Botswana Building Society (BBS) Basel II Pillar III disclosure for the quarter ended 30 September 2017

Contents

1 Risk Management

1.1 Introduction

The Society manages the enterprise wide risks assumed by the Society through the Risk Department. The Society has adopted the Basel II Risk Management Framework for the management of risks it is exposed to. Adoption of this approach is also intended to enhance the Society's management of its capital. The Society is currently exposed, but not limited to the following risks from its use of financial instruments:

- Capital risk
- Credit risk
- Counter party credit risk
- Operational risk
- Liquidity risk

The quantitative and qualitative disclosures of these risk are further disclosed in section 2 of this document.

1.2 Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board is supported by various sub-committees in the execution of its fiduciary duties and oversight of risk.

The Board Sub-committees and Board convene on a quarterly basis. The Board comprises of nine non-executive directors and one executive director.

The Society has in place an enterprise-wide risk framework to ensure alignment to Basel II as well as ensuring that the Society meets best risk management practices.

The Society's risk management policies are established to identify and analyse the risks faced by the Society, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Society through its training and management procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The following committees and departments assist the risk management department in fulfilling its duties:

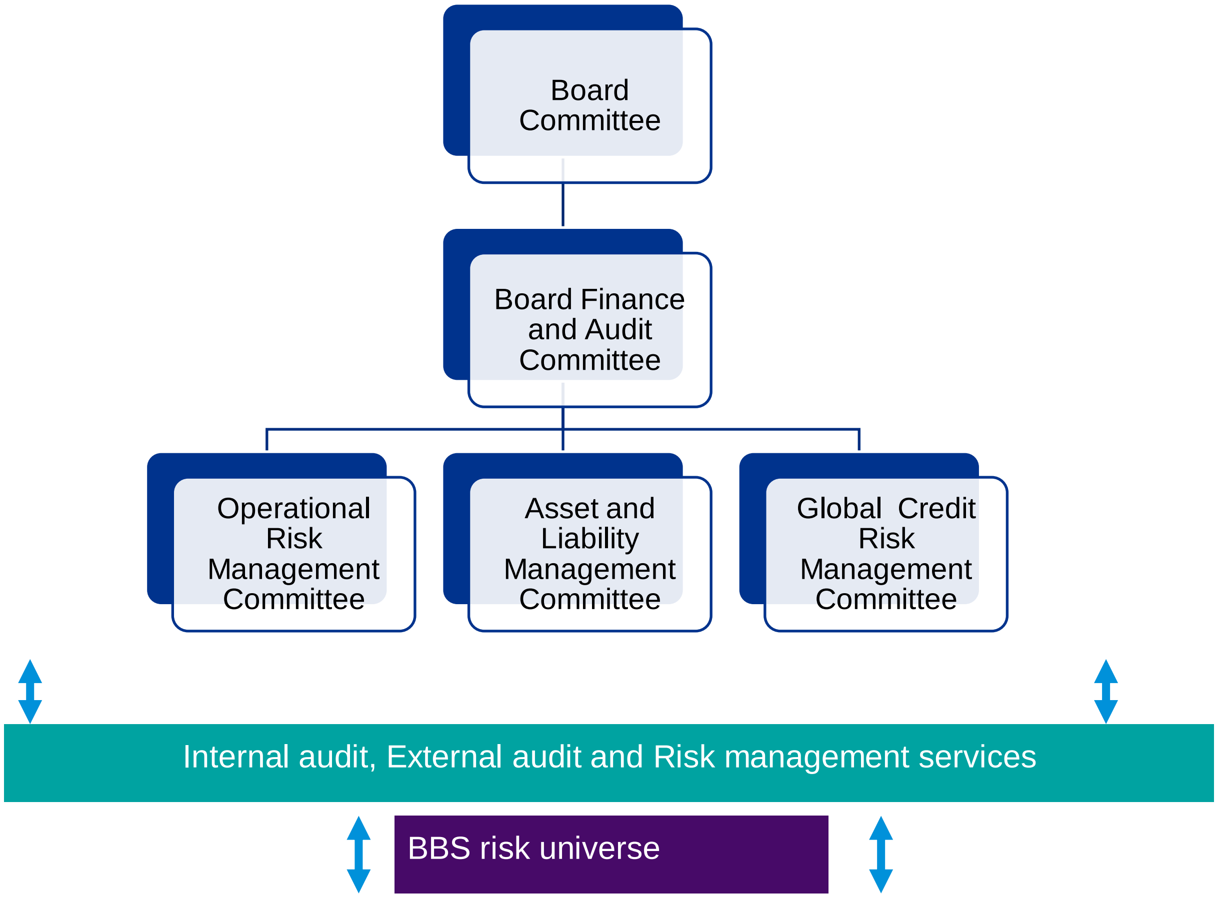
- Operational Risk Management Committee
- Assets and Liabilities Committee
- Credit Approvals Committee ("CAC")
- Enterprise risk management
- Compliance department
- Internal audit department ("IA")

