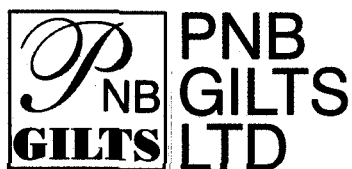


10th Annual Report - 2005-06



(An ISO 9001 : 2000 Company)

BOARD OF DIRECTORS

Sh. S.C. Gupta, Chairman
 Sh. K. Raghuraman
 Dr. O.P. Chawla
 Dr. Kamal Gupta
 Sh. S.K. Soni
 Sh. R.S. Lodha
 Sh. Sunil Kant Munjal
 Sh. Arun Kaul
 Sh. A.K. Gupta, Managing Director

STATUTORY AUDITORS

Raj K. Aggarwal & Associates
 Chartered Accountants
 3072/41, Gola Market
 Darya Ganj, New Delhi - 110 002

INTERNAL AUDITORS

KPMG
 4B, DLF Corporate Park, DLF City,
 Phase III, Gurgaon - 122002

BANKERS

Reserve Bank of India
 Punjab National Bank

REGISTERED-CUM-CORPORATE OFFICE

5, Sansad Marg, New Delhi - 110 001.
 Tel: 011-2332 5759/2332 5779
 Fax: (011)-23325751
 E-mail: pnbgilts@del2.vsnl.net.in
 Website : www.pnbgilts.com

BRANCHES

PNB House, Sir P.M. Road,
 Fort, Mumbai - 400 001.
 Tel: 022-22691812/22693315/17
 Fax No. 022-22691811/22692248

Sudershan Building, 14, Whites Road,
 Chennai - 600 014.
 Tel: 044-28591750/28547502/28418579
 Fax No. 044-28591751

6A, Clive Row, Kolkatta - 700 001.
 Tele. 033-22310394/22310395
 Fax No. 033-22310378

Navdeep House, Near Income Tax Circle,
 Ashram Road, Ahmedabad - 380 014.
 Tel. No. 079-27542143/27542455
 Fax No. 079-27541808

Vokkaligara Sangha Building,
 2nd Floor, Hudson Circle,
 Bangalore - 560 027
 Tel.: 080-2212 7884
 Fax: 080-22126498

Contents

Letter to Shareholders	1
Directors' Report	2
Management Discussion & Analysis	5
Report on Corporate Governance	12
Financial Review	23
Auditors' Report & CAG Comments ..	24
Balance Sheet	28
Profit & Loss Account	29
Schedules	30
Cash Flow Statement	48
Some Facts on the Gilts Market	49
Notice	65
Proxy	71

LETTER TO SHAREHOLDERS



Dear Shareholder,

I take this opportunity to thank you for the confidence reposed in the company. While reporting the annual results of the company for the year ended March 31, 2006, I want to apprise you of the developments in the economy under which your company operated.

During the year 2005-06, your company posted a profit after tax of Rs 29.64 crore against a loss of Rs 68.25 crore in 2004-05. The turnaround in the performance of the company was despite the fact that the government securities market remained volatile and witnessed an uptrend in yields by 84 basis points. Strong credit offtake, supply concerns on account of higher government borrowing, high crude oil prices, 75 bps hike in reverse repo rates and successive hikes in US Fed rate were the major driving forces for inching up of yields. The pace at which the interest rates firmed up coupled with dwindling market volumes left little trading opportunities for the market participants.

The company's turnaround against the backdrop of rise in interest rates is a testimony to the company's trading and risk management skills. The company has responded optimally in this hardening interest rate environment through better business decisions, defensive trading strategies and strict risk management compliance. Moreover, the company also expanded its fee-based business by undertaking newer activities while consolidating its presence in the existing segments. Project appraisal, Loan syndication and Mutual Fund distribution are some of the fee-based segments witnessing significant performance improvements. The company shall continue to put emphasis on fee-based income, as the income stream therein is steadier with lesser volatility.

RBI has now permitted Primary Dealers to diversify into activities like, equity trading and some fee based activities, viz., portfolio management services, distribution of insurance products, debt restructuring services, etc. Your company will benefit from these activities as it can now look beyond the Government securities market for other sources of income within the permissible guidelines of RBI.

