RATING REPORT

Damen Support Programme

REPORT DATE:
May 23, 2025

RATING ANALYSTS:
Musaddeq Ahmed Khan
musaddeq@vis.com.pk

RATING DETAILS				
	Current Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity Rating	BBB-	A3	BBB-	A3
Rating Date	May 23, 2025		April 17, 2024	
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION	
Incorporated in 2014	**Board Chairman:** Ms. Naghma Rashid
Company limited by guarantee	**CEO:** Mr. Asghar Ali Memon
	External Auditors: BDO Ebrahim & Co. Chartered Accountants

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Non-Bank Financial Companies
https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Damen Support Programme (DSP)

OVERVIEW OF THE INSTITUTION

Damen Support Programme was incorporated in Pakistan on October 10, 2014, as a non-profit organization under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017). On October 4, 2016, it received a license to conduct Investment Finance services as a Non-Banking Microfinance Company under the Non-Banking Finance Companies Establishment and Regulation Rules, 2003.

Profile of Board Chairman:

Ms. Naghma Rashid holds postgraduate degrees in Public Administration and Educational Planning Management. With over 40 years of experience in education and development, she served as CEO of DAMEN & Damen Support Programme for 32 years, leading its expansion across fourteen districts in Punjab. Overseeing a team of 650 professionals, she advanced women's empowerment through microfinance, entrepreneurship, and collective decision-making. Since retiring in 2020, she has continued as Chairperson of the Board while also serving as a Policy and Risk Advisor, offering her expertise to guide the organization's

RATING RATIONALE

Damen Support Programme ('DSP' or the 'Institution') demonstrates a stable credit profile, supported by a strong control framework, experienced leadership, and commitment to financial inclusion. The institution benefits from a well-structured Board of Directors and senior management team, led by Chairperson Ms. Naghma Rashid and CEO Mr. Asghar Ali Memon, both of whom bring extensive expertise in microfinance and community development. DSP's governance is further reinforced by strong risk management practices, including a disciplined loan approval process and stringent portfolio monitoring, which have contributed to improving asset quality over time.

The Institution's loan portfolio is diversified across sectors such as craftsmanship, trade and livestock, with a focus on group lending to mitigate credit risk, through social guarantees. While the portfolio is predominantly unsecured, DSP's emphasis on repeat borrowers with proven repayment histories enhances its risk management framework. The gradual expansion of Shariah-compliant financing also reflects adaptability to market demands.

DSP maintains a sound liquidity position, with surplus liquidity at hand, and no immediate stress on repayments due. The Institution's capital adequacy remains strong, supported by internal surplus generation and prudent reserve management. Profitability has shown resilience, driven by improved yields on advances and effective cost management, though exposure to foreign currency borrowings introduces some volatility.

Going forward, DSP's ratings will depend on its ability to maintain strong asset quality through continued stringent portfolio monitoring and proactive client engagement. Enhancing profitability via sustainable yield management and cost optimization will also be essential. Moreover, taking proactive measures to mitigate foreign exchange volatility and strengthen capital buffers will be critical to supporting the ratings.

Company Profile

Damen Support Programme originates from Development Action for Mobilization and Emancipation (DAMEN), a non-profit organization established in 1992 under the Societies Registration Act, XXI of 1860. DAMEN was founded by professionals dedicated to grassroots development in Pakistan. In 1996, DAMEN introduced a microcredit program on small scale to promote economic activities within communities, particularly focusing on women's empowerment. Recognizing the need for a better focus on financial inclusion, to create synergies with its social sector programs, attract more donors and investors, and gain greater access to funds from commercial banks, DAMEN spun off its microfinance segment in 2015, establishing DSP as an independent non-profit entity.

