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AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Yemen Loan Guarantee (YLG) Program

26 December 2022



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Independent Auditor's Report

**To: The Steering Committee
Yemen Loan Guarantee Program
Sana'a - Republic of Yemen**

AuditVisor Company
Member of LEA Global
Ring Road, Balas Building
In front of Al-Jeel Al-
Jadeed Group
P.O. Box: 14366, Sana'a
Republic of Yemen
Tel: +967-1-402157
www.auditvisors.com

Opinion

We have audited the financial statements of Yemen Loan Guarantee (YLG) Program which comprise the statement of financial position at 31 December 2021, the statement of activities, and the statement of cash flows for the year from 1 January 2021 to 31 December 2021, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Program as at 31 December 2021, its financial performance and its cash flows for the year from 1 January 2021 to 31 December 2021, in accordance with International Financial Reporting Standards (IFRSs).

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Program in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

There is a difference of YER 205,280,736 between the balances of outstanding guarantees per YLG records (YER 2,371,599,363) and the balances per confirmations from microfinance institutions (YER 2,576,880,099). The calculation of guarantee issuance fees, accrued guarantee issuance fees, and provision for defaults on loans guaranteed balances depend primarily on this balance although the impact of this difference is not material on the results of this year.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Program's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Program or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Program's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Sana'a - Republic of Yemen

26 December 2022



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Chartered Accountants – License no 1501

Ahmed Al-Khabash

CPA, FCCA, CIA, CISA, CFE, CRMA

Statement of Financial Position

As of 31 December 2021

	Note	2021 YER	2020 YER
Assets			
Current Assets			
Cash and Cash Equivalents	5	4,376,160,334	1,743,842,820
Prepayments and Other Assets	6	56,938,907	7,887,287
Total Current Assets		4,433,099,241	1,751,730,107
Non-Current Assets			
Property, Plant and Equipment	7	21,387,439	19,289,732
Total Non-Current Assets		21,387,439	19,289,732
Total Assets		4,454,486,680	1,771,019,839
Liabilities and Net Assets			
Current Liabilities			
Payables and Accrued Expenses	8	19,433,635	4,261,205
Provisions	9	230,563,706	14,738,293
Conditional Contributions	10	2,850,109,089	320,481,340
Total Current Liabilities		3,100,106,430	339,480,838
Net Assets			
Capital	11	500,000,000	500,000,000
Accumulated Surplus or Deficit		854,380,250	931,539,001
Total Net Assets		1,354,380,250	1,431,539,001
Total Liabilities and Net Assets		4,454,486,680	1,771,019,839

The accompanying notes are an integral part of these financial statements

The financial statements were approved and authorized for issue by the Steering Committee on 21 February 2023.

Finance Manager

Mohammed Bin Khaleefa



Managing Director

Rami Al Sabri

Statement of Activities

For the Year Ended 31 December 2021

	Note	2021 YER	2020 YER
Revenue			
Contributions	12	247,823,021	245,708,245
Guarantee Issuance Fees	13	118,259,167	50,068,103
Other Revenue	14	106,338,203	55,727,060
Total Revenue		472,420,391	351,503,408
Expenses			
Operating Expenses	15	(461,683,203)	(124,294,212)
General and Administrative Expenses	16	(99,589,198)	(83,689,294)
Depreciation	7	(17,326,824)	(16,462,355)
Total Expenses		(578,599,225)	(224,445,861)
Other Gains and Losses			
Exchange Rate Gains		29,253,283	12,215,213
Financing Costs		(233,200)	(411,984)
Surplus or Deficit for the Year		(77,158,751)	138,860,776
Accumulated Surplus or Deficit at the Beginning of the Year		931,539,001	792,678,225
Accumulated Surplus or Deficit at the End of the Year		854,380,250	931,539,001
Net Assets Beginning of Year		500,000,000	500,000,000
Net Assets End of Year		1,354,380,250	1,431,539,001

The accompanying notes are an integral part of these financial statements

Finance Manager

Mohammed Bin Khaleefa

Managing Director

Rami Al-Sabri



Statement of Cash Flows

For the Year Ended 31 December 2021

	2021 YER	2020 YER
Operating Activities		
Changes in Surplus or Deficit for the Year	(77,158,751)	138,860,776
Adjustments to Reconcile Change in Surplus or Deficit for the Year to Net Cash Flows from Operating Activities:		
Depreciation	17,326,824	16,462,355
(Increase) in Prepayments and Other Assets	(49,051,620)	(4,158,387)
Increase (Decrease) in Payables Accrued Expenses	15,172,430	(60,515,185)
Increase (Decrease) in Provisions	215,825,413	(313,740)
Increase (Decrease) in Conditional Contributions	2,529,627,749	(141,734,000)
Net Cash Flows from (Used in) Operating Activities	2,651,742,045	(51,398,181)
Investing Activities		
Purchase of PP&E	(19,424,531)	(3,195,477)
Net Cash Flows Used in Investing Activities	(19,424,531)	(3,195,477)
Increase (Decrease) in Cash and Cash Equivalents	2,632,317,514	(54,593,658)
Cash and Cash Equivalents on 1, January	1,743,842,820	1,798,436,478
Cash and Bank Balances	4,376,160,334	1,743,842,820

The accompanying notes are an integral part of these financial statements.

Finance Manager

Mohammed Bin Khaleefa




Managing Director

Rami Al-Sabri



Notes to Financial Statement

31 December 2021

1 Nature of Operations

Yemen Loan Guarantee Program (YLG) is a not-for-profit program established on July 16, 2017. The Program was established per the administrative decree No (1) of 2017 issued by the CEO of Social Fund for Development in accordance with its regulations.

The address of the Program is Nouakchott Street, behind the Supreme Commission for Election and Referendum- Sana'a Yemen Republic.