1.3 Reporting of risk

The Board has overall responsibility for risk management and delegates the oversight responsibility for risk management to the Finance and Audit Committee. The Society utilises and firmly applies a holistic and integrated risk management approach. Included in the risk management mechanisms is the principle of “three levels of defense”. Business units and risk management services, together with internal and external audit, participate in the holistic approach to risk management. Each business unit is responsible for its own risk management and the reporting of its risk profile i.e. assessment, monitoring, control or mitigation and corrective action. Policies to address areas of non-compliance must be an agenda item of the Operational Risk Management Committee. In partial fulfilment of that responsibility, the Board approves the overall business strategy, which includes the overall risk policy and management of procedures.

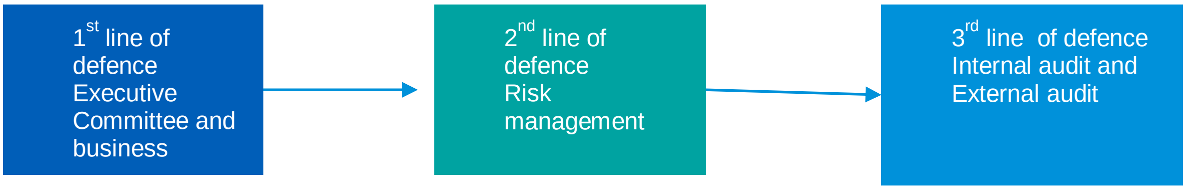
1.4 Risk appetite policy

All risks faced by the Society are reviewed on an annual basis and the major groups of risks (before and after the application of mitigating controls) are set out and described below. Management of the business units and the Society's board are satisfied that these risks are being managed adequately to ensure that the desired outcome is achieved. The diagram below depicts the risk universe faced by the Society, as well as the appropriate level of role and responsibility associated with the specific risk.



Accounting and taxation	Liquidity (concentration)	Market	Business continuity	People and transformation
Compliance	Capital	Operational	Reputational	Social and environmental
New Business	Interest rate	Information technology	Credit (counterparty)	Logistics and merchandising

Through a holistic and integrated risk management approach, the Society has included in the risk management mechanisms a principle of “three levels of defense”. Business units and risk management services, together with internal and external audit, participate in the holistic approach to risk management.



Risk appetite is an articulation and allocation of the risk capacity or quantum of risk the Society is willing to accept in pursuit of its strategy, duly set and monitored quarterly by senior management and the board. Risk appetite is integrated into the strategy, business, risk and capital management plans.

As a general rule the ‘materiality threshold’ the Society applies in its day to day business and risk management is a conservative one, aligned with International Financial Reporting Standards (IFRS) which are used by our external auditors, endorsed by our Finance and Audit Committee.

‘Materiality’ is defined in the following terms: ‘Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful’.

The Society’s risk appetite culture is inherently conservative. We measure and express risk appetite in terms of quantitative risk metrics and qualitatively. The quantitative metrics include earnings at risk (EaR) (or earnings volatility) and related to this, the ‘chance of regulatory insolvency’, ‘chance of experiencing a loss’ and economic capital adequacy. These comprise our ‘risk appetite metrics’. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (e.g. Credit, Market and Asset and liability management (“ALM”) risks.

It is established with reference to the strategic objectives and business plans of the Society, including the achievement of financial targets, payment of dividends, funding of capital growth and maintenance of target capital ratios.

Qualitatively, we also express risk appetite in terms of policies, procedures, statements and controls meant to limit risks that may or may not be quantifiable.