DSP remains committed to financial inclusion and the economic uplift of marginalized communities, particularly women. Through microfinance services, vocational training, and *strategic direction and risk management initiatives.*

Profile of CEO:
Mr. Asghar Ali Memon, brings over 25 years of experience in financial services, focusing on financial inclusion and community development. His expertise spans microfinance, credit risk management, institutional governance, and business development. A founding member of Pakistan Microfinance Investment Company (PMIC), he played a key role in scaling its portfolio to PKR 30 billion. At DSP, his strategic leadership has driven financial programs benefiting over a million clients, with a strong focus on women-led and rural communities, reinforcing DSP's commitment to economic inclusion and sustainable development.

capacity-building programs, DSP aims to foster self-reliance and contribute to sustainable development in Pakistan.

Board of Directors & Governance

Name	Position	Experience
Ms. Naghma Rashid	Chairperson	35+ years
Ms. Syeda Shehrbano	Director	22+ years
Mr. Shahzaib Sanwal	Director	12 years
Mr. Wajih Hussain Zaidi	Director	25+ years
Ms. Manal Bakhtiari	Director	15+ years
Ms. Sadaf Rehman	Director	20 years
Mr. Fran Maqsud Mian	Director	20+ years
Mr. Asghar Ali Memon	CEO	25+ years

DSP's Board of Directors (BoD) and senior management possesses significant expertise in microfinance and financial services. The Board currently consists of eight members, with Ms. Naghma Rashid serving as the Chairperson.

During the review period, Mr. Asghar Ali Memon replaced Mr. Musharraf Mahmood Khan as the Chief Executive Officer (CEO). Additionally, the Board inducted two new directors, Mr. Fran Maqsud Mian and Mr. Wajih Hussain Zaidi, who bring over 20 years and 25 years of experience, respectively.

The Board maintains oversight through five Board-level committees: Human Resource & Remuneration Committee, Transformation Committee, Audit Committee, Risk & Compliance Committee, and IT & Digitalization Steering Committee.

Loan Approval & Collection Process

The loan approval process at DSP is structured to ensure comprehensive credit assessment and adherence to internal risk management protocols. The authority for loan approval or rejection rests with the Loan Approval Committee (LAC). A minimum of two members, including the CRO, must approve a loan for it to proceed. In cases of disagreement among LAC members, the FM and CRO jointly re-evaluate the application to reach a unanimous decision. If consensus remains unachieved, the case is escalated to the Area Manager for final review and joint resolution.

All repayments are primarily made through a branchless banking facility, except for the final installment, which may be deposited at the DSP Field Office during banking hours under the supervision of the AO. In the AO's absence, the FM assumes responsibility for collections. LOs or any other field office personnel are strictly prohibited from collecting installments from clients, either at the office or outside, and DSP does not assume liability for any payments made to unauthorized individuals.

Partial payments of loan recoveries are not permitted as a standard practice, except upon express approval of designated authority. In special cases, particularly involving delinquent borrowers, doorstep collection may be arranged. This process requires the presence of two authorized field office staff members, with a duly signed recovery receipt issued to the client. However, cash collection limits in the field are subject to prescribed thresholds set by the finance department.

The collection process further involves systematic data entry and reconciliation. The AO records individual client payments in the Loan Tracking System (LTS), while the FM generates a Daily Recovery Statement (DRS). Reconciliation of cash collections with recovery receipts (Green Copy) is conducted by the FM, ensuring accuracy before depositing funds into designated commercial bank accounts within banking hours. All consolidated cash receipt vouchers are subsequently recorded in the Financial Information System (FIS) by the AO. Additionally, the first installment cannot be collected within the same month of loan disbursement unless explicitly approved by the Regional Manager.

Productivity Analysis

Productivity Indicators	FY22	FY23	FY24	1HFY25
No. of Loan Officers	377	357	375	356
No. of Branches	64	64	64	64
No. of Active Borrowers	129,617	108,599	98,800	95,820
LOs/Branch	5	5	5	5
Active Borrowers/LO	343	304	263	269
Active Borrowers/Branch	2,025	1,696	1,543	1,497
Average Loan Size (Rs.)	67,445	75,771	78,466	81,421

The industry continues to contend with challenges arising from a high attrition rate among LOs. During the review period, the total number of LOs exhibited a fluctuating trend. However, despite these variations, the LOs per branch ratio has remained relatively stable over the years.

