20 True or False

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

Question 1

SLR is held by banks in approved liquid assets like G-secs, while CRR is held as cash with the RBI.

TRUE

CRR is a mandatory cash reserve with the RBI; SLR is invested in approved liquid assets on the bank's own books.

Question 2

CRR is held in liquid assets such as G-secs while SLR is deposited as cash with the RBI.

FALSE

This reverses the two ratios: CRR is the cash reserve with RBI and SLR is the liquid-asset requirement.

Question 3

ALM addresses the mismatch in timing and amount between a bank's assets and its liabilities.

TRUE

ALM aligns maturity and rate profiles across the balance sheet to control liquidity and interest-rate risk.

Question 4

The front office of a bank treasury is responsible for settling and confirming trades after execution.

FALSE

Settlement and confirmation are back-office functions, kept separate from the front office that deals.

Question 5

A Vostro account is a bank's own foreign-currency account held with a correspondent bank abroad.

FALSE

That describes a Nostro account; a Vostro account is the local-currency account a correspondent holds for a foreign bank.

Question 6

Held to Maturity (HTM) securities are generally not marked to market since they are meant to be held until redemption.

TRUE

HTM treatment shields reported earnings from short-term price fluctuations in those holdings.

Question 7

Held to Maturity (HTM) securities must be marked to market every reporting period, just like AFS securities.

FALSE

HTM securities are generally exempt from regular mark-to-market, unlike AFS and HFT securities.

Question 8

Banks use derivatives such as forwards, futures, swaps and options to hedge market and interest-rate risk.

TRUE

These instruments let a treasury lock in prices or rates and offset adverse market movements.

Question 9

Stress testing simulates adverse scenarios like recessions or interest-rate spikes to gauge a bank's resilience.

TRUE

It is a forward-looking check on how the balance sheet would perform under shock conditions.

Question 10

ALM is concerned only with a bank's currency exposure and ignores the timing of assets and liabilities.

FALSE

ALM's central concern is precisely the timing and rate mismatch between assets and liabilities, not just currency.

Question 11

Government securities are commonly used to meet SLR requirements because they are low-risk and liquid.

TRUE

G-secs combine safety and liquidity, making them the default SLR-eligible instrument for banks.

Question 12

Corporate bonds and equities are treated as SLR investments for Indian banks.

FALSE

Corporate bonds and equities are non-SLR investments held for yield, not to satisfy the statutory SLR requirement.

Question 13

Liquidity risk refers to a bank being unable to meet its obligations as they fall due.

TRUE

This is the core definition of liquidity risk that treasury liquidity management is designed to prevent.

Question 14

A maturity mismatch arises when a bank's deposits and loans have identical durations, which eliminates liquidity risk.

FALSE

A maturity mismatch actually arises when durations differ, such as short-term deposits funding long-term loans.

Question 15

AFS and HFT categorized investments are subject to periodic mark-to-market valuation.

TRUE

Unlike HTM holdings, Available for Sale and Held for Trading securities are revalued to current market price.

Question 16

Exposure limits are caps set on positions to stop any single risk from growing too large.

TRUE

Limits are a standard risk-control tool used alongside hedging and stress testing.

Question 17

The mid office of a treasury independently monitors risk limits and compliance, separate from the dealing desk.

TRUE

Mid-office independence from the front office is a key internal control in treasury operations.

Question 18

Treasury management deals only with a bank's foreign exchange operations and ignores liquidity or credit risk.

FALSE

Treasury management covers liquidity, ALM, investments, forex and risk management together, not forex alone.

Question 19

Gap analysis and duration are tools used by treasury to assess interest-rate risk in the balance sheet.

TRUE

Both techniques quantify how asset and liability values shift as interest rates change.

Question 20

A bank's treasury front, mid and back office functions are typically merged into one team to save costs.

FALSE

Standard practice segregates front, mid and back office duties to maintain independent risk control and settlement.