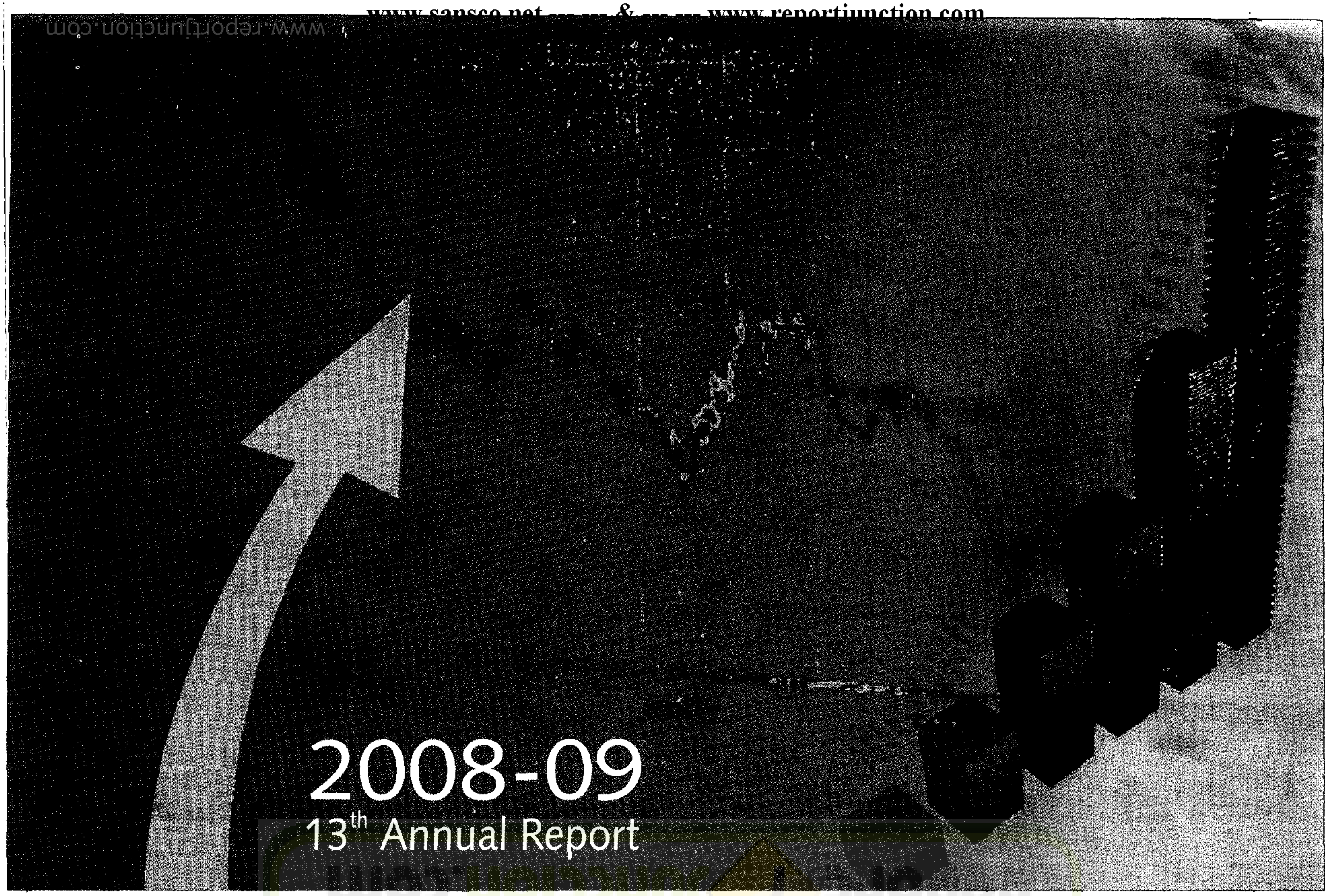
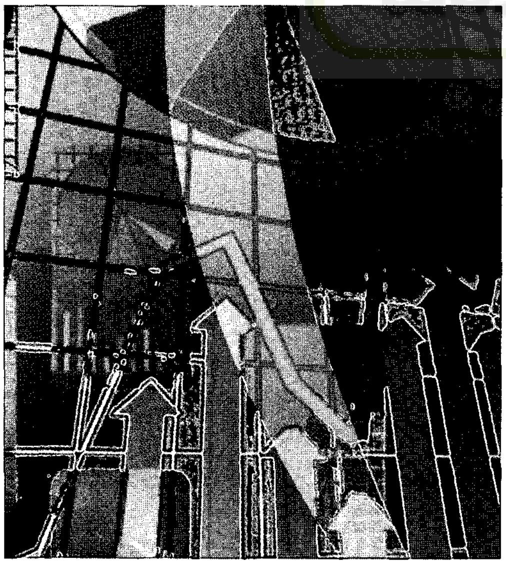
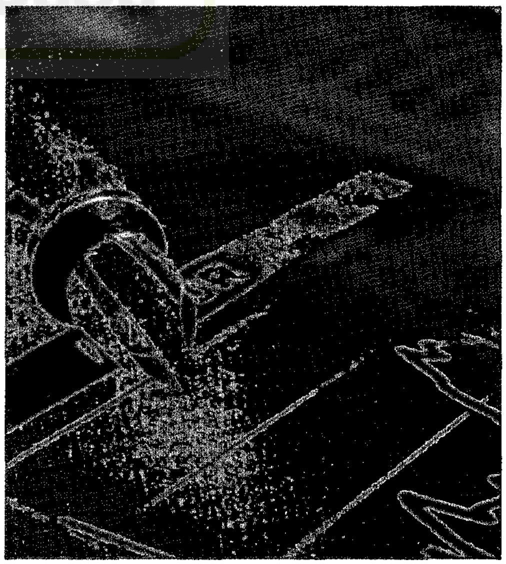