Furthermore, the number of active borrowers has declined over time, aligning with the Institution's deliberate consolidation efforts to uphold portfolio quality amid a challenging macroeconomic landscape. This, coupled with a stable branch network, has contributed to a decline in the active borrowers per branch ratio. Meanwhile, the Institution has witnessed a sustained increase in average loan ticket size, reflecting inflationary pressures and to meet borrowers' financing needs effectively. This has improved operational efficiency, as higher loan amounts per borrower enable LOs to maintain overall disbursement with fewer transactions.

Financial Analysis

Credit Risk

<u>Gross Loan Portfolio (GLP)</u>

During FY24, the Gross Loan Portfolio (GLP) increased moderately to Rs. 4.5 bn (FY23: Rs. 4.3 bn), aligning with a decrease in total recoveries to Rs. 7.2 bn (FY23: Rs. 7.4 bn) across the Institution's lending programs. In the first half of the ongoing year, GLP remained stable at Rs. 4.5 bn. Going forward, an improvement in economic conditions is expected to strengthen borrowers' repayment capacity, allowing DSP to expand its lending activities and client base, which is projected at 100,525, with GLP targeted to reach Rs. 5.2 bn by end-FY25. In the interim, GLP expansion will primarily be driven by an increase in average ticket size, reflecting the impact of elevated inflation from the previous year.

Microcredit Portfolio Risk Segregation

Product Mix (Rs. mn)	FY22	%	FY23	%	FY24	%	HFY25	%
General Loans	3,216	73.1%	2,262	52.1%	2,226	49.6%	2,118	47.5%
Business Investment loans	136	3.1%	86	2.0%	76	1.7%	76	1.7%
Enterprise loans	711	16.2%	1,409	32.5%	1,652	36.8%	1,693	37.9%
Agriculture loans	3	0.1%	11	0.2%	6	0.1%	3	0.1%
Murabaha	336	7.6%	374	8.6%	406	9.0%	424	9.5%
Gold loans	0	-	13	0.3%	18	0.4%	19	0.4%
PYMBALS	0	-	184	4.2%	96	2.1%	56	1.3%
Total	**4,401**	**100%**	**4,339**	**100%**	**4,490**	**100%**	**4,462**	**100%**

Enterprise loans grew to Rs. 1.7 bn (Jun'24: Rs. 1.7 bn; Jun'23: Rs. 1.4 bn) by end-Dec'24, driven by an increased volume of repeat borrowers with a demonstrated repayment track record. Additionally, the introduction of the "Damen Loyal Customer" product under the enterprise loan category further supported portfolio expansion, targeting long-standing clients with consistent repayment histories and active borrowing profiles. As a result, enterprise loans accounted for 37.9% of gross advances (Jun'24: 36.8%; Jun'23: 32.5%) as of Dec'24. Meanwhile, DSP has scaled down Agri-based lending due to the inherent bullet repayment structure of such loans.

Segments (Rs. mn)	FY22	%	FY23	%	FY24	%	HFY25	%
Livestock	1,537	34.9%	1,466	33.8%	1,405	31.3%	1,329	29.8%
Tailoring & Clothing	1,697	38.6%	1,653	38.1%	1,869	41.6%	2,039	45.7%
Trading & Business	1,102	25.0%	1,153	26.6%	1,146	25.5%	1,021	22.9%
Handicraft & Embroidery	66	1.5%	68	1.6%	70	1.6%	72	1.6%
Total	**4,401**	**100%**	**4,339**	**100%**	**4,490**	**100%**	**4,462**	**100%**

The increase in advances during the review period was primarily driven by higher lending in the Tailoring & Clothing (T&C) segment, which constituted 45.7% of the overall GLP in 1HFY25 (FY24: 41.6%; FY23: 38.1%). The sectoral composition further highlights a concentrated focus on the T&C and Livestock segments, collectively contributing 75.5% in 1HFY25 (FY24: 72.9%; FY23: 71.9%).

