at the time of such breach or violation and such violation or breach has not been waived by the Company nor cured by Parent prior to the earlier of (i) 30 business days after the giving of written notice to Parent of such breach and (ii) June 30, 2004." 6. Notwithstanding anything to the contrary in the Merger Agreement or this Amendment, Parent hereby agree to file the Proxy Statement with the SEC on the date hereof. 7. Except as expressly provided in this Amendment, no other provision of the Merger Agreement is being amended hereby. As amended hereby, all of the terms and conditions of the Merger Agreement remain in full force and effect and are fully binding upon and enforceable against the parties hereto. 8. After execution of this Amendment by all parties hereto, the term "this Merger Agreement" or "this Agreement", or the words "hereunder", "hereby" or "hereto" or words of similar import, when used in or with respect to the Merger Agreement shall mean the Merger Agreement as amended by this Amendment. 9. This Amendment may not be amended or modified except by a written agreement signed by the parties hereto. 10. This Amendment may be executed in several counterparts, and all counterparts so executed shall constitute one agreement, binding on the parties hereto, notwithstanding that such parties are not signatories to the same counterpart. A-76 IN WITNESS WHEREOF, each of the parties has caused this Amendment to be duly executed on its behalf as of the day and year first above written. ANNALY MORTGAGE MANAGEMENT, INC.: By: /s/ Spencer Bowne ---------- Name: Spencer Browne Title: Director FIXED INCOME DISCOUNT ADVISORY COMPANY: By: /s/ Michael A.J. Farrell ---------- Name: Michael A.J. Farrell Title: Director, President & CEO FDC MERGER SUB, INC.: By: /s/ Spencer Browne ---------- Name: Spencer Browne Title: Director MICHAEL A.J. FARRELL: By: /s/ Michael A.J. Farrell ---------- WELLINGTON J. DENAHAN: By: /s/ Wellington J. Denahan ---------- JENNIFER A. KARVE: By: /s/ Jennifer Karve ---------- A-77 KATHRYN F. FAGAN: By: /s/ Kathryn Fagan ---------- JEREMY DIAMOND: By: /s/ Jeremy Diamond ---------- RONALD D. KAZEL: By: /s/ Ronald D. Kazel ---------- ROSE-MARIE LYGHT: By: /s/ Rose-Marie Lyght ---------- KRISTOPHER R. KONRAD: By: /s/ Kristopher R. Konrad ---------- JAMES P. FORTESCUE: By: /s/ James P. Fortescue ---------- A-78 ---------- ANNEX B FAIRNESS OPINION OF LEHMAN BROTHERS INC. ---------- LEHMAN BROTHERS December 31, 2003 Annaly Mortgage Management, Inc. Special Committee of the Board of Directors 1211 Avenue of the Americas New York, NY, 10035 Members of the Special Committee of the Board: We understand that Annaly Mortgage Management, Inc. ("Parent"), Fixed Income Discount Advisory Company (the "Company"), the stockholders and management of which consist entirely of members of the management of Parent, and FDC Merger Sub, Inc., a wholly owned subsidiary of Parent ("Merger Sub"), intend to enter into an agreement pursuant to which Merger Sub will merge with and into the Company (the "Proposed Transaction" or the "Merger"). We further understand that, upon the effectiveness of such Merger, each share of common stock of the Company (the "Company Common Stock") issued and outstanding immediately prior to the effective time of the Merger will be converted into the right to receive (1) the Closing Merger Consideration (as defined below) and (2) the Contingent Merger Consideration (as defined below) (collectively, the "Consideration"). "Closing Merger Consideration" equals a

number of shares of common stock of Parent (the "Parent Common Stock") equal to (i) $40,500,000 divided by (ii) the closing price of Parent Common Stock for the trading day prior to announcement of the Proposed Transaction divided by (iii) the number of shares of Company Common Stock outstanding immediately prior to the effective time of the Merger. "Contingent Merger Consideration" equals a number of shares of Parent Common Stock that become payable if certain revenue targets and operating margin targets related to the Company's business are achieved during the 12 month periods ending December 31, 2004, 2005 and 2006, but in the aggregate will not exceed $49,500,000 of shares of Parent Common Stock. We also understand that Parent intends to modify and/or enter into new employment and/or compensation arrangements with certain members of the Company (collectively, the "Management