Looking forward, global interest rates, firm crude and commodity prices, domestic inflation pressures and strong credit growth presage a difficult year for bond market. Despite macroeconomic conditions not presenting a very positive outlook for the domestic interest rate environment, your company is confident to navigate effectively in such a volatile interest rate regime based on the expertise it has built in the past few years. Your company will continue with its endeavours to make a greater impact with its fee-based activities as well. I am positive that the company shall live up to the expectations of its stakeholders and build further on its performance in the current year.

Thank You

S.C. Gupta
Chairman

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Tenth Annual Report together with the audited accounts of the company for the year ended March 31, 2006.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2006 alongwith comparative figures for the previous year, are given below:

	(Rs. in lacs)	
	2005-06	2004-05
Total Income	12705.95	1130.73
Total Expenditure	9854.30	7943.74
Profit/(loss) before tax	2851.65	(6813.01)
Less : Provision for Income Tax (including deferred tax)	(112.41)	12.42
Profit/(loss) after Tax	2964.06	(6825.43)
Add: Balance in Profit & Loss Account brought forward	221.02	7046.45
Amount available for Appropriation	3185.08	221.02
Proposed Appropriations		
Transfer to Statutory Reserve	794.73	-
Dividend (Interim 2005-06)	1080.06	-
Corporate Dividend tax	151.48	-
Balance carried forward	1158.81	221.02

During the financial year 2005-06, interest rates remained volatile with an upward bias. Persistent tight liquidity, high oil prices, strong credit growth and increasing interest rates globally led to inching up of sovereign yields in the domestic market. RBI also hiked its short-term reverse repo rate by 75bps from 4.75% to 5.50%. As a result, the yield on Government Securities with 10 year residual maturity increased from 6.68% on March 31, 2005 to 7.52% on March 31, 2006. Due to inching up of yields, there was diminution in the market value of securities to the tune of Rs. 2120.59 lacs as on March 31, 2006. In addition, the company has also provided for a loss of Rs. 402.99 lacs on its outstanding repo transactions as on March 31, 2006. Adjusting for the above provisions, the net profit after tax amounted to Rs. 2964.06 lacs.

2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2006 stood at 40.23 percent against the RBI stipulation of 15 percent.

3. DIVIDEND

The company paid an interim dividend of 8% amounting to Rs. 10.80 crore for the financial year 2005-06. The Board has not recommended any final dividend for the financial year 2005-06. Hence, the total dividend for the year 2005-06 amounts to 8% already paid in February 2006.

4. OTHER MATTERS

4.1. Directors

During the year, the Board of Directors met eight times to review strategic, operational, technological and financial matters besides laying down policies and procedures for operational management of the company against the required minimum of 4 meetings in a year. The Audit Committee of the Board met four times; the Share Transfer Committee met twenty eight times and Shareholders' / Investor Grievance Committee met twenty seven times.



Changes since last Annual General Meeting

The following changes took place in the Board of Directors of the company since the date of last Annual General Meeting:

- Sh. K. Raghuraman, Executive Director, Punjab National Bank has been inducted as an Additional Director on the Board of the company in place of Sh. C. P. Swarnkar who has resigned from the directorship of the company on his elevation as Chairman and Managing Director of Syndicate Bank.
- Sh. A. K. Gupta has taken over as the Managing Director of the company in place of Sh. I. D. Singh, whose services have been recalled by the Parent Bank.
- Sh. Mohanjit Singh has relinquished the post of Director.

Retirement of Directors by Rotation :

As per Article 99 of the Articles of Association of the company, Dr. Kamal Gupta, Sh. S.K. Soni and Sh. Sunil Kant Munjal retire by rotation in the forthcoming Annual General Meeting and are eligible for reappointment.

Corporate Governance

Corporate Governance for the company means achieving high level of accountability, efficiency, responsibility and fairness in all areas of operations. Our workforce is committed towards the protection of the interest of the stakeholders including shareholders, creditors, investors, customers, employees, etc. Our policies consistently undergo improvements keeping in mind our goal of maximization of value of all the stakeholders. The Corporate Governance practices followed by the company are given in the Annual Report. A certificate from M/s Raj K Aggarwal and Associates, Statutory Auditors of the company regarding compliance of conditions of corporate governance stipulated by stock exchanges is enclosed with the report of corporate governance.

