

ANNEXURE 9

Difference between maturity and duration

If the face value of a bond is Rs. 100 and coupon rate 12.5%, and it is redeemable after 5 years at a premium of 5 percent, at current market interest of 15 percent, the market rate works out to Rs 94.10

	I year	II year	III Year	IV Year	V year	Total
Cash inflows (1)	12.50	12.50	12.50	12.50	117.50	NA
Interest factor @ 15% (2)	0.870	0.756	0.658	0.572	0.497	NA
PV at 15% (1) X (2)	10.87	9.45	8.23	7.15	58.40	94.10
Year * PV	10.87	18.90	24.69	28.59	292.00	375.06

NA= not applicable

Source Compiled by the researcher

Duration is 3.99 years (375.06/94.10) but the maturity is 5 years
At 3.99 years (approx 4 years) the interest rate risk is immunized
and the investor is assured of the same terminal value whether
interest rate rises/ falls