2007-08

12th Annual Report

PNB GILTS LTD

(An ISO 9001 : 2000 Company)

BOARD OF DIRECTORS

Dr. K. C. Chakrabarty, Chairman
Sh. K. Raghuraman
Dr. O. P. Chawla
Dr. Kamal Gupta
Sh. S. K. Soni
Sh. R. S. Lodha
Sh. A. S. Agarwal
Sh. D. K. Singla
Sh. Arun Kaul
Sh. A. K. Gupta, Managing Director

STATUTORY AUDITORS

Bansal R. Kumar & Associates
Chartered Accountants
G-7 & 8, Namdhari Chambers,
9/54, D. B. Gupta Road, Karol Bagh,
New Delhi - 110 005

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.
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Fax: 011-23325751, 23325763
E-mail: pnbgilts@del2.vsnl.net.in
Website : www.pnbgilts.com

BRANCHES

PNB House, Sir P.M. Road,
Fort, Mumbai - 400 001.
Tel: 022-22691812/22693317
Fax: 022-22691811/22692248

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Chennai - 600 014.
Tel: 044-28591750/28547502/28418579
Fax: 044-28591751

6A, Clive Row, Kolkatta - 700 001.
Tel: 033-22310394/22310395
Fax : 033-22310378

Navdeep House, Near Income Tax Circle,
Ashram Road, Ahmedabad - 380 014.
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2nd Floor, Hudson Circle,
Bangalore - 560 027
Tel: 080-2212 7884
Fax: 080-22126498

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CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

During the year 2007-08, the Indian economy continued to grow at a robust pace, largely insulated from the turbulence in global financial markets. Strong economic growth was, however, accompanied by inflationary concerns towards the later part of the year. While there was intermittent volatility in liquidity conditions, strong capital flows and slowdown in credit growth kept liquidity in surplus for most part of the year. To reduce liquidity in the system and check inflationary pressures due to firming global commodity prices, RBI followed a tight monetary policy. RBI increased reserve requirements to suck out excess liquidity and raised the Cash Reserve Ratio (CRR) by 150 basis points during the financial year ended March 31, 2008. To drain liquidity, there were additional auctions conducted under the Market Stabilisation Scheme (MSS) while the ceiling of outstanding issuances was raised to Rs. 250000 crore.

In the G-Sec market, the 10-year G-sec yield witnessed huge volatility during the year. After firming up to as high as 8.29 per cent in June'07 due to large debt issuances, the yield eased to a low of 7.38 per cent in Jan'08 in anticipation of easing of RBI's monetary stance. However, high inflation numbers in March'08 pushed yields higher with 10-yr yield firming up to 7.94 per cent and long-term yields firming up more drastically leading to steepening of the yield curve.

Despite RBI's monetary tightening measures which put pressure on liquidity, it is a matter of great pleasure that your company posted excellent results during FY 2007-08. The Profit Before Tax rose by 309 per cent to Rs. 67.01 crore during the year as against Rs. 16.38 crore in the previous year. To meet the challenging market conditions, the company resorted to constant portfolio churning by reorienting its trading strategies and simultaneously adhering to the overall risk management framework. The total turnover of the company rose during the year to Rs. 59868 crore compared to Rs. 33552 crore last year. The company continued to fulfill all its obligations as a primary dealer and also strengthened its presence in existing fee based segments like project appraisal, mutual fund distribution and other non-core activities. The Board of Directors has recommended a final dividend of 15 per cent for the year.

Going forward, double digit inflation figures are expected to keep RBI's monetary stance tight, resulting in further firming up of yields in the debt market. However, high interest rates are expected to attract investor interest at regular intervals. This will lead to fluctuations in interest rates and your company being a trader in the G-Sec market can capture the volatility in the market through astute and aggressive trading. Further, diversification into other fee-based activities will enable the company earn steady income even in adverse market conditions. Your company will take all possible steps to further improve its performance. Your continued support will help the company scale new heights.