2008-09

13th Annual Report



PSU Bonds
ICDs
Advisory Services
Project Appraisal
Syndication of Loans
Debt Restructuring
Mergers & Acquisitions
Issue Management & Underwriting
Consultancy Services
Distribution of Mutual Fund Products
Government Securities
Constituent SGL Accounts



PNB GILTS LTD

(An ISO 9001 : 2000 Company)

BOARD OF DIRECTORS

Dr. O. P. Chawla
Dr. Kamal Gupta
Sh. S. K. Soni
Sh. A. S. Agarwal
Sh. M. S. Aftab
Sh. P. P. Pareek
Sh. S. K. Dubey
Sh. S. Ranganathan, Managing Director

COMPANY SECRETARY

Ms. Monika Kochar

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 AUDITRS

Ernst & Young Pvt. Ltd.
Golf View Corporate Tower B, Sector 42,
Sector Road, Gurgaon - 122 002

BANKERS

Reserve Bank of India
Punjab National Bank

REGISTERED-CUM-CORPORATE OFFICE

5, Sansad Marg, New Delhi - 110 001
Tel: 011-23325759, 23325779
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

Sudershan Building, 14, Whites Road,
Chennai - 600 014
Tel: 044-28591750, 28418579
Fax: 044-28591751

6A, Clive Row, Kolkata - 700 001
Tel: 033-22310394, 22310395
Fax: 033-22310378

Navdeep House, Near Income Tax Circle,
Ashram Road, Ahmedabad - 380 014
Tel: 079-27542143, 27542455
Fax: 079-27541808

Vokkaligara Sangha Building,
2nd Floor, Hudson Circle,
Bangalore - 560 027
Tel: 080-22127884
Fax: 080-22126498

CONTENTS

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

The year 2008-09 was an exceptionally challenging year all across the globe. What started off as turmoil in the financial sector of the advanced economies snowballed into the deepest and most widespread financial and economic crisis. With all the advanced economies in a recession, global GDP is projected to contract for the first time since the World War II. Like all emerging economies, India too has been impacted by the crisis. After witnessing an average annual growth of 8.9 per cent over the last five years (2003-08), India was headed for a cyclical downturn with an estimated growth of 6.7 per cent in 2008-09.

