20 True or False

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

Question 1

ALM stands for Asset Liability Management.

TRUE

It is the process banks use to manage mismatches between assets and liabilities.

Question 2

ALM's core goals include controlling liquidity risk, interest-rate risk, and market risk.

TRUE

These are described as the primary objectives of an effective ALM framework.

Question 3

Banks typically borrow long-term and lend short-term, which is described as the standard structural mismatch.

FALSE

Banks typically borrow short through deposits and lend long through loans, the opposite structure.

Question 4

Gap Analysis compares the timing of asset maturities against liability maturities across time buckets.

TRUE

This helps identify mismatches that could pose liquidity or interest-rate risk.

Question 5

Duration Gap Analysis measures how sensitive assets and liabilities are to interest-rate changes.

TRUE

It estimates how the market value of both sides of the balance sheet shifts when rates move.

Question 6

Stress Testing in ALM is used only to calculate a bank's average daily interest income.

FALSE

Stress Testing simulates extreme scenarios like rate spikes or liquidity crises to check balance-sheet resilience.

Question 7

An interest-rate swap can let a bank exchange fixed-rate liabilities for floating-rate ones.

TRUE

This derivative tool helps banks manage exposure to changing interest rates.

Question 8

ALCO stands for Asset Liability Committee.

TRUE

ALCO is the senior management body responsible for ALM strategy inside a bank.

Question 9

ALM has no role in managing liquidity risk and focuses only on credit risk.

FALSE

ALM primarily manages liquidity risk, interest-rate risk, and market risk, and supports credit risk management.

Question 10

Liquidity risk is the risk of not having enough cash or liquid assets to meet short-term obligations.

TRUE

ALM manages this through maturity structure analysis and liquidity buffers.

Question 11

Interest-rate risk only affects a bank's liabilities and never its assets.

FALSE

Interest-rate risk affects both the earnings and value of a bank's assets and liabilities.

Question 12

Market risk includes losses from changes in exchange rates and commodity prices.

TRUE

ALM monitors this exposure as part of its broader risk management scope.

Question 13

Gap analysis and duration gap analysis measure exactly the same thing with no difference between them.

FALSE

Gap analysis focuses on timing of maturities, while duration gap analysis focuses on value sensitivity to rate changes.

Question 14

Banks may rely on liquidity buffers or the repo market to manage an expected liquidity crunch.

TRUE

These tools help institutions maintain smooth operations during tight liquidity conditions.

Question 15

Confusing liquidity risk with interest-rate risk is listed as a common mistake among ALM students.

TRUE

The two risks are distinct: one concerns meeting obligations on time, the other concerns value and earnings sensitivity.

Question 16

Skipping numerical practice on gap and duration problems is described as a safe strategy for scoring well.

FALSE

Skipping numerical practice is described as a mistake that costs candidates easy marks.

Question 17

ALM is described as a one-time calculation performed only when a bank is first established.

FALSE

ALM is described as a forward-looking, strategic function requiring ongoing monitoring.

Question 18

ALCO is involved in decisions on the pricing of deposits and loans.

TRUE

This pricing role is one of the governance functions performed by the Asset Liability Committee.

Question 19

Regulatory liquidity ratios like LCR and NSFR are described as fixed forever and never revised.

FALSE

Such regulatory thresholds are revised periodically, so current figures should be verified on official sources.

Question 20

The article recommends practicing scenario-based and numerical questions to score well in ALM topics.

TRUE

It highlights that most ALM exam marks come from applying formulas and reasoning through scenarios, not just memorising theory.