4.2. Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act 2000, the Directors confirm that in preparation of the annual accounts:

- The applicable accounting standards have been followed.
- Appropriate accounting policies have been selected and applied consistently, judgements and estimates made are reasonable and prudent so as to give true and fair view of the state of affairs of the company at the end of the financial year ended March 31, 2006 and the profit and loss account for the year ended March 31, 2006.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- The annual accounts have been prepared on a going concern basis.

4.3. Audit, Internal Control Systems & their Adequacy

M/s Raj K Aggarwal and Associates, Chartered Accountants, Delhi were appointed as the Statutory Auditors of the company by the Comptroller & Auditor General of India for the financial year ended 31st March 2006. The report of the auditors is self-explanatory.

The company considers Internal Audit to be a very significant part of its corporate governance practices. For the year 2005-06, the Board appointed M/s KPMG as the Internal Auditors of the company. The scope of Internal Audit included, audit of treasury transactions on a monthly basis and reporting to the Audit Committee of the Board that the company has operated within the limits of various risk parameters laid down by the Board, Reserve Bank of India and other statutory authorities. Besides, they also audited and reviewed key business



DIRECTORS' REPORT Contd...

processes of the company on quarterly basis. All the reports of the Internal Auditors were submitted to the Audit Committee and the monthly audit reports were submitted to Reserve Bank of India as well.

4.4. Human Resources

Total number of employees of the company as on March 31, 2006 was 35. The company has maintained peaceful and harmonious relations with its employees.

The information required under Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees)(Amendment) Rules, 2002 be treated as NIL as none of the employees of the company draws remuneration in excess of Rs 2,00,000 /- p.m. No employee is related to any director of the company.

4.5. Particulars required to be furnished by the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988.

a) Part A pertaining to the conservation of energy is not applicable to the company.

With regard to Part B pertaining to technology absorption, the company has installed the integrated treasury management software and RBI's Negotiated Dealing System with the help of IDRBT and reputed IT companies. The company recognizes the growing importance of Information Technology in the emerging business environment. The company has also got prepared Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) from IDRBT to identify and reduce risk exposures and proactively manage any contingencies. These plans will be implemented in a phased manner.

b) Foreign Exchange earnings and outgoing :

The company has neither used nor earned any foreign exchange during the year under review.

4.6. Public Deposits

During the year ended March 31, 2006, your company has not accepted any deposits from the public within the meaning of the provisions of the Non- Banking Financial Companies (Reserve Bank) Directions, 1977 and circular dated 31st January 1998.

4.7. Acknowledgment

Your Directors thank Government of India, Reserve Bank of India, Punjab National Bank, Commercial, Cooperative & Regional Rural banks, Financial institutions, PF trusts, public sector undertakings and private sector corporate bodies and other valued clients for their whole- hearted support. We acknowledge the sincere and dedicated efforts put in by employees of the company at all levels.

On behalf of Board of Directors

Date : June 17, 2006
Place : New Delhi

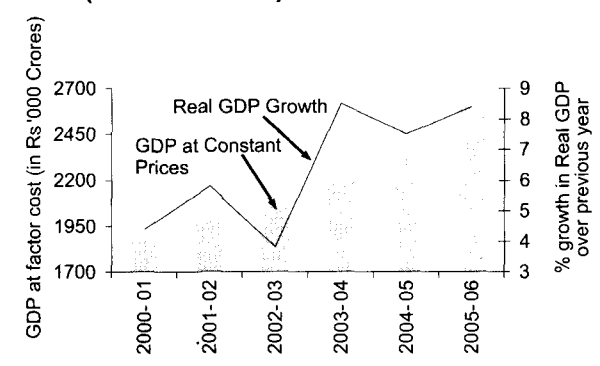
(S.C. Gupta)
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC REVIEW

During 2005-06, the Indian economy continued to exhibit a strong performance led by sustained growth in the industrial and services sectors. The growth in real GDP accelerated to 8.4 % in 2005-06 from 7.5 % in 2004-05. The agricultural sector recorded a growth of 3.9 % from a low of 0.7 % in 2004-05. The industrial sector's growth stepped up to 8 % in 2005-06 from 7.4 % in the previous year. The improvement in industrial activity was propelled by the growth in manufacturing activity (9.4 %), which more than offset the deceleration in mining and quarrying (1 %). The services sector, which recorded a double-digit growth for the 2nd consecutive year, continued to be the major driver for economic growth. The infrastructure sector recorded a decelerated growth rate of 4.5 % vis-à-vis 5.8 % last year. A decline in the production of crude petroleum caused this slow down. But, on the whole the business confidence was positive for India.