Despite the adverse impact, India could weather the crisis because of the comfortable forex reserves, low inflation, mandated agricultural lending and most importantly because of the swift policy responses taken by the Reserve Bank of India in close coordination with Government. The Reserve Bank shifted its policy stance from monetary tightening in response to the elevated inflationary pressures in the first half of 2008-09 to monetary easing in response to easing inflationary pressures and moderation of growth engendered by the crisis. The Reserve Bank's policy response was aimed at containing the contagion from the global financial crisis while maintaining comfortable domestic and forex liquidity. Taking a cue from the Reserve Bank's monetary easing, most banks reduced their deposit and lending rates.

The Central Government launched three fiscal stimulus packages during December, 2008 - February, 2009. These stimulus packages came on top of an already announced expanded safety-net programme for the rural poor, the farm loan waiver package and payout following the Sixth Pay Commission report, all of which too added to stimulating demand.

Against the above backdrop, bond market remained extremely volatile. Initially in view of monetary tightening measures by RBI, the yield on 10-year sovereign benchmark paper touched a high of of 9.46 per cent in mid July, 2008 but eased to 5.25 per cent by end December, 2008 with monetary easing. However, a sharp rise in government expenditure owing to the three fiscal packages introduced in the period between December, 2008 and Februray, 09, resulted in widening of the fiscal and revenue deficit. The resultant escalation in market borrowings had tumultuous impact on the fixed income markets. To create space and demand for G-sec, RBI introduced buyback of MSS securities, Open Market Operations and MSS desequestering. However with market borrowings being raised by 80 per cent of the originally budgeted amount, demand and supply mismatch continued to persist. Yield on benchmark 10-year paper again rose to 7.01 per cent by March 31, 2009.

Your company strived hard to keep pace with the dynamic macro economic fundamentals. Company constantly realigned its trading strategy and altered the portfolio holding in tune with the bond market conditions. Owing to its active and prudent trading, company earned handsome profits during Q3. However, owing to a steep rise in yields during the last quarter, company had to provide for diminution in the market value of portfolio of Rs. 66.41 crore. After providing for the same, company's Profit Before Tax (PBT) stood at Rs. 38.12 crore.

Going forward, the company will continue to make good use of its competencies in debt trading to other fund and non-fund based businesses permitted by RBI and will strive to maximize the shareholder value by trading prudently and capture the volatility efficiently. Strong risk management systems will keep a vigilant check on various risks and help in maintaining an efficient risk return proportion. Your continuous patronage and cooperation has helped company to achieve new milestones in the yesteryears and your constant support in company's endeavours will help company to enhance its performance in future as well.

With regards,
Yours Sincerely,

(K. C. Chakrabarty)
Chairman

Date : June 12, 2009

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Thirteenth Annual Report together with the audited accounts of the company for the year ended March 31, 2009.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2009 along with comparative figures for the previous year are given below:

(Rs. in Lacs)

	For the year ended 31.3.2009	For the year ended 31.3.2008
Total Income	11246.56	17262.55
Total Expenditure	7434.39	10561.92
Profit/(Loss) before Tax	3812.17	6700.63
Less : Provision for Income Tax (including deferred tax)	1362.98	2184.85
Profit /(Loss) after Tax	2449.19	4515.78
Add: Balance in Profit & Loss Account brought forward	3451.64	2435.14
Amount available for Appropriation	5900.83	6950.92
Proposed Appropriations :		
Transfer to Statutory Reserve	490.00	904.00
General Reserve	–	226.00
Proposed Dividend	1080.06	2025.11
Dividend Distribution Tax	183.56	344.17
Balance carried forward	4147.21	3451.64