With regards,

Yours Sincerely,

Date : 11th July, 2008

(K. C. Chakrabarty)
Chairman

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Twelfth Annual Report together with the audited accounts of the company for the year ended March 31, 2008.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2008 along with comparative figures for the previous year, are given below:

(Rs. in lacs)

	31.3.2008	31.3.2007
Total Income	17262.55	12613.61
Total Expenditure	10561.92	10975.31
Profit/(Loss) Before Tax	**6700.63**	**1638.30**
Less : Provision for Income Tax (including deferred tax)	2184.85	41.97
Profit /(Loss) After Tax	**4515.78**	**1596.33**
Add: Balance in Profit & Loss Account brought forward	2435.14	1158.81
Amount available for Appropriation	6950.92	2755.14
Proposed Appropriations :		
Transfer to Statutory Reserve	904.00	320.00
General Reserve	226.00	0.00
Proposed Dividend	2025.11	0.00
Dividend Distribution Tax	344.17	0.00
Balance carried forward	**3451.64**	**2435.14**

During the financial year 2007-08, yields on securities in the domestic debt market exhibited high volatility. A spate of dated securities and treasury bill auctions combined with selling pressure across global bond markets took yield on 10 year security as high as 8.29 per cent in the first quarter. Later on, a medium term benign interest rate outlook and intermittent easy liquidity conditions took 10-year yield to intra year low of 7.38 per cent. However, liquidity tightening measures in the form of 150 bps CRR hike during the year and year end inflationary concerns resulted in 10-year yield closing the financial year at 7.94 per cent. The company, despite this volatility, made a profit before tax of Rs. 6700.63 lacs during the year ended March 31, 2008 due to prudent funds management and reorientation of trading strategies.

2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2008 stood at 34.55 per cent against the RBI stipulation of 15 per cent.

3. DIVIDEND

The Board has recommended a final dividend of 15 per cent for the financial year 2007-08 amounting to Rs. 2025.11 lacs. The total outflow on account of said dividend shall be Rs. 2369.28 lacs (including Dividend Distribution Tax).

4. OTHER MATTERS

4.1. Directors

During the year, the Board of Directors met seven 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 thirteen times.

Changes since last Annual General Meeting

No changes have taken place in the Board of Directors of the company since the date of last Annual General Meeting.

Retirement of Directors by Rotation

As per Article 99 of the Articles of Association of the company, Sh. K. Raghuraman, Dr. Kamal Gupta, Sh. S. K. Soni and Sh. A. K. Gupta shall 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 i.e. 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 Bansal R. Kumar 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 the 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, 2008 and the profit and loss account for the year ended March 31, 2008.
- 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 Bansal R. Kumar 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, 2008. 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 2007-08, 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 processes of the company on quarterly basis. All the reports of the Internal Auditors were submitted to

DIRECTORS' REPORT Contd...

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, 2008 was 37. 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. 200000/- 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 are 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 implemented Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) with the help of IDRBT (consultants for implementation of BCP and DRP) to identify and reduce risk exposures and proactively manage any contingencies.

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, 2008, the 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 RBI's circular dated 31st January, 1998.

4.7. Acknowledgement

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.

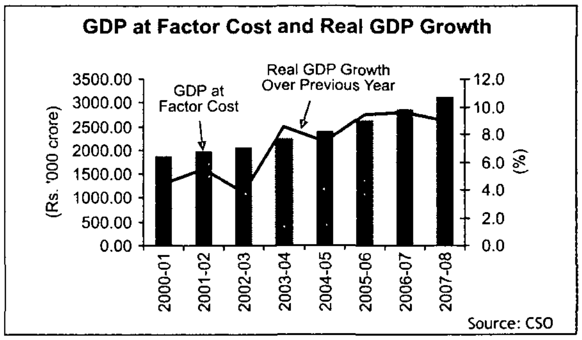
On behalf of Board of Directors

Date : 11th July, 2008
Place : New Delhi

(K. C. Chakrabarty)
Chairman

MACROECONOMIC REVIEW

During 2007- 08, the Indian economy continued to grow at a robust pace for the fifth successive year. As per the latest available data, the real GDP growth for FY 2007-08 is estimated at 9.0 per cent vis-à-vis 9.6 per cent during the previous financial year. The FY 2007-08 performance marked the third consecutive year in which growth touched or exceeded 9.0 per cent. Sector wise, agriculture sector registered growth rate of 4.5 per cent in 2007-08 compared to 3.8 per cent during the previous year while manufacturing & industrial sector registered growth of 8.8 per cent and 8.1 per cent in 2007-08 compared to their respective growth of 12.0 per cent and 11.6 per cent during 2006-07. An appreciating rupee and rising interest rates hit industrial performance and led to a deceleration in the growth rate. The growth figures for 2007-08 underlined the resilience in domestic economy in the face of global financial turbulence, rising oil prices and tightening of domestic financial conditions.