Contracts") in connection with the Proposed Transaction. We further understand that after giving effect to the Proposed Transaction Parent will continue to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). The terms and conditions of the Proposed Transaction are set forth in more detail in the Agreement and Plan of Merger, dated December 31, 2003 (the "Agreement"), among Parent, the Company, Merger Sub and the other parties thereto. B-1 We have been requested by the Special Committee of the Board of Directors of Parent to render our opinion with respect to the fairness, from a financial point of view, to Parent of the Consideration to be paid by Parent in the Proposed Transaction. We have not been requested to opine as to, and our opinion does not in any manner address, (i) Parent's underlying business decision to proceed with or effect the Proposed Transaction or (ii) the reasonableness of the terms of the Management Contracts. In arriving at our opinion, we reviewed and analyzed: (1) the Agreement and the specific terms of the Proposed Transaction, including the aggregate amount of compensation that Parent expects to pay under the Management Contracts, (2) publicly available information concerning Parent that we believe to be relevant to our analysis, including Parent's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, and Parent's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, (3) financial and operating information with respect to the business, operations and prospects of the Company furnished to us by the Company, including (i) certain projections of future financial performance of the Company prepared by management of the Company and provided to us on August 12, 2003, September 16, 2003, November 13, 2003 and on November 24, 2003, and (ii) certain updated projections of future financial performance of the Company prepared by management of the Company and presented to us on December 29, 2003 (the "Updated Projections"), (4) financial and operating information with respect to the business, operations and prospects of Parent furnished to us by Parent, including financial projections of Parent prepared by management of Parent (the "Parent Projections"), (5) a trading history of Parent Common Stock from December 26, 2001 to the present and a comparison of that trading history with those of other companies that we deemed relevant, (6) a comparison of the historical financial results and present financial condition of the Company with those of other companies that we deemed relevant, (7) a comparison of the historical financial results and present financial condition of Parent with those of other companies that we deemed relevant, (8) the potential pro forma impact of the Proposed Transaction on the future financial performance of Parent, including the cost savings expected by managements of the Company and Parent to result from a combination of the businesses of the Company and Parent (the "Expected Cost Savings"), and the potential effect of the Proposed Transaction on Parent's pro forma earnings per share, in both the scenario where the Contingent Merger Consideration is paid and the scenario where the Contingent Merger Consideration is not paid, and (9) a comparison of the financial terms of the Proposed Transaction with the financial terms of certain other transactions that we deemed relevant. In addition, we have had discussions with the managements of Parent and the Company concerning their respective businesses, operations, assets, liabilities, financial conditions and prospects and have undertaken such other studies, analyses and investigations as we deemed appropriate. In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the financial and other information used by us without assuming any responsibility for independent verification of such information and have further relied upon the assurances of managements of the Company and Parent that they are not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of the Company, we have been advised by the Company that the Updated Projections have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company and, accordingly, have assumed that the Company would perform B-2 on a stand alone basis substantially in accordance with such projections. Furthermore, we have discussed the Updated Projections with the management of the Company and the Special Committee, and it has been agreed that the Updated Projections are the appropriate stand alone projections for the Company to use in