During the financial year 2008-09, Bond market witnessed extreme volatility. While the first half was characterized by high inflation, strained liquidity and tight monetary stance by RBI, the second half witnessed consistent monetary easing in an effort to boost economic growth. During the first half of the year, Repo Rate was hiked by 125 bps to 9 per cent in three stages, CRR was also raised by 150 bps to 9 per cent in five phases. Continuous tightening cycle led to strain in liquidity condition and yield on 10-year benchmark paper touched an intra day high of 9.54 per cent in July, 2008. However with surfacing of the global financial crisis, India's growth also picked up the downward trajectory from September, 2008 onwards. During H2, in response to slowing demand and in order to provide ample liquidity in the system, RBI reduced both Repo and Reverse Repo Rate by 400 bps and 250 bps to 5 per cent and 3.5 per cent respectively. CRR was also cut by 400 bps during H2 to 5 per cent. Bond yields eased in solidarity to rate cut moves by RBI and yield on 10-yr benchmark paper fell to an intra day low of 4.86 per cent in the beginning of January, 2009. However, with the Government introducing fiscal sops to prevent economic slowdown, borrowings for the FY 2008-09 were raised substantially leading to supply side fears. Yield on 10-year benchmark paper ended the year at 7.01 per cent. The sharp spike in yields in the last quarter of the fiscal resulted in a significant decline in valuation of company's portfolio. The company, despite this volatility, made a profit before tax of Rs. 3812.17 lacs during the year ended March 31, 2009 due to prudent funds management and reorientation of trading strategies.

2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2009 stood at 25.96 per cent as against the RBI stipulation of 15 per cent.

3. DIVIDEND

The Board has recommended a final dividend of Rs. 0.80 per share for the financial year 2008-09 amounting to Rs. 1080.06 lacs. The total outflow on account of said dividend shall be Rs. 1263.62 lacs (including Dividend Distribution Tax).

4. OTHER MATTERS

4.1. Directors

During the year, the Board of Directors met five 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 thirty times and Shareholders' / Investors' Grievance Committee met twelve 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**, consequent to his superannuation from Punjab National Bank as Executive Director, had tendered his resignation from the Directorship of the company. The resignation tendered was accepted by the Board in its meeting held on October 25, 2008.
- **Sh. R. S. Lodha** ceased to be the Director on the Board due to his sad demise on October 3, 2008.
- **Sh. D. K. Singla**, due to his other preoccupations, had tendered his resignation from the Directorship of the company and the same was accepted by the Board in its meeting held on January 17, 2009.
- **Sh. M. S. Aftab** and **Sh. P. P. Pareek**, have been appointed as Additional Directors on February 10, 2009.
- **Sh. Arun Kaul** had resigned from the Directorship of the company on his elevation as Executive Director - Central Bank of India as per the notification issued by Government of India. The resignation tendered by him was accepted by the Board in its meeting held on April 24, 2009.
- **Sh. S. K. Dubey**, General Manager - Punjab National Bank, had been appointed as Additional Director on June 3, 2009.

Retirement of Directors by Rotation

As per Article 99 of the Articles of Association of the company, Dr. K. C. Chakrabarty*, Dr. O. P. Chawla and Sh. A. S. Agarwal 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

* Please refer 'Additional Information' given in Notice vide point no. 12 at page no. 75.

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, 2009 and the profit and loss account for the year ended March 31, 2009.
- 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 March 31, 2009. 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 2008-09, the Board appointed M/s Ernst & Young Pvt. Ltd. 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, including IT systems 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, 2009 was 35 (including 10 employees on deputation from parent bank). 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 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, 2009, 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 notification no. DFC.118DG/(SPT)-98 dated 31st January 1998.

4.7. Acknowledgement

Your Directors thank Government of India, Reserve Bank of India, Securities and Exchange Board 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.

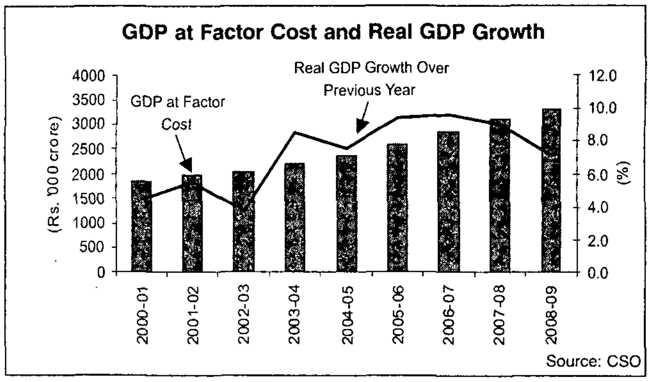
On behalf of Board of Directors

Date : June 11, 2009
Place : New Delhi

(K. C. Chakrabarty)
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC REVIEW



FY 2008-09 witnessed complete reversal in global economic condition. While, in the first half of the year the Indian economy grew at a robust pace with inflationary pressures remaining high, with the start of the second half of the year, the economy started witnessing moderation, in sync with the deceleration in the global economic condition. Despite the inherent stability in the Indian financial markets, reversal of flows from emerging economies and freezing of the overseas credit markets took a toll on India's economic growth. Cascading effect of the financial and economic turmoil in the developed nations ensued into a synchronized global economic recession. India's Industrial output deteriorated sharply and lack of external demand also resulted in an acute decline in exports.