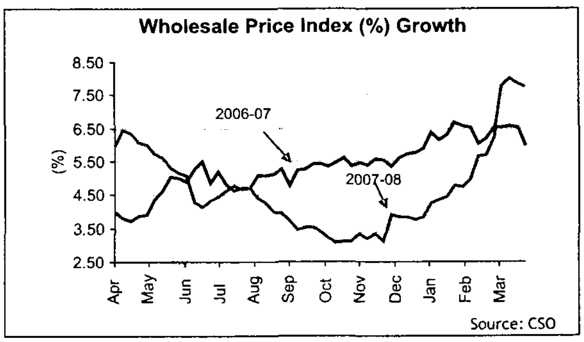


Gross Domestic Saving (GDS), as a percentage of GDP at current market prices, rose to 34.8 per cent in 2006-07 from 34.3 per cent in 2005-06. The increase was due to improvement in the saving performance by the private corporate and public sectors. The household savings rate, however, declined marginally in 2006-07 from the previous year on account of a decline in the financial saving rate. During the 10th Five-Year Plan period, the household saving rate has remained stable and has averaged at 23.7 per cent. In terms of GDP, while the overall saving rate increased by 0.5 percentage points in 2006-07, the overall investment rate increased by 0.4 percentage points, reflecting a marginal narrowing down of current account deficit.

With regard to Government Finances, the process of fiscal correction and consolidation continued for the Central Government during 2007-08. The revised estimates for the year for revenue deficit and gross fiscal deficit were placed at 1.4 per cent and 3.1 per cent of GDP respectively, which were lower than the budgeted estimates, both in absolute terms and relative to GDP. The revised estimate for gross fiscal deficit at Rs. 143653 crore in 2007-08 was lower by Rs. 7295 crore than the budgeted estimates on account of the lower revenue deficit coupled with a decline in capital expenditure. This resulted in a significantly higher gross primary surplus at Rs. 28318 crore (RE) vis-à-vis Rs. 20271 crore (BE) for FY 2007-08.

Gross and Net Market Borrowings (dated securities and 364-day Treasury Bills excluding borrowings under MSS) during 2007-08 amounted to Rs. 188205 crore and Rs.109504 crore, respectively. Gross Market Borrowings through dated securities by the Central Government during 2007-08 amounted to Rs. 156000 crore as against Rs. 151000 crore scheduled in the issuance calendar for the year.

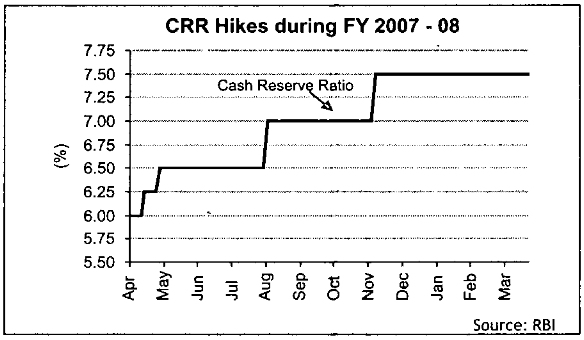
Inflation based on the wholesale price index (WPI) softened from 6.4 per cent at the beginning of the fiscal year to a low of 3.1 per cent on October 13, 2007 reflecting moderation in the prices of some primary food articles and some manufactured products items as well as base effect. However, by March 29, 2008, inflation rose to as high as 7.75 per cent. The increase in inflation in the later part of the year was due to hardening of prices of primary articles, fuel group and some manufactured products items. Primary articles inflation, y-o-y, eased from 12.2 per cent at the beginning of April, 2007 to an intra-year low of 3.7 per cent by end-December, 2007 but increased to 9.7 per cent on March 29, 2008 mainly led by fruits and vegetables, oilseeds, raw cotton and iron ore. Fuel group inflation, after remaining negative during June-November, 2007, turned positive from mid-November, 2007 to reach 6.8 per cent on March 29, 2008 reflecting increases in the prices of some petroleum products such as naphtha, furnace oil, aviation turbine fuel (ATF) and bitumen combined with the impact of upward revision in the domestic prices of petrol and diesel in February, 2008. Manufactured products inflation, y-o-y, eased from 6.4 per cent at the beginning of the year to 3.5 per cent by November 24, 2007 but increased to 7.3 per cent by March 29, 2008,



MANAGEMENT DISCUSSION AND ANALYSIS Contd...

mainly reflecting the continued rise in the prices of edible oils/oil cakes, basic heavy inorganic chemicals, and basic metals and alloys. Inflation based on y-o-y variation in consumer price indices (CPIs) also eased during January, 2008 reflecting the deceleration in food price inflation. Subsequently, there was some increase in CPI-based inflation mainly due to higher food and fuel prices.