Convt. vs Shariah (Rs. mn)	FY22	%	FY23	%	FY24	%	HFY25	%
Conventional Loans	4,065	92.4%	3,965	91.4%	4,084	91.0%	4,037	90.5%
Shariah Loans	336	7.6%	374	8.6%	406	9.0%	424	9.5%
Total	**4,401**	**100%**	**4,339**	**100%**	**4,490**	**100%**	**4,462**	**100%**

DSP has predominantly relied on conventional financing, with the majority of loans falling under this category throughout the period under review. Nevertheless, the contribution of Shariah loans in the overall GLP has gradually increased, standing at 9.5% (FY24: 9.0%; FY23: 8.6%) during 1HFY25 and stood at Rs. 424.4 mn (Jun'24: Rs. 406.3 mn; Jun'23: Rs. 374.0 mn) as of Dec'24. Islamic products are structured under a Murabaha-based lending framework.

Secured/Unsec (Rs. mn)	FY22	%	FY23	%	FY24	%	HFY25	%
Secured Loans	-	-	13	0.3%	18	0.4%	19	0.4%
Unsecured Loans	4,401	100%	4,326	99.7%	4,473	99.6%	4,443	99.6%
Total	**4,401**	**100%**	**4,339**	**100%**	**4,490**	**100%**	**4,462**	**100%**

Unsecured loans constitute a significant portion of the Institution's loan portfolio, as DSP's clientele primarily consists of low-income individuals who often lack the collateral required for secured lending.

EMI/Bullet (Rs. mn)	FY22	%	FY23	%	FY24	%	HFY25	%
EMI	4,399	99.9%	4,316	99.5%	4,466	99.5%	4,440	99.5%
Bullet	3	0.1%	23	0.5%	24	0.5%	21	0.5%
Total	**4,401**	**100%**	**4,339**	**100%**	**4,490**	**100%**	**4,462**	**100%**

Except for gold-backed product lending, all other offerings by DSP feature monthly repayment schedules, contributing to a consistently high proportion of EMI-based loans in the portfolio over time.

Group/Individual (Rs. mn)	FY22	%	FY23	%	FY24	%	HFY25	%
Group Based	4,030	91.6%	3,997	92.1%	4,198	93.5%	4,237	95.0%
Individual	371	8.4%	342	7.9%	292	6.5%	225	5.0%
Total	**4,401**	**100%**	**4,339**	**100%**	**4,490**	**100%**	**4,462**	**100%**

Aligned with the Institution's policy, group lending has remained the predominant financing model, increasing to 95.0% of total lending in 1HFY25 (FY24: 93.5%; FY23: 92.1%). Each group is formed with a minimum of 3 members. This approach leverages social guarantee pressure to reinforce safeguards against moral hazard and delinquency risks.

Portfolio oversight and credit discipline

Description	FY24 (Rs.)	No. of clients	HFY25 (Rs.)	No. of clients
Upto Rs. 25,000	41,660	2	99,389	7
Rs. 25,000 - Rs. 50,000	419,893,750	15,310	385,846,578	14,107
Rs. 50,000 - Rs. 75,000	1,377,412,177	38,598	1,335,631,157	36,970
Rs. 75,000 - Rs. 100,000	1,138,310,305	24,739	1,085,940,005	23,159
Rs. 100,000 - Rs. 250,000	1,482,132,581	19,776	1,605,504,612	21,214
Rs. 250,001 - Rs. 500,000	72,369,087	375	48,532,925	363
Total	**4,490,159,560**	**98,800**	**4,461,554,666**	**95,820**

During FY24, DSP's average loan size increased to Rs. 78,466 (FY23: Rs. 75,771). The number of clients availing loans in the 'Rs. 75,000 – Rs. 100,000' and 'Rs. 100,000 and Above' categories rose to 24,739 (FY23: 23,150) and 20,151 (FY23: 16,855), respectively. Conversely, the number of clients in the 'Rs. 50,000 – Rs. 75,000' category declined to 38,598 (FY23: 50,386). The uptick in average loan size was driven by a higher proportion of Enterprise loans in the GLP, which fall within the 'Rs. 80,000 – Rs. 350,000' bracket. Loan amounts are gradually increased across successive cycles based on borrowers' repayment histories. While new clients undergo a rigorous onboarding process and are initially offered a predetermined base amount for each product category, DSP's approach during the review period prioritizes extending larger loan sizes to repeat borrowers with established repayment histories rather than lending to new clients.