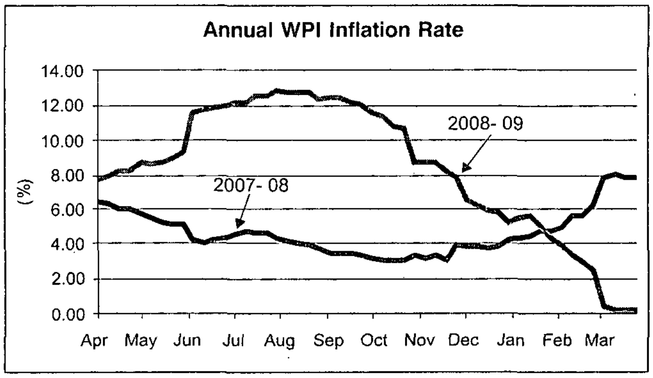
During 2008-09, the Indian economy recorded a growth of 6.7 per cent (as per advanced estimates) after registering a growth of over 9.0 per cent for five consecutive years. Though lower than previous years, this growth rate is still amongst the best in the world. Further amongst the Asian peers, India's performance is expected to stand out, given its relatively lesser dependence on exports and robust domestic savings. Sector wise, agriculture sector registered a growth rate of 1.6 per cent in 2008-09 compared to 4.9 per cent during the previous year, while manufacturing sector registered a growth of 2.4 per cent compared to previous year's growth of 8.2 per cent. The Index of Industrial Production, however, started decelerating from October, 2008 onwards and registered a negative growth in the months of December, 2008, February, 2009 and March, 2009. As regards Indian exports, dampened demand from developed nations hit the export sector severely and exports registered a continuous contraction during October, 2008 to February, 2009. The core sector recorded lower growth of 2.7 per cent during 2008-09, down from 5.9 per cent during the previous year. Both cement and steel sectors recorded decelerated growth reflecting slowdown in construction.

Despite a sharp decline in external demand, the impact of the same was cushioned by boosting of domestic demand via increased Government expenditure. During the third quarter, growth rate of Private Final Consumption Expenditure (PFCE) declined to 5.4 per cent vis-à-vis first quarter's growth rate of 7.7 per cent. On the other hand, Government Final Consumption Expenditure (GFCE) registered a growth rate of 24.6 per cent as against first quarter's growth rate of 7.1 per cent on account of various fiscal sops and payment on account of the Sixth Pay Commission Recommendations.

The Central Government finances came under pressure during the FY 2008-09. During the period, the Indian Government provided booster shots in the form of selective tax rate cuts and additional expenditures to counteract the spill over effect of the global financial meltdown. The additional expenditure on account of these sops amounted to 2.9 per cent of GDP. The gross tax revenue in the revised estimates for 2008-09 at Rs. 627949 crore was lower by 8.7 per cent than the budget estimates. Disproportionate growth in expenditure coupled with deceleration in revenue receipts necessitated deferment of the mandated fiscal targets as per the FRBM Act. The Revenue Deficit and Gross Fiscal Deficit (GFD) in the revised estimates for the year 2008-09 widened to 4.4 per cent and 6.0 per cent as against the previous year's figures of 1.1 per cent and 2.7 per cent respectively.