The Societies' risk appetite is defined across five broad categories as set out in our board approved Risk Appetite Framework, namely:

- Core risk appetite metrics;

- Specific risk-type target setting (clarifying across our businesses the mandate levels that are of an appropriate scale relative to the risk and reward of the underlying activities so as to minimise concentrations and other risks that could lead to unexpected losses of a disproportionate scale);
- Stakeholder targets (such as target debt rating for economic capital adequacy and dividend policy);
- Policies, procedures and controls; and
- Zero-tolerance statement

2.1 Regulatory capital and requirements

2.1.1 Qualitative disclosures

To monitor the adequacy of its capital, the Society uses ratios established by the BoB which measure capital adequacy by comparing the Society's eligible capital with its reported assets and commitments at weighted amounts to reflect their relative risk. The regulator has advised all financial institutions to ensure that capital requirements are based on the Basel II framework. The Society started complying with Basel II reporting requirements in January 2016.

The table below shows a summary of the minimum regulatory capital requirements.

Table 2: Capital Adequacy Requirements (all numbers in percent)

	Common Equity Tier1	Additional Tier I	Tier I Capital	Tier II Capital	Total Capital
Minimum	4.5	3	7.5	7.5	15

Regulatory capital is divided into three main categories, namely common equity tier 1 ("CET1"), tier 1 and tier 2 capital as follows:

- Common equity tier 1 capital comprises shareholders' equity and related eligible non-controlling interest after giving effect to deductions for disallowed items (e.g. goodwill and intangible assets) and other adjustments. CET1 Capital must be at least 4.5% of risk-weighted assets, at all times.
- Additional tier 1 capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into common equity tier 1 capital at the point of non-viability of the firm and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interest. The tier I capital ratio shall be calculated as the adjusted Tier I capital, divided by the total risk-weighted assets of the Society. The Tier I capital ratio must be at least 7.5% of risk-weighted assets at all times.
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions. Total capital (tier 1 capital plus tier II capital) to risk-weighted assets must be at least 15% of risk-weighted assets at all times.

For prudential supervisory purposes, Tier 1 capital consists of indefinite period shares together with the general, statutory and retained earnings reserves. The Society's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain growth of the business. The objective is to strike a balance between the higher returns that might be possible with greater earnings and the advantages and security afforded by a sound capital position. The Society is required to hold certain amounts of permanent capital (Indefinite shares) as a proportion of borrowings as per Section 41 of the Building Societies Act. However due to the Society's structure, the capital adequacy ratio is high as a result of the requirements of the Building Societies Act (Section 41) which requires the Society to hold certain amounts of permanent capital (Indefinite shares) as a proportion of borrowings.

Botswana Building Society operates as a mutual body, owned by its members who hold any of the following types of shares:

- Fixed period paid up shares;
- Subscription shares; and
- Indefinite period shares.

For the purpose of calculating capital adequacy ratio only Indefinite period shares qualify as permanent share capital based on their characteristics as governed by the Building Societies Act and the Botswana Building Society's rules.

2.1.2 Quantitative disclosure

The table below reflects the breakdown of the Society's capital and reserves and is in a prescribed format as per the guidelines of the BoB.

Table 3: Basel II Common Equity Tier I Disclosure

Basel III Common Equity Tier I Disclosure Template		
Common Equity Tier I capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	936,749
2	Retained earnings	33,149
3	Accumulated other comprehensive income (and other reserves)	186,364
4	Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 CAPITAL)	-
6	**Common Equity Tier I capital before regulatory adjustments**	**1,156,262**
	Common Equity Tier I capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash-flow hedge reserve	
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined-benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
20	Mortgage servicing rights (amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	