GDP (at factor cost) & Retail GDP Growth

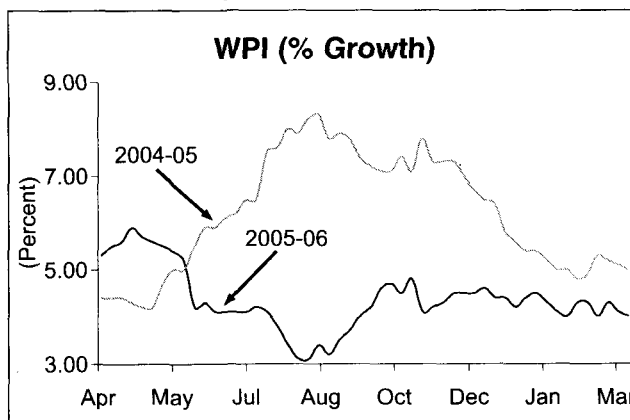


Higher rates of public sector savings and private corporate savings led to an increase in the Gross Domestic Savings. GDS as a percentage of India's GDP increased to 29.1 % in 2004 - 05 recording a year on year growth of 0.2 % points. The overall investment rate increased by a greater extent i.e. by 2.9 % points of GDP to 30.1 % in 2004-05. This investment rate was sustained through a greater reliance on foreign savings. There was a net capital inflow to the tune of 1 % of India's GDP in 2004-05.

Lower tax & non-tax revenues and a decline in the Govt.'s non-plan expenditure viz. food subsidy, interest payments, grants to states and defence expenditure resulted in a decline in receipts as well as expenditures for India last year. The key deficit indicators of the Central Government were lower than the budgeted levels. The gross fiscal deficit (GFD), revenue deficit, gross primary deficit were Rs. 1,46,175 crore, Rs. 91,821 crore and Rs. 16,143 crore respectively for 2005-06 which was 4.1 %, 2.6 % and 0.5 % of India's GDP. The net market borrowings at Rs. 1,01,082 crore was lower than the budgeted amount reflecting a reduction in the GFD. Market borrowings (through issue of dated securities and treasury bills) financed 69.2 % of India's GFD.

Monetary and liquidity conditions remained largely stable during 2005-06 except during the last 4 months of the financial year. This was due to a host of factors - redemption of India Millennium Deposits (IMD) during end-Dec'05 being the main reason apart from festival season currency demand, scheduled auctions and advance tax outflows. The Reserve Bank had to hence continuously inject money through repo operations. The y-o-y growth in M_3 (broad money) was 16.2 % in 2005-06 against a projected growth of 14.5 %.

The crude oil prices hit record high levels in 2005-06, the highest being \$70.8 per barrel reached in August 2005. Headline inflation, based on movements in the Wholesale Price Index (WPI) was 4.0 % as at end-March 2006. Revival of the monsoons made the WPI reach a low of 3.3 % in August. The intra-year high of 6.0 % was reached in April. WPI inflation during the year was dominated by a few items, mineral oil prices being the major contributor (41%). The pass-through of higher international oil prices was restricted mainly to a 7 - 8 % hike in the prices of petrol and diesel. LPG and kerosene oil prices were unchanged. Prices of primary articles like wheat, pulses, vegetables rose by 5.2 % as against 1.1 % a year ago, pushing up the headline inflation further. Equity and gold prices also scaled new peaks. Manufactured products' contribution to overall WPI inflation fell to 22.1 % largely on account of a decline in iron and steel prices.



MANAGEMENT DISCUSSION AND ANALYSIS Contd...