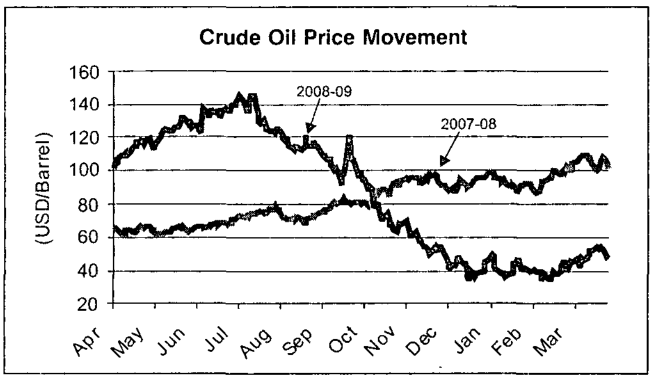
Gross and net market borrowings (Dated Securities and 364-day Treasury Bills) of the Centre for 2008-09 were budgeted at Rs.178575 crore and Rs. 99000 crore respectively. However, in view of the increase in GFD by

2.4 times over the budgeted estimates, the net market borrowings were hiked by 2.7 times of the budgeted level to Rs. 266539 crore, financing 81.6 per cent of the GFD. In addition to this, state governments also raised a total amount of Rs. 118138 crore through market borrowings as against Rs. 67779 crore during the previous year. Apart from this, GOI also supported FCI, Fertilizer Companies and Oil Marketing Companies through issuance of special bonds amounting to Rs. 75942 crore, aggregating to 1.8 per cent of GDP.

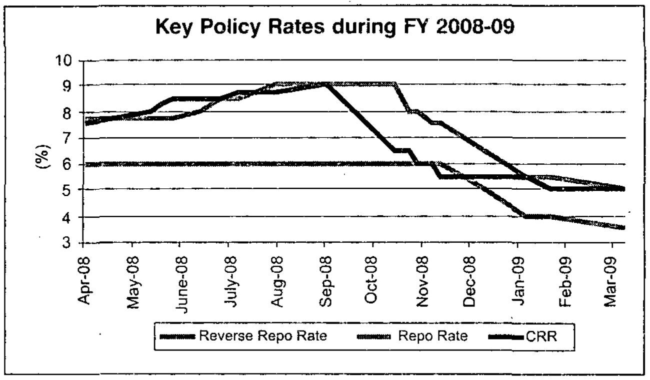


The year witnessed unprecedented volatility in inflation rate as measured by year-on-year variation in Wholesale Price Index (WPI). The first half of the financial year was characterized by spurt in the inflation rate on account of sky-scraping crude oil and food prices. The increase in inflation during this period reflected strong demand pressures along with the international commodity price pressures. Inflation rate rose to a whopping 12.9 per cent in August, 2008 leading to an aggressive monetary tightening by RBI. However, inflation rate took a complete reversal with collapse in global crude oil prices following the surfacing of financial and economic crisis. Thereon, inflation rate declined drastically and touched a low of 0.18 per cent in the last quarter of FY 2008-09 on account of high base effect and alleviating domestic fuel prices. Primary articles inflation, y-o-y, eased from 12.7 per cent during November, 2008 to an intra-year low of 3.5 per cent during March, 2009. Despite some recent easing, rice and pulses prices continue to be at elevated levels. Manufactured products inflation, touched a peak of 11.9 per cent in mid of August, 2008 driven by sharp increase in price of iron and steel, sugar, chemicals and machinery, etc. Subsequently, manufactured products inflation declined steeply and touched a low of 1.4 per cent in March, 2009. Fuel group index was the major driver of the inflation rate movement during the FY 2008-09. Pass through of high crude oil prices during H1 resulted in the fuel group inflation to touch a high of 18.0 per cent. However, subsequent easing of crude oil prices in global markets pulled fuel group inflation in the negative territory.

Despite WPI inflation hovering at all time low, prices at the consumer end are still firm given high prices of food articles. Inflation rate as measured by the Consumer Price Index continues to remain around double digits and the same is expected to decline though with a lagged effect as observed in the past trends.



