20 True or False

Decide, then check the answer and reason below each statement.

Question 1

Asset liability management is the process by which a bank aligns its sources of funds with its uses of funds.

TRUE

ALM balances deposits, borrowings and capital against loans, investments and cash on the other side of the balance sheet.

Question 2

The Asset Liability Committee (ALCO) is usually chaired by the CEO or a senior executive director of the bank.

TRUE

ALCO is the executive body that owns ALM policy and is typically led by top management.

Question 3

The repricing gap used in interest rate risk analysis is calculated as Rate Sensitive Assets minus Rate Sensitive Liabilities.

TRUE

RSA minus RSL is the standard formula for the repricing gap in the earnings perspective of ALM.

Question 4

A positive repricing gap means that rising interest rates increase a bank's net interest income.

TRUE

When rate sensitive assets exceed rate sensitive liabilities, earnings rise alongside market rates.

Question 5

The Liquidity Coverage Ratio is designed to help a bank survive roughly a 30-day liquidity stress scenario.

TRUE

LCR requires holding enough high quality liquid assets to cover net outflows over a short 30-day stress window.

Question 6

The Net Stable Funding Ratio focuses on funding stability over roughly a one-year horizon.

TRUE

NSFR is the Basel III ratio that promotes stable funding sources across a longer, one-year time frame.

Question 7

Duration gap analysis reflects the economic value perspective of interest rate risk, not just near-term earnings.

TRUE

Duration gap looks at the present value impact on assets and liabilities, unlike the earnings-focused repricing gap.

Question 8

Interest Rate Risk in the Banking Book (IRRBB) captures long-term value effects that a simple repricing gap can miss.

TRUE

IRRBB weighs the timing of all future cash flows through duration, going beyond single-bucket repricing gaps.

Question 9

The structural liquidity statement is a static, point-in-time report, while the dynamic liquidity statement is forward-looking.

TRUE

Structural liquidity maps current cash flows into buckets, while dynamic liquidity projects future business trends.

Question 10

Currency risk in ALM arises when a bank's foreign-currency assets and liabilities are mismatched in size or timing.

TRUE

An unmatched foreign-currency position leaves the bank exposed to exchange rate movements.

Question 11

The stated goal of ALM is to control asset-liability mismatches within tolerable limits rather than remove them completely.

TRUE

Since mismatches are inherent to banking, ALM manages them within board-approved tolerances instead of eliminating them.

Question 12

A floating-rate loan can be classified as rate sensitive even though its final maturity is many years away.

TRUE

Rate sensitivity depends on when an item reprices, not on when it matures, so a long-dated floating loan can still be rate sensitive soon.

Question 13

Asset liability management aims to eliminate every mismatch between a bank's assets and liabilities.

FALSE

ALM aims to measure and control mismatches within limits, not remove them entirely, since some mismatch is inherent to banking.

Question 14

A negative repricing gap means that rising interest rates increase a bank's net interest income.

FALSE

With a negative gap, rate sensitive liabilities exceed rate sensitive assets, so rising rates actually reduce net interest income.

Question 15

The Asset Liability Committee of a bank is chaired by the Reserve Bank of India Governor.

FALSE

ALCO is an internal bank body typically chaired by the bank's own CEO or a senior executive director, not the RBI Governor.

Question 16

Maturity buckets and repricing buckets always represent exactly the same classification for every asset.

FALSE

A long-dated floating-rate loan can reprice soon even though its maturity is far off, so the two buckets can differ.

Question 17

The Liquidity Coverage Ratio is designed to ensure a bank has stable funding over a full one-year horizon.

FALSE

That one-year stable funding objective describes the Net Stable Funding Ratio, while LCR addresses a shorter 30-day stress window.

Question 18

A positive duration gap means a bank's economic value of equity rises when interest rates rise.

FALSE

A positive duration gap actually means economic value of equity falls when interest rates rise, not rises.

Question 19

Duration gap and repricing gap measure exactly the same risk and can be used interchangeably in ALM.

FALSE

Repricing gap protects near-term earnings while duration gap protects longer-term economic value, so they are distinct measures.

Question 20

Banks may treat RBI's asset liability management and IRRBB frameworks as optional guidance they can choose to ignore.

FALSE

The RBI's ALM and IRRBB framework is mandatory for every scheduled commercial bank, not optional guidance.