International commodity prices firmed up during 2007-08 led by sharp increases in food and crude oil prices. Metal prices, which had witnessed some moderation during June-December, 2007, rose again during January-March, 2008. Agricultural raw materials prices, however, remained largely rangebound during 2007-08. International crude oil prices kept scaling fresh peak levels and crossed USD 100 a barrel level during the year. Food prices firmed up especially during the second half of 2007-08, led by wheat, rice, and oilseeds/edible oils, reflecting surging demand (both consumption demand and demand for non-food uses such as bio-fuels production) and low stocks of major crops.



Source: RBI

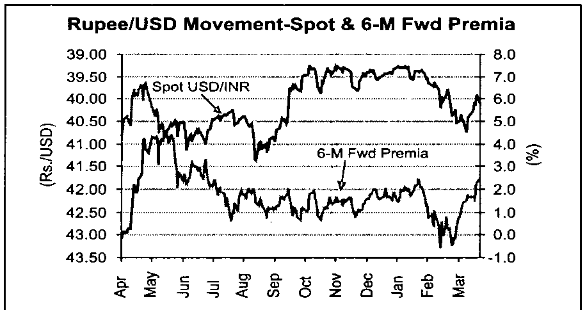
Central Bank maintained a tight monetary stance during the year. Liquidity conditions during 2007-08 continued to be influenced by variation in cash balances of the Governments and capital flows. The Reserve Bank continued with the policy of active management of liquidity through appropriate use of the Cash Reserve Ratio (CRR) and Open Market Operations (OMO), including issuances of securities under the Market Stabilization Scheme (MSS) and operations under the Liquidity Adjustment Facility (LAF). Cash Reserve Ratio was hiked by 150 basis points in three phases (April, August and November, 2007) from 6.00 per cent to 7.50 per cent. Repo Rate and Reverse Repo Rate, however, remained at 7.75 per cent and 6.00 per cent respectively. The ceiling on the outstanding amount under MSS for the year 2007-08 was also successively raised on four occasions (April, August, October and November, 2007) to Rs. 250000 crore.

During 2007-08, growth in merchandise exports marginally declined to 23.0 per cent from previous year's level of 23.2 per cent. Growth in imports outstripped exports growth and grew at 27.0 per cent, higher than previous year's growth rate of 25.2 per cent. Trade deficit during FY 2007-08 widened to USD 80.4 billion from USD 59.3 billion, a year ago. Destination-wise, the US continued to be the single largest market for India's exports during the year.

India's external debt increased by USD 31.8 billion from end-March, 2007 to USD 201.5 billion at end-December, 2007. The increase in external debt during the period was mainly on account of higher commercial borrowings, trade credit and multilateral debt. Based on original maturity, long-term debt accounted for 82.5 per cent of the total external debt and short-term debt accounted for 17.5 per cent of the total external debt.

India's foreign exchange reserves increased by USD 110.5 billion during 2007-08 to USD 309.7 billion. The increase in reserves was mainly on account of an increase in foreign currency assets from USD 191.9 billion at end-March, 2007 to USD 299.2 billion as at end-March, 2008. Among the emerging market economies, India holds the third largest stock of reserves.

Forex Market



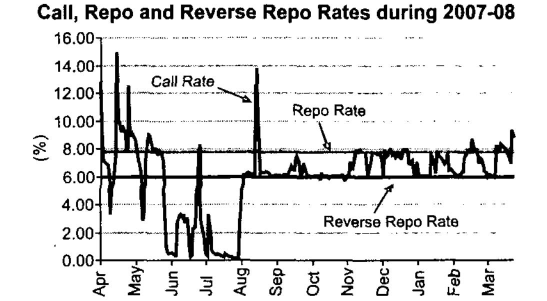
Source: Company Source

During 2007-08, the Indian rupee appreciated by 9 per cent against dollar over its level on March 31, 2007. Exhibiting two-way movement, the rupee moved in the range of Rs. 39.26 - 43.15 per USD during 2007-08. The rupee depreciated during the first half of August, 2007 due to bearish conditions in the Asian stock markets including India, strong FII outflows and concerns over sub-prime lending crisis in the US, while it appreciated thereafter reflecting large capital inflows, weakening of the US dollar vis-à-vis other currencies and strong performance in the domestic stock markets. However, the rupee started depreciating against the US dollar from the beginning of February, 2008 on account of bearish conditions in the stock market, capital outflows, rising crude oil prices and increased demand for US dollars by corporates. The exchange rate of the rupee was Rs. 39.99 per USD on March 31, 2008. Spot market conditions kept forward premia on US dollar low during the year as exporters continued to offload their forward positions. During the financial year, the rupee appreciated by 7.6 per cent against the Pound Sterling, while it depreciated by 7.8 per cent against the Euro, 7.6 per cent against the Japanese Yen and 1.1 per cent against the Chinese Yuan.