International commodity prices witnessed extreme fluctuations during the year. Commodity prices increased sharply up to July, 2008 on account of substantial increases in oil, food and metal prices. International crude oil prices, which inflated to an all time high of USD 145 a barrel during July, 2008, fell from August, 2008 onwards on recessionary concerns. Crude oil prices stabilized since December, 2008 onwards as a downturn in economic activity has lowered the demand for commodities. Food prices continued to increase sharply in the first quarter of 2008-09 led by rice, maize and oilseeds/edible oils prices, reflecting surging demand (both consumption demand and demand for nonfood uses such as bio-fuels production) and low stocks of major crops. Food prices, however, eased significantly since the second quarter of the year on the back of improved supply prospects, particularly for oilseeds and grains in major producing countries. Metal prices also exhibited a sharp increase up to August, 2008 reflecting increasing demand from emerging economies, especially China. International steel prices, however, declined by about 25 per cent since August, 2008 as global economic downturn has led to lower prospects for construction activity and investment in capital equipment.

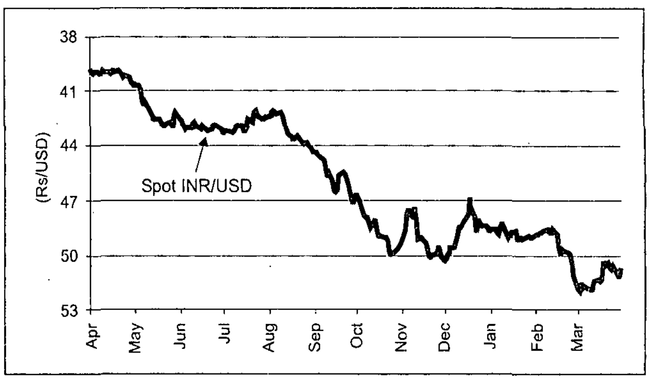


During the year, Central Bank's monetary stance was primarily dominated by developments in the global economy. In the first half of the FY 2008-09, RBI's policy focused on curbing imported inflation on account of spiraling international crude oil price. In response, RBI adopted a tight monetary stance and hiked interest rates at regular intervals. Owing to inflationary pressures, RBI followd a tightening stance in contrast to the expansionary monetary policy being followed by major Central Banks across the globe. During H1, Repo rate and Cash Reserve ratio (CRR) were hiked by 125 bps and 250 bps respectively to 9.0 per cent each. As a consequence liquidity condition tightened significantly and overnight borrowing rates shot up to touch a high of 19.69 per cent in October, 2008. Collapse of Lehman Brothers and freezing up of external credit markets let RBI to relax its monetary stance. Subsequently RBI introduced various liquidity-enhancing measures and cut the Repo and Reverse repo rate by 400 bps and 250 bps to 5.0 per cent and 3.5 per cent respectively. In addition CRR and SLR rates were also reduced by 400 bps and 100 bps to 5.0 per cent and 24.0 per cent respectively. Successful completion of large government borrowings also posed a huge challenge for RBI as bond markets sentiments were dampened by huge supply. In order to ease the same, RBI introduced more measures in form of buy back of MSS securities, Open Market Operations and desequestering of MSS bonds. Maintaining ample liquidity in the system remained RBI's main objective henceforth.

India's external debt increased from USD 224.77 billion at end of March, 2008 to USD 230.85 billion at end of December, 2008. The increase in external debt stock was essentially due to increase in long-term debt outstanding by USD 9.4 billion, especially commercial borrowings and bilateral debt, during the third quarter of 2008-09. However, short-term debt declined by USD 3.2 billion during the third quarter. The total short-term residual maturity obligations stood at USD 90 billion, which accounted for 39.0 per cent of the total external debt outstanding at end of December, 2008.

A sharp expansion in Current Account Deficit (CAD) in Q3 of 2008-09 along with net capital outflows resulted in the outgo of foreign exchange reserves to the extent of USD 17.9 billion. India's foreign exchange reserves declined by USD 57.7 billion during 2008-09 to USD 252.0 billion.

Forex Market



Rupee weakened against the US dollar by 21.5 per cent during the FY 2008-09 after appreciating by 9.0 per cent during the previous year. Weak domestic equities, widened trade deficit coupled with rising risk aversion towards emerging market assets led to consistent decline in rupee's value and the unit breached Rs. 50 per USD mark in the month of October, 2008. Strengthening of US dollar against major currencies and capital outflows resulted in weakening of rupee. During H1, rupee depreciated sharply by 18.0 per cent on account of continuous withdrawal of funds from emerging markets by foreign investors on rising risk aversion triggered by