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RATING ACTION COMMENTARY

Fitch Revises Ueno Bank's Outlook to Negative; Affirms IDR at 'BB'

Fri 16 Oct, 2026 - 4:17 p.m. ET

Fitch Ratings - Mexico City - 16 Oct 2026: Fitch Ratings has affirmed Ueno Bank S.A.'s (Ueno) Foreign and Local Currency Long-Term Issuer Default Rating (IDR) at 'BB', and its Viability Rating (VR) at 'bb'. Fitch has also affirmed Ueno's Short-Term Foreign and Local Currency IDRs at 'B'. The Government Support Rating (GSR) was upgraded to 'bb-' from 'b+'. The Rating Outlook for the Long-Term IDRs were revised to Negative from Stable.

The Negative Outlook reflects the downside potential for Ueno's capitalization metrics due to rapid balance-sheet growth and high intangible assets that have tightened the bank's loss-absorption capacity. Although Fitch considered the bank's plans to restore its capitalization, the Outlook reflects that a sustained recovery in capitalization remains dependent on successful execution of plans to moderate balance-sheet growth and reduce intangible assets. A revision of the Outlook to Stable would depend on successful execution of these plans and restoration and sustained maintenance of Ueno's Fitch Core Capital ratio above 13%.

KEY RATING DRIVERS

VR Drives IDRs: Ueno's IDRs reflect the bank's intrinsic creditworthiness, as captured by its 'bb' VR. The VR aligns with Ueno's implied VR. Paraguay's positive operating environment (OE), Ueno's expanding franchise and the Central Bank of Paraguay's designation of Ueno as one of the country's four domestic systemically important banks (D-SIB) support the ratings. The VR also reflects sound asset quality, stable profitability and funding and limited headroom in capital ratios.

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30.0 at June 2026. Fitch expects banks to generate consistent business volume, supported by the positive macroeconomic conditions. However, governance and institutional factors remain a weakness in Fitch's assessment of the banking sector.

Business Profile and Corporate Governance: Ueno focuses on retail banking, particularly SMEs, and uses a digital onboarding process to support growth and scale its business model. Fitch's 'bb-' business profile assessment is above the implied category, due to the positive adjustment for Business Model. This reflects the bank's expanding franchise, large customer base and rising revenue, as well as its designation as a D-SIB. Ueno has the largest customer base among Paraguayan banks, with average total operating income (TOI) of USD164 million over the last four fiscal years. The bank held market share of 9.2% in assets, 7.8% in loans and 9.1% in deposits. Fitch expects Ueno to sustain strong customer acquisition and business growth, supporting a continued increase in TOI.

Ueno has been subject to heightened market scrutiny during 2026, particularly regarding related-party transactions, concentration of public-sector funds, accounting practices and certain balance-sheet items. Fitch will continue to monitor these developments and assess any potential implications for the bank's credit profile.

Limited Headroom in Capital Ratios: Ueno's Fitch Core Capital (FCC) ratio was low at 10.3% at both 2Q26 and YE25 after deducting intangibles from reported equity. The YE25 ratio before deducting intangible assets from reported equity was 15.2%. Fitch excludes intangible assets because they do not constitute loss-absorbing capital. Rapid balance-sheet growth and high intangible assets have constrained the enhancement of the bank's loss-absorption capacity. Full-earning retention and continued shareholder support partly offset pressure from assets that do not absorb losses. Fitch expects the FCC ratio to gradually strengthen, supported by moderating balance sheet growth and the progressive amortization of intangible assets. The pace and sustainability of capital strengthening will be key considerations in resolving the Negative Outlook.

Sound Asset Quality: Ueno's asset quality remains sound. Its reported non-performing loan (NPL) ratio was 0.6%, and loan loss reserve coverage was 345.2% at June 2026. Fitch attributes these metrics to 30% loan portfolio growth in 1H26, prudent risk management and the continued gradual absorption of Vision Banco. We expect that as balance-sheet growth moderates to more sustainable levels, the bank's asset quality

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income generation and stable operating efficiency support the ratio. Fitch expects profitability to remain broadly stable, but below that of key domestic peers and regional digital banks due to Ueno's relatively high funding costs. Net interest margins are also likely to remain structurally below those of most local peers. This constrains earnings generation, despite continued business growth.

Stable Funding: The loans-to-deposits ratio increased to 91.9% at 2Q26 from 76.75% at YE25, as loan growth substantially outpaced deposit growth, despite a 10% increase in customer deposits in 1H26. Deposits remain Ueno's main funding source; however, the bank has increasingly supplemented deposits with wholesale borrowings, debt issuance and capital injections. Fitch expects the bank's liquidity profile to benefit from moderation in balance-sheet growth, helping deposit growth keep pace with loan growth. Continued reliance on wholesale and market funding could potentially increase funding costs and refinancing risks.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- The bank does not restore its FCC ratio to consistently above 13%;

-- The operating profit/RWA ratio declines consistently below 1.25%;

-- Evidence of regulatory breaches, sanctions or other events that indicate material weaknesses in governance, compliance or risk control that weaken Fitch's assessment of the bank's business and risk profiles.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Positive rating action on the IDRs and VR would likely require a significant strengthening of Ueno's business profile. This would be reflected in a four-year average TOI consistently above USD300 million, an operating profit/RWA ratio above 4%, and a FCC/RWA ratio above 16% on a sustained basis.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Senior Debt: Ueno's senior unsecured notes are rated at the same level as its Long-Term I
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The upgrade of Ueno's GSR reflects Fitch's view that the systemic importance of the bank has continued increasing. The central bank considers Ueno as a D-SIB. Ueno also has the largest client base in the banking system and makes a substantial contribution to financial inclusion among underserved population segments.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Senior Debt

--Ueno's senior unsecured debt ratings are directly linked to its Long-Term IDR. Negative rating action on the Long-Term IDR would result in a similar rating action on the debt ratings;

GSR

--The GSR could be downgraded if Fitch assesses that the government's propensity to support the bank has declined following a material loss of customer-deposit market share.

VR ADJUSTMENTS

The OE score of 'bb' is above the 'b' category implied score due to the following adjustment reasons: sovereign rating (positive) and economic performance (positive).

The business profile score of 'bb-' is above the 'b & below' category implied score due to the following adjustment reason: business model (positive).

SUMMARY OF FINANCIAL ADJUSTMENTS

For the calculation of Fitch Core Capital, intangible assets were deducted from reported equity as they are not considered loss-absorbing capital. The corresponding amount was also deducted from the denominator to derive adjusted RWAs, as Paraguayan regulation assigns a 100% risk weight to intangible assets.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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impact the bank's exposure to borrowers that are active in agriculture, livestock segments and other vulnerable segments.

Fitch has revised Ueno's ESG Relevance Score to '4' from '3' for Governance Structure, reflecting the Paraguayan regulatory framework, which could heighten risks to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR
Ueno Bank SA	LT IDR	BB Rating Outlook Negative	Affirmed	BB Rating Outlook Stable
	ST IDR	B	Affirmed	B
	LC LT IDR	BB Rating Outlook Negative	Affirmed	BB Rating Outlook Stable
	LC ST IDR	B	Affirmed	B
	Viability	bb	Affirmed	bb

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