Money Market

On the back of repo rate and CRR hike announcements, money market rates opened on a firm note. Later on, liquidity pressures eased gradually till mid-April, 2007 partly on account of reduction in the cash balances of the Central Government. Reflecting this, the weighted average call/notice rate, gradually eased to 3.27 per cent on April 12, 2007. Liquidity conditions later tightened on account of a two-stage hike in the Cash Reserve Ratio (CRR) by 25 basis points each. Consequently, the call/notice money market rates edged higher and exceeded the repo rate during the second half of April, 2007 and some part of May, 2007. From May 28, 2007 onwards, the liquidity conditions eased significantly. In the background of excess liquidity and the cap of Rs. 3000 crore under the reverse repo window of LAF imposed with effect from March 5, 2007, money market rates remained below the reverse repo rate in June and July, 2007. In fact, rates remained below 1 per cent on a number of occasions in June and July, 2007 and call rate reached as low as 0.13 per cent. With the withdrawal of the ceiling of Rs. 3000 crore on the daily reverse repo window of LAF with effect from August 6, 2007, the call rate increased but remained mostly within the interest rate corridor of the reverse repo and repo rates of 6.00-7.75 per cent during August, September and October, 2007. In the wake of relative tightness in the liquidity conditions from the second week of November, 2007, however, call/notice money market rates edged up and moved around the upper bound of the informal corridor. This was mainly because of festive season demand for currency, increase in Central Government cash balances with the Reserve Bank and further hikes in CRR by 50 basis points to 7.50 per cent with effect from the fortnight beginning November 10, 2007. From December, 2007 - March, 2008, the call/notice rate continued to move around the repo rate as the liquidity conditions remained tight on account of advance tax outflows. The rates (market repo and CBLO) in the collateralized segment of money market remained below the call money rate during a major part of the year. The average rate of CBLO, market repo and call money remained at 5.2 per cent, 5.5 per cent and 6.1 per cent during the year. The collateralized segment of the market constituted 80 per cent of the total market volumes. The weighted average rate in all the three money market segments combined together was 5.48 per cent during 2007-08 vis-à-vis 6.57 per cent a year ago.

Call, Repo and Reverse Repo Rates during 2007-08

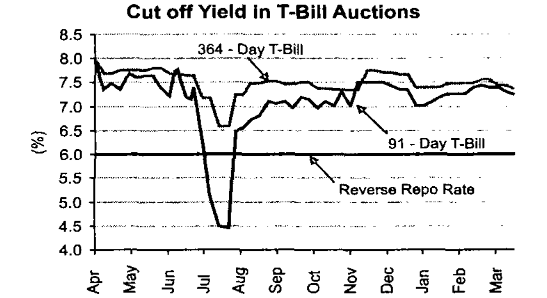


Source: CCIL

Treasury Bill Market

Cut off yields in the primary market auctions of Treasury Bills (TBs) hardened in the range of 41- 46 basis points during 2007-08. Yields on TBs dipped in July, reflecting easy liquidity conditions and very low short-term interest rates. The surplus liquidity in the system due to the ceiling of Rs. 3000 crore in LAF reverse repo resulted in extremely low short-term rates and aggressive bidding in auctions of TBs. Hence, the cut-off yields in the auctions of TBs declined. T-bill yields hardened during August-September, 2007 in tandem with higher money market interest rates and removal of the ceiling on absorption through reverse repo. Yields softened in October, 2007, reflecting easy liquidity conditions following a cut in the fed funds rate target. Yields hardened again in November, 2007 with a hike in the CRR by 50 basis points with effect from November 10, 2007. Following the aggressive rate cuts by the US Fed, yields remained soft during January-March, 2008. The yield spread between 364-day and 91-day TBs was 9 basis points in March, 2008 as compared to 17 basis points in March, 2007.