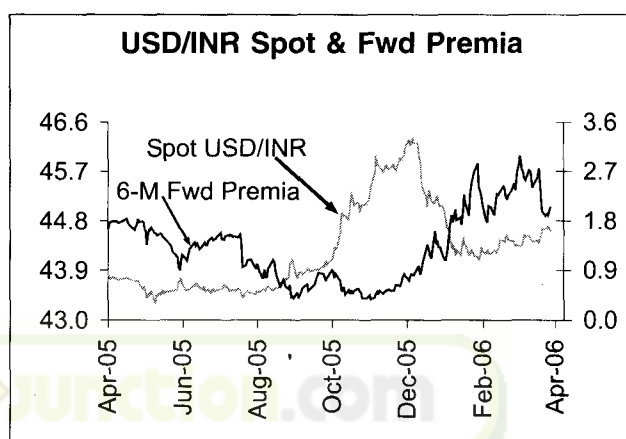
During 2005-06, exports maintained the momentum of high growth for the 4th successive year. India's exports registered a growth of 24.7 % in 2005 - 06 against 26.4 % the previous year. The US continued to be a significant market for India with a share of 17.2 % (April - Dec) in the total exports. High rates of growth in both oil (46.8 %) and non-oil (25.6 %) imports led to a strong growth in imports of 31.5 % in 2005-06. India's trade deficit stood at US \$ 39.6 billion at end-March 2006, seeing an increase of 52.7 %.

Due to the IMD redemption in Dec 2005, India's external debt declined by US \$ 4.0 billion from end-March 2005 to US \$ 119.2 billion at end-Dec 2005. The ratio of short-term debt to total debt saw a marginal increase from 6.1 % in end-March '05 to 7.5 % at end-Dec '05.

India's foreign exchange reserves were US \$ 151.6 billion as on March 31, 2006; a year-on-year increase of US \$ 10.1 bn, despite an outgo of US \$ 7.1 billion on account of redemption of IMDs in December '05.

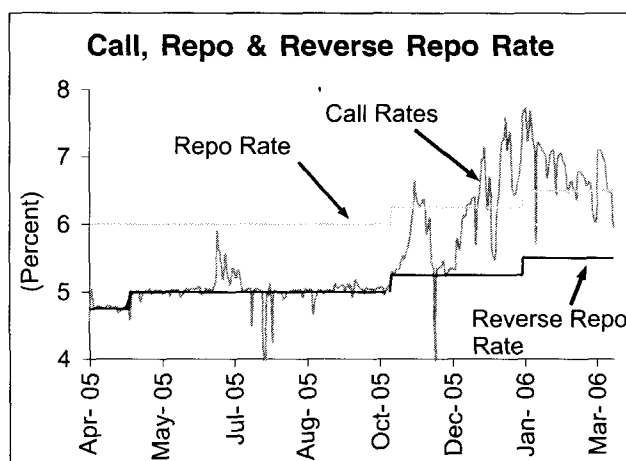
Forex Market

The exchange rate exhibited a two-way movement in 2005-06. The Indian rupee moved in a range of Rs. 43.30 - 46.33 per US dollar. During April-July, 2005, the rupee appreciated by 0.6 % against the US dollar to Rs. 43.49. But it depreciated by 4.2 % between Sep - Nov to Rs. 45.94 per US dollar. Subsequent strong portfolio inflows and the US dollar's weakness against other major currencies globally helped the rupee record an appreciation of 3.4 %. The rupee ended the financial year at Rs. 44.61 per dollar, a y-o-y depreciation of 1.9 %. Against all other major currencies, the rupee however appreciated e.g., by 4.4% against the Euro, by 5.5% against the pound sterling and by 7.5% against the Japanese Yen. In the first half of the year, forward premia declined in line with the narrowing interest rate differential between the Indian rates and the US rates. Domestic call money rate increases led to an increase in the premia during December 2005 - March 2006.



Money Market

In April '05, the RBI increased the reverse repo rate by 25 bps. This caused the call rates also to go up by a similar magnitude. Prior to this, call rates were ruling at below reverse repo rates on several occasions. Advance tax flows induced liquidity pressures made the call rates cross the reverse repo rate in June. Liquidity conditions improved in July-August. In November there was a liquidity pressure caused due to sustained demand for credit, festival demand for currency and advance tax flows. Repo injections were seen during the period with the call rates crossing the repo rate on a few occasions and generally remaining above the reverse repo rate. Apart from these seasonal liquidity pressures, the month of December witnessed a frictional liquidity pressure due to IMD redemption. The uncollateralised overnight call market experienced persistent tightness during Q4. Call rates hovered above the repo rate during this period while the rates in the collateralised segment, which account for 70 % of the market share, remained below the repo rate. In the second half of Q4, liquidity conditions improved and that led to an easing of call rates.



