

## 2-Minute NMD Quiz

**How would you describe your bank’s NMD Model and its relationship to risk and profitability management exercises which depend on well-founded and accurate behavioral assumptions?**

| Option A   | Option B   |
|--|--|
| <input type="checkbox"/> The bank manages its own model to understand how its deposits behave  | <input type="checkbox"/> The bank relies upon a third party to tell it how its deposits behave   |
| <input type="checkbox"/> The model used is transparent   | <input type="checkbox"/> The model used is a black box   |
| <input type="checkbox"/> Regularly consulted by management and the deposit gathering business segments   | <input type="checkbox"/> Ignored by management and the deposit gathering business segments   |
| <input type="checkbox"/> Clearly describes what constitutes a core (stable) balance and how it is valued   | <input type="checkbox"/> Unclear as to what constitutes a core (stable) balance and how it is valued   |
| <input type="checkbox"/> Business units that are thankful for meaningful FTP spreads because they are produced by the same model used to manage the behavioral assumptions | <input type="checkbox"/> Business units that complain about FTP spreads because they are produced somewhere other than the model used to manage the behavioral assumptions |
| <input type="checkbox"/> Feeds for NII margin sensitivity that are consistent with the calculation of DOE  | <input type="checkbox"/> Feeds for NII margin sensitivity that are inconsistent with the calculation of DOE  |
| <input type="checkbox"/> NMD durations which create a stable Duration of Equity (DOE) through time   | <input type="checkbox"/> NMD durations which create a volatile Duration of Equity (DOE) through time   |
| <input type="checkbox"/> Deposits FTP rates which are logically consistent with the absolute <i>and</i> relative value of each deposit product                             | <input type="checkbox"/> Deposit FTP rates which are not logically consistent with the absolute <i>and</i> relative value of each deposit product                          |
| <input type="checkbox"/> Incentivizes behaviors that maximize the duration of NMDs   | <input type="checkbox"/> Incentivizes behaviors that may destroy the duration of NMDs  |
| <input type="checkbox"/> Identifies break-funding in a timely manner; ALM and FTP adjust accordingly   | <input type="checkbox"/> Cannot identify break-funding; ALM and FTP ignore such events   |

Did you choose Option B for any of your answers? If you didn’t select Option A for every one of your answers, we’d like to speak with you about your NMD model and introduce you to some of our clients who would love to share their stories with you.

*Organizations which recognize that the assumptions around NMD behaviors must acknowledge not only the competitive markets in which they reside but also the construct of compensation schema that influence the behavior of deposit gatherers; if you are only paying for volume, you can’t expect value.*

It is possible to manage deposits in a way that maximizes duration and liquidity value even as interest rates rise. We would love to show you how. Please contact us.