Asset Quality

Asset Quality (Rs. mn)	FY22	FY23	FY24	HFY25
Gross Advances	4,401	4,339	4,490	4,462
Net Advances	4,273	4,275	4,500	4,467
NPLs	208	120	79	82
NPLs written off	205	213	124	-
Gross Infection	4.7%	2.8%	1.8%	1.8%
Net Infection	1.4%	2.1%	0.8%	0.8%
Incremental Infection	3.1%	2.8%	1.8%	0.1%
General Provisioning Coverage	1.1%	1.7%	0.5%	0.8%
Specific Provisioning Coverage	13.5%	23.4%	56.7%	59.1%

Provisioning (Rs. mn)	FY22	FY23	FY24	HFY25
General Provisioning	21	21	22	33
Specific Provisioning	151	62	45	48
Total Provisioning under NBFC & NE regulations	**172**	**83**	**67**	**81**
Stage 1 Provisioning	25	36	21	-
Stage 2 Provisioning	24	38	17	-
Stage 3 Provisioning	150	28	28	-
Total Provisioning under ECL as per IFRS-9	**199**	**102**	**66**	-

By the end of Jun'24, Non-Performing Loans (NPLs) declined to Rs. 78.8 mn (Jun'23: Rs. 120.1 mn), leading to an improvement in the gross infection ratio to 1.8% in FY24 (FY23: 2.8%). The Institution maintains provisioning for doubtful loans at the higher of applicable regulatory requirements, Expected Credit Losses (ECL), and its internal provisioning threshold. In FY23, the total provisioning under the ECL model (Rs. 102.1 mn) was higher than that recognized under NBFC & NE regulations (Rs. 82.9 mn). As a result, the specific provisioning recorded under IFRS-9 (Rs. 28.1 mn) was used. However, in FY24, provisioning under NBFC & NE regulations (Rs. 66.9 mn) exceeded that under the ECL model (Rs. 66.5 mn). Consequently, the higher specific provisioning of Rs. 44.7 mn under NBFC & NE regulations was recognized. This increase in specific provisioning, combined with lower NPLs, resulted in a decline in the net infection ratio to 0.8% (FY23: 2.1%). The incremental infection[1] ratio also decreased to 1.8% (FY23: 2.8%), while write-offs against provided advances stood at Rs. 124.0 mn (FY23: Rs. 213.4 mn). Specific provisioning coverage increased to 56.7% in FY24 (FY23: 23.4%), whereas general provisioning coverage[2] declined to 0.5% (FY23: 1.7%). Nonetheless, the general provision level remained in compliance with NBFC regulations, which mandate maintaining a minimum general provision of 0.5% on the net outstanding microfinance portfolio.

Moreover, the PAR>29 days ratio improved to 1.8% (FY23: 2.8%), supported by diligent portfolio monitoring and targeted client engagement initiatives. To strengthen portfolio quality, the Institution implemented several risk-mitigation measures. Client education programs were launched, focusing on improving borrowers' financial management capabilities, emphasizing loan repayment schedules and the implications of delays. Refinements in risk management practices included strengthening credit assessment frameworks, implementing closer borrower monitoring,

[1] *Incremental Infection ratio: (∆NPLs + NPLs Written Off) / (Avg. Net Advances + NPLs Written Off)*

[2] *General provisioning coverage: (Stage-1 ECL + Stage-2 ECL)/ (Gross Advances – NPLs)*

and, where necessary, restructuring loans to support clients facing financial constraints. Additionally, targeted support measures, such as flexible repayment plans and refinancing options, were introduced to assist borrowers in financial distress.