22	Amount exceeding the 15% threshold	
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	8,569
28	Total regulatory adjustments to Common equity Tier I	8,569
29	**Common Equity Tier I capital (CET1 CAPITAL)**	**1,147,693**
	Additional Tier I capital: instruments	
30	Directly issued qualifying Additional Tier I instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier I	
34	Additional Tier I instruments (and CET1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	of which: instruments issued by subsidiaries subject to phase out	
36	Additional Tier I capital before regulatory adjustments	
	Additional Tier I capital: regulatory adjustments	
37	Investments in own Additional Tier I instruments	
38	Reciprocal cross-holdings in Additional Tier I instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% thresh	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	
43	Total regulatory adjustments to Additional Tier I capital	
44	Additional Tier I capital (AT1)	
45	**Tier I capital (T1 = CET1 CAPITAL + AT1)**	**1,147,693**
	Tier II capital: instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier II	
48	Tier II instruments (and CET1 CAPITAL and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	6,708
51	**Tier II capital before regulatory adjustments**	**6,708**
	Tier II capital: regulatory adjustments	
52	Investments in own Tier II instruments	
53	Reciprocal cross-holdings in Tier II instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% thresh	
	Significant investments in the capital banking, financial and insurance entities that are outside the scope of	
55	regulatory consolidation (net of eligible short positions).	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier II capital	
58	**Tier II capital (T2)**	**6,708**
59	**Total capital (TC = T1 + T2)**	**1,154,401**

60	**Total risk-weighted assets**	**1,879,660**
		Capital ratios and buffers
61	**Common Equity Tier I (as a percentage of risk weighted assets)**	61.06%
62	**Tier I (as a percentage of risk-weighted assets)**	61.06%
63	**Total capital (as a percentage of risk weighted assets)**	61.42%
64	Institution specific buffer requirement (minimum CET1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	
65	of which: capital conservation buffer requirement	
66	of which: bank specific countercyclical buffer requirement	
67	of which: G-SIB buffer requirement	
	Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	
	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	
70	National Tier I minimum ratio (if different from Basel III minimum)	
71	National total capital minimum ratio (if different from Basel III minimum)	
	Amounts below the thresholds for deduction (before risk-weighting)	
72	Non-significant investments in the capital of other financials	
73	Significant investments in the common stock of financials	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier II	
76	Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)	
77	Cap on inclusion of provisions in Tier II under standardised approach	
78	Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier II under internal ratings-based approach	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)		
80	Current cap on CET1 CAPITAL instruments subject to phase out arrangements	
81	Amount excluded from CET1 CAPITAL due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

2.2 Credit risk

2.2.1 Qualitative disclosures

Credit risk is the risk of financial loss to the Society if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Society's loans and advances to customers, balances with banks and investments in debt securities. For risk management reporting purposes, the Society considers and consolidates all elements of credit risk exposure (such as individual obligator default risk and sector risk).

For management of credit risk, the Society structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored by the Credit Approvals Committee. The Board approves management's lending limits and monitors loans and advances that are not performing.

The Board of Directors has delegated responsibility for the management of credit risk to Senior Management. The Risk department is responsible for oversight function of the Society's credit risk, which includes the following:

a. Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessments, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

b. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit underwriting unit which reports to the Head of Operations. Commercial facilities require approval by the Credit Approvals Committee and the Global Credit Risk Management Committee. Any loans which are more than 5% of the Society's Unimpaired capital require approval by the Board of Directors.

c. Reviewing and assessing credit risk. The Society assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals of facilities are subject to the same review process.

d. Limiting concentration of exposure to counterparties, geographies and industries (for loans and advances).

e. Developing and maintaining the Society's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The responsibility for setting risk grades lies with the Global Credit Risk Management Committee.

f. Reviewing compliance of business units with agreed exposure limits, including those for sector and individual exposure. Reports are provided to the Board every quarter.

g. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Society in the management of credit risk.

Assets carried at amortized cost

The Society assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets are impaired and impairment losses incurred if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("a loss event") and prior to the financial year-end-date, and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment of financial assets

The Society assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets are impaired and impairment losses incurred if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (“a loss event”) and prior to the financial year-end-date, and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A loan is considered past due in an instance where a customer has not honored their contractual obligations as of due date, to service the principal and interest and therefore the loan falls into arrears.

Past due but not impaired loans

Loans where contractual interest or principal payments are past due but the Society believes that impairment is not appropriate on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Society.

Non-performing loans

Non-performing loans are loans on which an event of default has occurred for 90 days or more consecutively and the loans are not accruing interest or principal repayment. This will trigger an immediate impairment test, to assess the level of impairment allowance required. However, an impairment is not recorded for non-performing loans that are fully secured.

Allowances for impairment

The Society establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are the specific loss component that relates to individually significant exposures, and the collective loan loss allowance established for Society’s homogeneous assets in respect of losses that have been incurred but have not been identified.