performing our analysis. With respect to Parent Projections, upon advice of Parent we have assumed that such projections have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of Parent as to the future financial performance of Parent and that Parent would perform on a stand alone basis substantially in accordance with such projections. For purposes of our analysis, we also have considered certain projections prepared by management of Parent which give pro forma effect to the Proposed Transaction (including the reclassification of certain employees of both the Company and Parent to the Company and the related impact on the total compensation to be paid by Parent and the Company to their respective employees as a result of such reclassification). We have discussed these pro forma projections with the management of the Company and the Special Committee, and it has been agreed that such projections are also appropriate to use in performing our analysis. With respect to the Expected Cost Savings that the managements of the Company and Parent expect to result from a combination of the businesses of Parent and the Company, upon advice of the Company and Parent, we have assumed that such cost savings will be realized substantially in accordance with such estimates. In arriving at our opinion, we have not conducted a physical inspection of the properties and facilities of the Company or Parent and have not made or obtained any evaluations or appraisals of the assets or liabilities of the Company or Parent. Upon advice of the Company and Parent and their respective legal and accounting advisors, we have assumed that (i) Parent's organization and intended method of operation will enable it to meet the requirements for qualification and taxation as a REIT under the Code, (ii) the Merger will qualify as a reorganization under Section 368(a) of the Code, (iii) the Company's organization and intended method of operation after the Merger will enable it to meet the requirements for qualification and taxation as a taxable REIT subsidiary under the Code, and (iv) the Agreement will constitute a plan of reorganization under Sections 354 and 361 of the Code. Our opinion necessarily is based upon market, economic and other conditions as they exist on, and can be evaluated as of, the date of this letter. Based upon and subject to the foregoing, we are of the opinion as of the date hereof that, from a financial point of view, the Consideration to be paid by Parent in the Proposed Transaction is fair to Parent. We have acted as financial advisor to the Special Committee of the Board of Directors of Parent in connection with the Proposed Transaction and will receive a fee for our services, a portion of which has been paid and a substantial portion of which is contingent upon the rendering of our opinion. In addition, Parent has agreed to indemnify us for certain liabilities that may arise out of the rendering of this opinion. In the ordinary course of our business, we may trade in the securities of Parent for our own account and for the accounts of our customers and, accordingly, may at any time hold a long or short position in such securities. This opinion is for the use and benefit of the Special Committee of the Board of Directors of Parent and is rendered to the Special Committee of the Board of Directors in connection with its consideration of the Proposed Transaction. This opinion is not intended to be and does not B-3 constitute a recommendation to any shareholder of Parent as to how such shareholder should vote with respect to the Merger. Very truly yours, LEHMAN BROTHERS B-4 ANNALY MORTGAGE MANAGEMENT, INC. Annual Meeting of Stockholders - May 27, 2004 Revoking all prior proxies, the undersigned hereby appoints Michael A.J. Farrell, Jennifer S. Karve, and each of them, proxies, with full power of substitution, to appear on behalf of the undersigned and to vote all shares of Common Stock, par value $.01 per share, of Annaly Mortgage Management, Inc. (the "Company") that the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company to be held at the New York Marriott Marquis, 1535 Broadway, New York, New York 10036, commencing at 9:30 a.m., New York time, on Thursday, May 27, 2004, and at any adjournment thereof, as fully and effectively as the undersigned could do if personally