During 1HFY25, both the gross and net infection ratios remained stable at 1.8% and 0.8%, respectively, while both specific and general provisioning coverages increased to 59.1% and 0.8%, respectively. These trends reflect a sound portfolio position, with no significant accumulation of credit risk and sufficient buffers against potential losses.

Investment Mix

DSP's investment portfolio is limited and primarily focused on Term Deposit Receipts (TDRs). As of Dec'24, the total principal invested stands at Rs. 137.8 mn (Jun'24: Rs. 137.8 mn; Jun'23: Rs. 89.3 mn). The interest rates on these investments ranges between 10.85% and 12.5%, generating stable returns through low-volatility instruments. The credit risk associated with the investment portfolio is considered minimal, as the invested banks exhibit strong financial stability and favorable credit ratings as of Dec'24. Market risk remains limited due to the short-term nature of the investments, with maturity periods ranging from three months to one year. However, DSP remains exposed to reinvestment risk, as declining interest rates may impact the yields available upon maturity of the current instruments.

Liquidity

DSP's liquidity position has improved over the review period, as indicated by an increase in liquid assets relative to outstanding obligations, reaching 30.9% (FY24: 13.6%; FY23: 9.2%) at the end of 1HFY25. Growth is primarily driven by a credit slowdown, resulting in a higher proportion of funds being held in bank deposits, which stood at Rs. 1,223.5 mn as of Dec'24 (Jun'24: Rs. 375.0 mn; Jun'23: Rs. 250.7 mn), rather than being deployed through loan advances. Consequently, liquid assets in absolute terms increased to Rs. 1,527.4 mn by Dec'24 (Jun'24: Rs. 586.1 mn; Jun'23: Rs. 403.9 mn).

Total borrowings, including markup payable, stood at Rs. 4,820.5 mn (Jun'24: Rs. 4,186.3 mn; Jun'23: Rs. 4,270.0 mn) at the end of Dec'24. A significant portion (~63%) of the borrowings were sourced from the Pakistan Microfinance Investment Company (PMIC). The institution has also secured funding from local banks as well as borrowings from the State Bank of Pakistan (SBP).

In addition to domestic borrowing, DSP has secured foreign currency loans from three international entities. These include two facilities from Blue Orchard totaling $4.0 mn and $1.5 mn (~9% of total borrowings). The $4.0 mn facility has been fully repaid, while the $1.5 mn loan is repayable in three semi-annual installments from Sep'26 to Sep'27. A loan from Symbiotics amounting to $0.75 mn (~5% of total borrowings) is scheduled for repayment in Sep'25. During 1HFY25, the Institution also obtained a $2.0 mn loan from Triple Jump (~12% of total borrowings), with repayments scheduled in 3 tranches till Dec'26. All foreign currency loans are hedged through cross-currency swap agreements, which ensure availability of foreign exchange at maturity and mitigate the risk of losses arising from depreciation of the Pakistani Rupee.

The Institution's leverage increased over the review period, reaching 4.12x (CY23: 3.69x), though it remains well below the regulatory ceiling of 10x. A review of current maturities reveals no immediate liquidity strains. Under current conditions, the Institution's liquidity position appears adequate to support its operational requirements.

Profitability

During FY24, markup earned on advances increased to Rs. 1,750.0 mn (FY23: Rs. 1,513.9 mn), driven by growth in the lending portfolio and a higher yield on advances, which rose to 39.9% (FY23: 35.4%). The increase in yield was primarily attributed to elevated benchmark rates. Similarly, the yield on financial investments and bank placements also improved, standing at 16.8% (FY23: 10.8%) in FY24. Despite a marginal reduction in the borrowing base, finance cost increased to Rs. 887.8 mn (FY23: Rs. 734.3 mn), mainly on account of a rise in the average cost of funding, which climbed to 20.4% (FY23: 17.0%). As a result of the respective movements in income and cost, DSP reported an improved spread of 17.4% (FY23: 16.3%) during FY24.