Cut off Yield in T-Bill Auctions



Source: RBI

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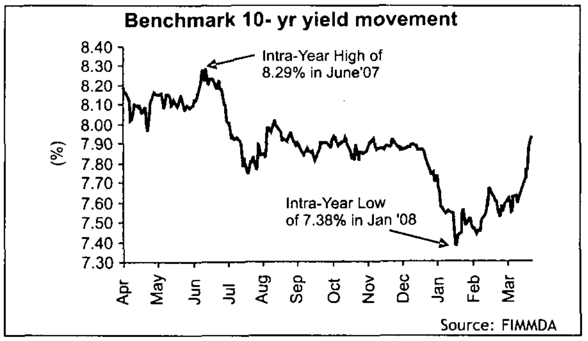
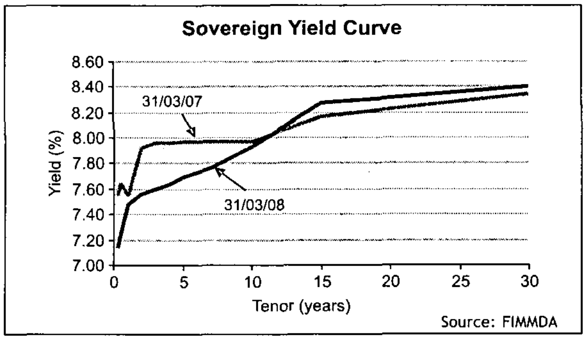
Government Dated Securities

In the Government Securities market, several initiatives were taken to increase the liquidity in the market. After increasing the period of shorting securities from intra-day to five days, RBI further announced that the cover leg transaction of a short sale can be undertaken even outside the NDS-OM platform. Even in the 'When Issued' (WI) transactions of Central Government Securities, the cover leg of the 'WI' transactions can now be undertaken outside the NDS-OM platform i.e. through the telephone market. In RBI's monetary policy announcements, several initiatives have been proposed. The proposed initiatives include, re-issuance of state development loans, extending access of NDS-OM platform, repo in corporate bonds, STRIPs trading etc. After development of proper infrastructure, introduction of these measures are expected to enhance liquidity in the G-Sec market.



In primary markets, auctions of Central Government Securities to the tune of Rs. 156000 crore were conducted during the year. The auction calendar was front-loaded with Rs. 97000 crore being borrowed in H1 of the financial year and Rs. 59000 crore borrowed in H2. Barring one new issuance (10-year security) for Rs. 6000 crore, all auctions were re-issuances of existing securities. During the year, an amount of Rs. 957 crore devolved on Primary Dealers (PDs). The weighted average maturity of dated securities issued during the year at 14.90 years was higher than that of 14.72 years during the previous year. The weighted average yield of dated securities issued during 2007-08 was higher at 8.12 per cent as compared to 7.89 per cent during 2006-07.

In the secondary market for Government Securities, yields in the market hardened somewhat during the first quarter of 2007-08, partly reflecting global trends and announcement of an unscheduled auction. Yields, however, remained generally rangebound with a downward bias during July- December, 2007, partly due to global monetary easing, lower inflation and easy liquidity conditions. Yields softened to their lowest levels during the year in January, 2008, reflecting easy liquidity conditions and lower inflation. During the last month of the financial year, yields hardened considerably reflecting higher inflation. The 10-year yield moved in a range of 7.38 per cent 8.29 per cent during 2007-08. As on March 31, 2008, the 10-year yield was 7.94 per cent. The yield curve steepened during the period, as reflected by the widening of spreads. The spread between 1-year and 10-year yields was 45 basis points at end-March, 2008 as compared with 42 basis points at end-March, 2007. The spread between 10-year and 30-year yields was 47 basis points at end-March, 2008 as compared with 37 basis points at end-March, 2007.



The turnover in the Government Securities Market increased in 2007-08. The turnover almost doubled in July, 2007 from its level in June, 2007 on account of low funding cost, but reduced in August-September, 2007 as overnight rates rose to the corridor set by the reverse repo and repo rates. The turnover declined in November, 2007 after increasing in October, 2007 on account of CRR hikes. The turnover increased in December, 2007 and reached a peak in January, 2008, reflecting lower yields and general market sentiments towards monetary easing. However, once RBI didn't cut any key interest rates and inflation rose to unexpectedly high levels, the turnover declined sharply in March, 2008 and yields hardened. The yield on 5-year AAA-rated corporate bonds softened during May-January, 2007-08 in tandem with government securities yield. The credit spread between the yields on 5-year AAA-rated bonds and 5-year government securities was 156 basis points at end-March, 2008 as compared with 142 basis points at end-March, 2007.