Impairment policy

The Society writes off loan balances (and any related allowances for impairment losses) when the Society determines that the loans are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower’s financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to settle the entire exposure.

Based on its past due status, loan balances are classified as either, special mention, substandard, doubtful or loss;

Special mention

Included in the category of special mention are credit exposures in respect of which the obligator is experiencing difficulties that may be a threat to the Society’s Position. Ultimate loss is not expected, but may occur if adverse conditions persists. Loans and advances past due more than 30 days are classified as special mention.

Substandard

Any credit exposure that reflects an underlying, well defined weakness that may lead to probable loss if not corrected should be included in the category of substandard. The risk that such credit exposure may become an impaired asset is probable, and the Society is relying, to a large extend, on available security.

The primary source of repayment are insufficient to service the remaining contractual principal and interest amounts, and the Society has to rely on secondary sources for repayment, which secondary sources may include collateral, the sale of fixed assets, refinancing and further capital. Loans and advances past due more than 60 days are classified as substandard.

Doubtful

Credit exposure in the category of doubtful is considered to be impaired, but is not yet considered final loss due to some pending factors, such as a merger, new financing or capital injection, which factors may strengthen the quality of the relevant exposure.

Doubtful credit exposures exhibit not only all the weaknesses inherent in the credit exposures classified as substandard but also have the added characteristics that the said exposures are not duly secured. The said weaknesses make collection in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is high, but due to certain important and reasonably specific factors that may strengthen the asset, the classification of the asset as an estimated loss is deferred until a more exact status may be determined. Loans and advances past due more than 90 days are classified as doubtful.

Loss

Credit exposures classified as loss are considered to be uncollectable once collection efforts, such as realisation of collateral and institution of legal proceedings, have been unsuccessful. The relevant exposures are considered of such little value that the said exposure should no longer be included in the net assets of the Society. Loans and advances that are past due for more than 120 days are classified as loss.

Credit risk mitigation

Collateral valuation

The Society seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Society’s quarterly reporting schedule. Some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Society uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties including mortgage brokers, housing price indices, audited financial statements and other independent sources.

Main types of collateral

The Society holds collateral against loans and advances to customers in the form of mortgage interests over property, cash and guarantees. Estimates of collateral fair values are assessed at the time of borrowing and are updated every three years, or when a loan is individually assessed as impaired or when the customer requests further facilities against the same bond.

Short term loans

Short term loans are for periods between twelve and sixty months and are secured by shares (being Paid up shares, Subscription shares, Indefinite Period Shares, term deposits, Fixed deposits and Lerako Savings account

2.3 Operational risk

2.3.1 Qualitative disclosures

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Society's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Society's operations and are faced by all business entities. The Society's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Society's reputation with overall cost effectiveness and to avoid control procedures that restricts initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. The Senior Managers are members of the Operational Risk Management Committee which meets on a quarterly basis to consider the consolidated Operational Risk Report and monitor progress on any outstanding matters.

Operational risk capital charge is calculated using the basic indicator approach and is driven by the levels of income over a three-year average period, applying specific factors applicable to the nature of the business generating the income.

2.3.2 Quantitative disclosures

The following table reflects the capital adequacy requirement as per the prescribed guidelines.

Table 6: Quantitative disclosures of operational risk

	Gross income P'000
Total Gross Income for Year 1	184,833
Total Gross Income for Year 2	175,564
Total Gross Income for Year 3	189,460
Aggregate Gross Income	**549,857**
Operational risk weight assets	**184,202**
Operational Risk Capital Charge: BIA	**27,493**

2.4 Liquidity risk

2.4.1 Qualitative disclosures

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations arising from its financial liabilities. The Society's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation. The Society is exposed to daily calls on its available cash resources from deposits, maturing shares and loan draw downs. The Society does maintain cash to meet all these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The Society sets limits on the minimum proportion of maturing funds available to meet such calls and borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The liquidity position of the Society is monitored on a daily basis. For regulatory purposes, the Building Societies Act, Section 42, requires the Society to maintain certain proportions of its liabilities in liquid assets. The Society also submits a monthly report to the Central Bank which includes the liquidity position. Such a position is reflected through the net liquidity gap which reflects the net exposure of assets versus liabilities per the various time bands on a maturity ladder. A net mismatch figure is obtained by subtracting liabilities from assets in each time bucket.