Given its exposure to foreign currency borrowings, DSP remains susceptible to exchange rate fluctuations. To hedge this risk, the Institution has entered into cross-currency swap agreements that lock in exchange rates for principal repayments and set interest rates on foreign loans. The total cost of the swap—capturing the net impact of mark-to-market adjustments and exchange rate differentials—amounted to Rs. 81.4 mn (FY23: Rs. 23.0 mn) in FY24.

Direct operational costs increased to Rs. 826.7 mn (FY23: Rs. 748.6 mn), largely due to higher employee-related expenses amounting to Rs. 540.6 mn (FY23: Rs. 469.5 mn). Provisioning expenses declined to Rs. 88.8 mn (FY23: Rs. 116.8 mn), while General and administrative expenses rose to Rs. 84.1 mn (FY23: Rs. 73.0 mn). Overall, DSP's profitability improved, with Operational Self-Sufficiency (OSS) ratio remaining stable at 102.6% in FY24, given higher non-recurring income streams.

During 1HFY25, markup earned on advances amounted to Rs. 938.5 mn, supported by a further increase in yield, which rose to 41.9%. However, the yield on financial investments and bank placements declined significantly to 5.2%, reflecting the impact of the lower benchmark rates introduced in 1HFY25. On the funding side, finance costs were recorded at Rs. 428.8 mn, with the cost of funds declining to 18.5%. As a result of the movement in yields, overall spreads slightly contracted to 17.0% during the period. Other income was reported at Rs. 106.2 mn, primarily comprising gains on derivative financial assets, representing a gain compared to net cost observed in FY24. Direct operational expenses amounted to Rs. 480.9 mn, while provisioning expenses stood at Rs. 60.1 mn. General and administrative expenses amounted to Rs. 51.2 mn. Unlike previous years, a tax charge of Rs. 28.4 mn was recorded during 1HFY25. This contributed to a lower surplus for the period, reported at Rs. 20.5 mn. Nevertheless, the Institution's Operational Self-Sufficiency (OSS) ratio further improved to 104.7%, indicating sustained financial sustainability.

Going forward, revenue is expected to rise, underpinned by business expansion initiatives. As the loan portfolio scales, preserving asset quality will be essential for effective credit risk mitigation.

Operating costs are likely to trend upward in line with inflation and operational growth. Profitability stands to benefit if growth targets are achieved and cost pressures remain contained. The trajectory of net earnings will also depend on the renewal of the tax exemption certificate from the Federal Board of Revenue (FBR).

Capitalization

DSP, as a "Limited by Guarantee Company," does not have share capital. By the end of Dec'24, the Institution's total reserve funds had increased to Rs. 1,355.4 mn (Jun'24: Rs. 1,334.9 mn; Jun'23: 1,163.2 mn). This growth was driven by internal surplus generation and a revaluation surplus on property, plant, and equipment. The Endowment Fund includes contributions of Rs. 31.8 mn from the Pakistan Poverty Alleviation Fund (PPAF) and Rs. 88.4 mn from the DAMEN Society.

To reduce reliance on external funding for its microfinance loan portfolio, DSP established a loan revolving fund (reserve), where 60% of the annual surplus is transferred. Additionally, the Institution created a Disaster Relief Fund, allocating 0.5% of the net surplus to cover costs arising from unforeseen events or disasters. A Staff Health Reserve was also introduced, setting aside 0.5% of the annual surplus to cover medical expenses not covered by staff health insurance or when insurance limits are exceeded. Furthermore, 25% of the surplus is allocated to a Transformation and Expansion Fund. To comply with Section 32(3) of the NBFC Regulations, which requires maintaining a special reserve of at least 5% of profit after tax, DSP established a Special Reserve Fund.