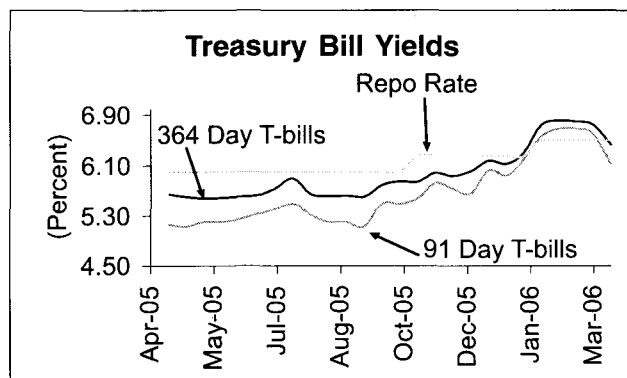
Due to a policy measure, which has limited call money transactions to banks and Primary Dealers only, there was a substantial migration of money market activity from the call money segment to the Repo

and Collateralised Borrowing and Lending Obligations (CBLO) markets. The share of the call market in the total overnight market transactions declined from 48.5 % in April 2005 to 26.7 % in March 2006. The CBLO market emerged as the preferred overnight segment in 2005 - 06 with daily average volumes jumping from Rs. 5,185 crore in April 2005 to Rs. 17,299 crore in March 2006.

Treasury Bill Market

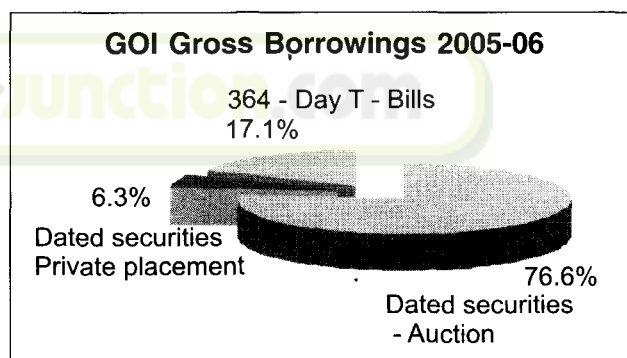
The yields on treasury bills of different tenors remained range-bound during the year, but saw a rise across tenors during the latter part of the year. The 91-day and 364-day treasury bill yields increased from 5.12 % and 5.60 % at end-April 2005 to 6.11 % and 6.42 %, respectively, at end-March 2006. The 182-day treasury bill yield increased from 5.29 % to 6.61 % during the period. RBI discontinued auctions under the MSS from mid-November considering the tight liquidity conditions in the market. Yields rose sharply in Jan-Feb'06 but eased during March.

Yields in March'06 were 103-127 bps higher than the March'05 levels. The spread between 364-day and 91-day treasury bills fell from 39 bps in March'05 to 15 bps in March'06.

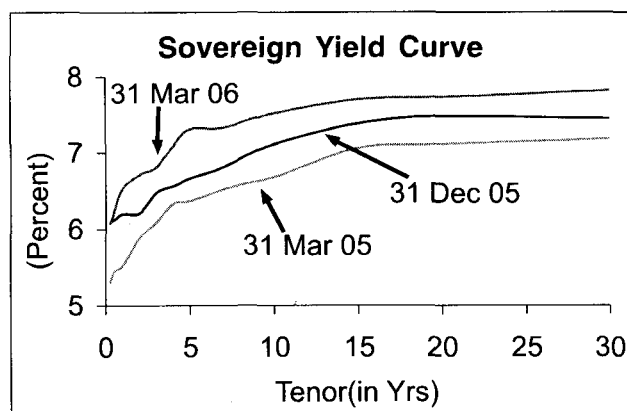


Government Dated Securities

During 2005-06, the Central Government's gross borrowings were Rs. 1,58,000 crore - 88.5 % of the budgeted amount of Rs. 1,78,487 crore and net borrowings were Rs. 95,370 crore - 86.5 % of the budgeted amount of Rs. 1,10,291 crore. The Government raised Rs. 1,31,000 crore through the issuance of dated securities (excluding issuances under Market Stabilization Scheme) against a scheduled amount of Rs. 1,41,000 crore. Of this, the Govt. privately placed dated securities for Rs. 10,000 crore against the rejection/cancellations of auctions for Rs. 10,000 crore in October 2005 and Rs. 5,000 crore in February 2006. During the year, the States raised Rs. 21,729 crore against a gross allocation of Rs. 25,909 crore. The weighted average interest rate of the state market loans hardened to 7.63 % during 2005 - 06 from 6.45 % in 2004 - 05.



