20 True or False

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

Question 1

Gap in ALM is calculated as Rate Sensitive Assets minus Rate Sensitive Liabilities.

TRUE

This is the standard gap formula used in each time bucket.

Question 2

A positive gap means RSL exceeds RSA in a given bucket.

FALSE

A positive gap actually means RSA exceeds RSL, not the reverse.

Question 3

A positive gap benefits a bank when interest rates rise.

TRUE

With RSA exceeding RSL, asset yields climb faster than funding costs as rates rise.

Question 4

A negative gap benefits a bank when interest rates fall.

TRUE

With RSL exceeding RSA, falling rates reduce funding costs faster than asset income.

Question 5

Change in NII equals Cumulative Gap divided by Change in Interest Rate.

FALSE

The correct formula multiplies Cumulative Gap by Change in Interest Rate by Time Period.

Question 6

The Cumulative Gap is the sum of periodic gaps up to a chosen point in time.

TRUE

Cumulative gap aggregates periodic gaps across buckets up to a given horizon.

Question 7

The Periodic Gap and the Cumulative Gap mean exactly the same thing.

FALSE

Periodic gap is bucket-specific while cumulative gap sums periodic gaps to a point in time.

Question 8

ALCO stands for Asset Liability Committee, the apex body governing ALM decisions.

TRUE

ALCO is the internal committee responsible for ALM oversight in a bank.

Question 9

RBI issued its original ALM guidelines for scheduled commercial banks in 1999.

TRUE

These 1999 guidelines were the starting point later refined by RBI.

Question 10

The Statement of Structural Liquidity focuses on rate-sensitive positions, not cash-flow mismatches.

FALSE

It is the Interest Rate Sensitivity Statement that focuses on rate-sensitive positions; structural liquidity covers cash-flow mismatches.

Question 11

IRRBB stands for Interest Rate Risk in the Banking Book, a Basel III concept.

TRUE

IRRBB extends beyond plain gap analysis to cover NII and EVE sensitivity.

Question 12

LCR requires banks to hold enough High Quality Liquid Assets to survive a 30-day stress scenario.

TRUE

This is the definition of the Liquidity Coverage Ratio under Basel III.

Question 13

NSFR measures funding stability over a one-day horizon.

FALSE

NSFR actually measures funding stability over a one-year horizon, not one day.

Question 14

Behavioural modelling is irrelevant to items like savings deposits since they have fixed maturities.

FALSE

Savings deposits lack contractual maturities, which is exactly why behavioural modelling is used for them.

Question 15

A fixed-rate loan due for repricing within the measurement period is classified as rate insensitive.

FALSE

Such a loan is rate sensitive because its repricing date falls within the measurement period.

Question 16

Repricing risk can arise when long-term fixed-rate loans are funded by short-term deposits.

TRUE

When short-term deposits reprice higher, funding costs can outpace flat loan income.

Question 17

Every scheduled commercial bank in India must run a functioning ALCO.

TRUE

ALCO functioning is a standard regulatory expectation across scheduled commercial banks.

Question 18

A negative cumulative gap combined with a rate rise produces a positive impact on NII.

FALSE

A negative gap with rising rates produces a negative NII impact, not positive.

Question 19

Shortening the maturity of investments is a lever to manage a large negative gap ahead of a rate rise.

TRUE

Shortening investment maturities helps increase short-bucket RSA to counter a negative gap.

Question 20

Market risk in ALM has nothing to do with changes in the value of a bank's investment portfolio.

FALSE

Market risk specifically arises from changes in market value of the bank's portfolio due to price movements.