As of Dec'24, Tier-1 capital stood at Rs. 1,250.7 mn (Jun'24: Rs. 1,232.2 mn), while total eligible capital was reported at Rs. 1,284.1 mn (Jun'24: Rs. 1,254.4 mn), with Tier-2 capital comprising free and available general provisions. Risk-Weighted Assets (RWAs) amounted to Rs. 5,190.7 mn (Jun'24: Rs. 5,089.7 mn). In terms of capital adequacy, DSP remains in a strong position, with a Capital Adequacy Ratio (CAR) of 24.7% (Jun'24: 24.7%; Jun'23: 23.0%) as of Dec'24 and expected to remain sufficient during the rating horizon.

Damen Support Programme Appendix I

FINANCIAL SUMMARY				*(Rs in millions)*
BALANCE SHEET	**Jun'22**	**Jun'23**	**Jun'24**	**Dec'24**
Operating Fixed Assets	233.62	209.27	296.32	293.99
Net Advances	4,272.52	4,275.10	4,500.03	4,467.37
Short term investments	142.12	89.31	144.06	138.47
Cash and bank balances	369.34	314.60	442.04	1,388.94
Total Assets	5,476.93	5,719.18	5,783.06	6,478.99
Long-term borrowings (Including lease liabilities)	3,704.81	4,392.57	4,304.11	4,941.65
Short-term borrowings	552.87	-	-	-
Total Borrowings	4,257.69	4,392.57	4,304.11	4,941.65
Total Liabilities	4,375.03	4,555.96	4,448.20	5,123.63
Tier-1 Equity	1,051.48	1,113.15	1,204.25	1,232.85
Total Equity	1,101.90	1,163.22	1,334.86	1,355.36
INCOME STATEMENT	**FY22**	**FY23**	**FY24**	**1HFY25**
Net Markup Income	1,268.33	1,558.19	1,822.29	963.09
Net Provisioning / (Reversal)	300.00	116.81	88.78	60.07
Non-Markup Income	417.23	627.02	231.79	106.16
Operating Expenses	1,335.68	1,570.18	1,737.55	1,012.95
Profit/(loss) before tax	24.92	61.32	70.81	20.50
Profit/(loss) after tax	24.92	61.32	70.81	20.50
RATIO ANALYSIS	**FY22**	**FY23**	**FY24**	**1HFY25**
NPLs (Rs. in millions)	208.46	120.13	78.81	81.69
Gross Infection (%)	4.74%	2.77%	1.76%	1.83%
Incremental Infection (%)	3.11%	2.79%	1.83%	0.06%
Net Infection (%)	1.37%	2.13%	0.77%	0.76%
Specific Provisioning Coverage (%)	13.51%	23.44%	56.73%	59.12%
General Provisioning Coverage (%)	1.14%	1.72%	0.50%	0.76%
Net NPL's to Tier-1 Capital	0.92%	1.62%	0.99%	2.71%
Capital Adequacy Ratio (%)	22.00%	23.00%	24.65%	24.74%
Markup on Earning Assets (%)	29.88%	33.26%	37.83%	35.51%*
Cost of Funds (%)	11.63%	16.98%	20.42%	18.55%*
Spreads (%)	18.25%	16.28%	17.41%	16.96%*
OSS (%)	101.16%	102.63%	102.58%	104.74%
ROAA (%)	0.52%	1.10%	1.23%	0.67%*
ROAE (%)	2.29%	5.41%	5.67%	3.05%*
Liquid Assets to Borrowings (%)	12.01%	9.20%	13.62%	30.91%
Leverage (x)	4.16	4.09	3.69	4.16

**Annualized*

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Damen Support Programme				
Sector	Microfinance Institution				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Outlook/ Rating Watch**	**Rating Action**
	Rating Type: Entity				
	23-May-2025	BBB-	A3	Stable	Reaffirmed
	17-Apr-2024	BBB-	A3	Stable	Initial
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	**S.No.**	**Name**	**Designation**	**Date**	
	1.	Mr. Wajid Ali Khan	CFO	24th March 2025	
	2.	Ms. Sadia Ali	Head of Risk		