present and voting, hereby approving, ratifying and confirming all that said attorneys and agents or their substitutes may lawfully do in place of the undersigned as indicated below. WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE LISTED NOMINEES AS DIRECTORS, FOR THE AGREEMENT AND PLAN OF MERGER AND FOR THE PROPOSAL TO RATIFY THE SELECTION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITORS FOR THE COMPANY FOR THE CURRENT FISCAL YEAR. THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS (Continued and to be signed on reverse side) /\ FOLD AND DETACH HERE /\ IF YOU WISH TO ATTEND THE ANNUAL MEETING YOU MUST BRING A VALID, GOVERNMENT-ISSUED PHOTO IDENTIFICATION, SUCH AS A DRIVER'S LICENSE OR A PASSPORT. SECURITY MEASURES WILL BE IN PLACE AT THE MEETING TO HELP ENSURE THE SAFETY OF ATTENDEES. METAL DETECTORS SIMILAR TO THOSE USED IN AIRPORTS WILL BE LOCATED AT THE ENTRANCE TO THE AUDITORIUM AND BRIEFCASES, HANDBAGS AND PACKAGES WILL BE INSPECTED. NO CAMERAS OR RECORDING

DEVICES OF ANY KIND, OR SIGNS, PLACARDS, BANNERS OR SIMILAR MATERIALS, MAY BE BROUGHT INTO THE MEETING. ANYONE WHO REFUSES TO COMPLY WITH THESE REQUIREMENTS WILL NOT BE ADMITTED. You can now access your Annaly Mortgage Management, Inc. account online. Access your Annaly Mortgage Management, Inc. stockholder account online via Investor ServiceDirect(SM) (ISD). Mellon Investor Services LLC, Transfer Agent for Annaly Mortgage Management, Inc., now makes it easy and convenient to get current information on your shareholder account. o View Account status o View payment history for dividends o View certificate history o Make address changes o View book-entry information o Obtain a duplicate 1099 tax form o Establish/change your PIN Visit us on the web at http://www.mellon-investor.com For Technical Assistance Call 1-877-978-7778 between 9am-7pm Monday-Friday Eastern Time Please Mark Here [_] for Address Change or Comments SEE REVERSE SIDE 1. To Re-Elect two directors, FOR WITHHOLD 01 Kevin P. Brady and AUTHORITY 02 Donnell A. Segalas, All nominees To vote for all AND TO ELECT, listed (except as nominees listed 03 E. Wayne Nordberg marked to the FOR TERMS OF THREE YEARS EACH; contrary) (Instructions: To withhold authority to [_] [_] vote for either nominee, write that nominee's name in the space provided below.) ---------- 2. TO APPROVE THE AGREEMENT AND PLAN FOR AGAINST ABSTAIN OF MERGER, DATED AS OF DECEMBER 31, [_] [_] [_] 2003, AS AMENDED, BY AND AMONG ANNALY, FIXED INCOME DISCOUNT ADVISORY COMPANY, A DELAWARE CORPORATION, FDC MERGER SUB, INC., A DELAWARE CORPORATION AND OUR WHOLLY OWNED SUBSIDIARY, AND THE SHAREHOLDERS OF FIDAC; 3. RATIFICATION OF THE APPOINTMENT OF FOR AGAINST ABSTAIN DELOITTE & TOUCHE LLP AS INDEPENDENT [_] [_] [_] AUDITORS FOR THE COMPANY FOR THE 2004 FISCAL YEAR. 4. TO ACT UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE OUR ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF. CONSENTING TO RECEIVE ALL FUTURE ANNUAL MEETING MATERIALS AND SHAREHOLDER COMMUNICATIONS ELECTRONICALLY IS SIMPLE AND FAST! ENROLL TODAY AT WWW.MELLONINVESTOR.COM/ISD FOR SECURE ONLINE ACCESS TO YOUR PROXY MATERIALS, STATEMENTS, TAX DOCUMENTS AND OTHER IMPORTANT SHAREHOLDER CORRESPONDENCE. PLEASE CHECK HERE IF YOU PLAN TO [_] ATTEND THE ANNUAL MEETING PLEASE SIGN, DATE AND RETURN THE PROXY CARD USING THE ENCLOSED ENVELOPE. Signature_____ Signature _____ Date_____ Note: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please given full title as such. ---------- /\ FOLD AND DETACH HERE /\ Vote by Internet or Telephone or Mail 24 Hours a Day, 7 Days a Week Internet and telephone voting is available through 11:59 PM Eastern Time The day prior to annual meeting day YOUR INTERNET OR TELEPHONE VOTE AUTHORIZES THE NAMED PROXIES TO VOTE YOUR SHARES IN THE SAME MANNER AS IF YOU MARKED, SIGNED AND RETURNED YOUR PROXY CARD. ---------- -------- ---------- ---------- ---------- INTERNET TELEPHONE MAIL 1-800-435-6710 OR Use any touch-tone OR Mark, sign and date your http://www.eproxy.com/nly telephone to vote your proxy card and return it ---------- Use the internet to vote your proxy. Have proxy. Have your proxy in the enclosed your proxy card in hand when you access card in hand when you call. postage-paid envelope. the web site. ---------- -------- ---------- ------- ---------- IF YOU VOTE YOUR PROXY BY INTERNET OR BY TELEPHONE, YOU DO NOT NEED TO MAIL BACK YOUR PROXY CARD.