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CASE STUDY BANORTE



Banorte reinforces its methodologies to better align with Interest Rate Risk of the Banking Book Basel Standards

In April 2016, the Basel Committee on Banking Supervision (BCBS) issued the new standards for Interest Rate Risk in the Banking Book (IRRBB) containing the BCBS's expectations in terms of identification, measurement, monitoring, and supervision of IRRBB. As part of the alignment process to the BCBS standards, Banorte has become a pioneer in Mexico by implementing the IRRBB standard and automating the process with a specialized external tool.

BANORTE NOW FOCUSES MORE ON CHANGES IN ECONOMIC VALUE OF EQUITY (EVE)

EVE in Banorte has been aligned with BCBS standards, which gives a whole picture of the bank's current worth and how its value fluctuates along changes in interest rates. EVE includes the impact on capital of both AFS and HTM portfolios which have become more relevant since SVB collapse.



MAIN GOAL: COMPLIANCE WITH BCBS STANDARDS IN EXPECTATION OF IRRBB REGULATION IN MEXICO

Grupo Financiero Banorte is a highly diversified financial group that continuously seeks innovation in the financial sector. Grupo Financiero Banorte's largest subsidiary is Banco Banorte, which is the second largest bank in Mexico in terms of credit portfolio. Banorte is the only local commercial bank, among the six largest banks in Mexico, and therefore the only bank among its peers whose decisions are made locally. The latter has proven to be an advantage in quickly adapting to the changes and opportunities that the financial environment presents.

One of the key ambitions of Banorte is to be spearheading global best practices in risk management, including IRRBB. It is relevant to highlight that local regulation is expected to include IRRBB, thus making Banorte a pioneer in terms of its implementation aligned with BCBS standards.

KEY CHALLENGES AND RELEVANT ASPECTS IN THE IMPLEMENTATION OF THE IRRBB STANDARD



Complex Balance Mgmt

Diversity of balance sheet accounts complicates the measurement of IRRBB



High account volume

Managing a wide range of accounts required customized solutions



Systems integration

Integrating IRRBB standards into existing systems can create compatibility issues



Selection of ALM system

Choosing specialized solution for complex balance calculations was crucial



Calculation automation

Automating EVE and NII calculations reduced manual errors and improved operational efficiency



Monitoring and Reporting

Advanced monitoring and reporting capabilities were essential for effective IRRBB oversight

IRRBB IMPLEMENTATION TUNED TO BANORTE'S AND INTERNATIONAL REGULATORY REQUIREMENTS

The IRRBB implementation was configured according to the size, composition, and complexity of Banorte's balance sheet. This solution stands out mainly for its capacity of:

- Generate both contractual and behavioral (interest and capital) cash flows for a large set of accounts and instruments.
- Setting up and loading macroeconomic scenarios.
- Create economic value of equity and net interest income analysis.
- Generate standard and regulatory reports which helps make better business decisions.
- Analysis de EaR (Earnings at Risk)

Banorte now actively manages its interest rate risk in the banking book. With the implementation, Banorte can monitor its balance structure to see if there is a mismatch in both duration and outstanding, and if it exists, create strategies to naturally or financially hedge it.



BANORTE - FACTS & FIGURES



Approx. 19 million transactions under 6 interest rate scenarios



First local bank to implement IRRBB standard

Main Benefits

Adopt international best practices, with main metrics of IRRBB such as economic value and net interest income measures.

Creation of a consistent definition of CSRBB, its scope, and the development and implementation of the model.

Computation of the economic value of equity (EVE) under the six prescribed scenarios and the assessment of the outcome against the threshold (15% Tier 1 capital).

Integration of input, models and measurements in one tool for better steering of the balance sheet.

Fast results tuned to Banorte's requirements with the ability to manipulate the code in the face of new regulatory requirements that may arise.