The weighted average maturity of dated securities issued by the Govt. increased to 16.90 yrs from 14.13 yrs in 2004-05. Yields in the Government securities market hardened during 2005-06, with the increase at the longer end less than that at the short end. The weighted average yield on the primary issues of the G-Secs rose by 123 bps to 7.34 % in 2005-06 from 6.11 % in the previous year. The increase in yields was more pronounced in the short end of the yield curve. Movement in yields was due to the domestic liquidity conditions, hike in US yields, volatility in crude oil prices and expectations of an inflationary environment.

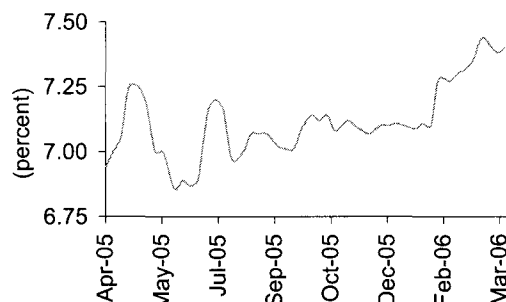


Hike in reverse repo rate and high oil prices led to the firming up of the yield on G-Secs. The yield on the benchmark 10-year security rose to 7.31% in April 05 from 6.68% in March 05. Later as the reverse repo

MANAGEMENT DISCUSSION AND ANALYSIS Contd...

rate was left untouched in the quarterly monetary policy review, there was a softening to 6.98 %. Due to an easing of the headline inflation, the yields hovered around 7% between August - December' 05. Yields then rose in January due to a reverse repo rate hike and tight liquidity conditions in the market. The secondary market yield on the 10-yr G-Sec increased to 7.52 % as at end-March' 06 from 6.68 % as at end-March'05. The spread between the 1-year and 10-year yields narrowed to 91 basis points in Dec'05 from 114 bps in March'05. The spread between the 10-yr and 30-yr yields also narrowed down to 34 bps from 54 bps in the same period.

10-Year Sovereign Yield



COMPANY PERFORMANCE

Primary Market

In primary market, the company submitted bids aggregating Rs 9,870 crore in auctions of Dated GOI securities against the commitment of Rs 10,300 crore. The shortfall was due to the actual Government borrowing through auction being lower at Rs 1,21,000 crore against the budgeted amount of Rs 1,39,467 crore. Bids amounting to Rs 3,797 crore were accepted, implying a success ratio of 38.47 percent - marginally lower than the minimum stipulation of 40 percent. As a primary dealer in government securities, the company also underwrites primary auctions of dated securities. During the year, the company earned an underwriting commission of Rs 4.01 crore from RBI.

Segment-wise Primary Market Performance



In treasury bill auctions, the company submitted bids aggregating Rs 7,596 crore against the commitment of Rs 6,150 crore (being 10% of notified amount). Out of this, bids amounting to Rs 2,762 crore were accepted. The company had a treasury bills bidding success ratio of 49.8 percent in first half and 40.3 percent in second half against the minimum stipulation of 40 percent.

Secondary Market

The financial year 2005-06 witnessed the continuation of bear phase in domestic fixed income markets on account of a variety of macroeconomic and global factors. While inflation remained under control, record crude oil prices, rising global interest rates, strong economic resurgence and pickup in credit off-take were the key drivers of higher interest rates. As a consequence, the year witnessed an increase in yields as the increasing trend in domestic interest rates got further entrenched.

The benchmark 10-year yield rose by 84 basis points during 2005-06 to touch 7.52 percent. In view of underlying bearish sentiments and lack of buying interest from commercial banks, the yields gradually inched up during the year. This resulted in a steep fall in trading opportunities. Extended periods of bearish market conditions also resulted in poor secondary market liquidity. The market turnover in Dated GOI securities declined by 24% to Rs 13.69 lac crore from Rs 17.97 lac crore in the previous year. The company's aggregate

Segment-wise Secondary Market Turnover