Tel: +9671408887

Fax: +9671203317.

The Program main objective is to facilitate financial access for SMEs through the provision of partial loan guarantees to those with insufficient collateral.

The Program strategically aims to:

- Improve the SMEs' economic status.
- Support the expansion and growth of the small and microfinance sector.
- Pioneer a loan guarantee experience for SMEs based on international best practices.
- Establish a more trust-based credit culture in the small and microfinance sector.

2 New Standards, Amendments to Standards, and Interpretations

2.1 New Standards, Amendments to Standards, and Interpretations Effective for Annual Periods Beginning on or After 1 January 2021

The following new standards, amendments to standards, and interpretations are effective for annual periods beginning on 1 January 2021:

- Interest Rate Benchmark Reform - Phase (2) - Amendments to IFRS No. (9), IAS No. (39), IFRS No. (7), IFRS No. (4) And IFRS No. (16) (Effective June 1, 2021).

This standard, amendments to standard, and interpretations do not have a material impact on the Program and so have not been discussed in detail in the notes to the financial statements.

2.2 New Standards, Amendments to Standards, and Interpretations Not Yet Effective for Annual Periods Beginning on or After 1 January 2021

The following standards, amendments to standards, and interpretations are effective in future accounting periods and the Program has decided not to adopt early:

- IFRS No. (17) Insurance Contracts and Amendments thereof (Effective January 1, 2023).
- Classification of Liabilities as Current or Non-Current - Amendments to IAS No. (1) (Effective January 1, 2023).
- Reference to the Conceptual Framework - Amendments to IFRS No. (3) (Effective January 1, 2022).
- Property, Plant and Equipment - Proceeds before Intended Use - Amendments to IAS No. (16) (Effective January 1, 2022).
- Onerous Contracts - Cost of Fulfilling a Contract - Amendments to IAS No. (37) (Effective January 1, 2022).
- Annual Improvements to IFRSs 2018-2020 - IFRS No. (1) First-Time Adoption of IFRS, IFRS No. (9) Financial Instruments, IFRS No. (16) Leases, and IAS No. (41) Agriculture (Effective January 1, 2022).
- Extension of the Temporary Exemption from Applying IFRS No. (9) - Amendments to IFRS No. (4) (Effective June 1, 2023).
- Interest Rate Benchmark Reform - Phase (2) - Amendments to IFRS No. (9), IAS No. (39), IFRS No. (7), IFRS No. (4) and IFRS No. (16) (Effective June 1, 2021).
- Disclosure of Accounting Policies - Amendments to IAS No. (1) and IFRS Practice Statement No. (2) (Effective June 1, 2023).
- Definition of Accounting Estimates - Amendments to IAS No. (8) (Effective June 1, 2023).

These standards, amendments to standards, and interpretations are not expected to have a material impact on the Program.

3 Significant Accounting Policies

3.1 Basis of Preparation and Presentation

The financial statements of Yemen Loan Guarantee Program have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the assumption that the Program operates on a going concern basis.

3.2 Significant Accounting Estimates and Judgments

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of certain estimates. It also requires management to exercise its judgement in the process of applying the Program's accounting policies.

3.3 Summary of Significant Accounting Policies

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the Program's financial statements.

3.3.1 Revenue

3.3.1.1 Contributions

Contributions are classified as:

- Conditional - contributions that contain donor-imposed conditions.
- Unconditional - contributions that do not contain donor-imposed conditions.

Unconditional contributions, including unconditional promises to give, are recognized as revenues in the period received/promised and are reported as increases in net assets.

Conditional contributions are not recognized until the conditions are satisfied or when the likelihood of not meeting the conditions is remote. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are met. Conditional contributions received in advance are recorded as liabilities and are transferred to revenue when conditions are satisfied.

Revenues from sources other than contributions are generally reported as increases in revenues. Contributions of property and equipment without donor-imposed conditions concerning the use of such long-lived assets are reported as unconditional contributions. Contributions of cash or other assets to be used to acquire property and equipment in general (without conditions) are reported as unconditional revenues.

3.3.1.2 Guarantee Fees

Yemen Loan Guarantee Program engages in loan individual guarantee schemes whereby YLG partially guarantees a single loan made by a Partner Microfinance Institution to a single borrower whose identity is known. The individual loan has a maximum tenor of 2 years and ranges between YER 100,000 and YER 12,000,000. In addition, YLG has engaged recently in collective portfolio guarantees whereby YLG partially guarantees collective loan portfolios made by a Partner Microfinance Institution.

YLG charges guarantee fees from Microfinance Institutions for each loan guaranteed. The amount is recognized when the guarantee is issued and paid up within 30 days from the day of issuance. YLG is not obliged to return part of the fees if the amount of the loan is paid by the borrower before the due date or if the borrower defaults on payment. The fee was 1.5% for the period from January 2021 to August 2021 and was changed to 1%. The guarantee coverage of loans ranges between 50% and 80% of the total amount of loan including Murabaha. In addition, YLG charges establishing fees from Microfinance Institutions for each loan portfolio guaranteed. The amount is recognized when the agreement is signed and due for payment on the day of agreement. The establishing fee is 0.5% and the guarantee coverage is 70% of the active financing (principal and Murabaha) of qualifying individual loans up to the guarantee ceiling stipulated in the agreement.

The following table summarizes the products provided along with the guarantee coverage and the desired guarantee fee percentage for individual loan guarantee scheme:

<i>Loan Category</i>	<i>Guarantee Coverage</i>	<i>Guarantee Fee from January 2021 to end of Augusts 2021</i>	<i>Guarantee Fee from September 2021 until end of 2021</i>
Agricultural Loans	70% coverage	1.5%	1%
Startup Loans	60% coverage	1.5%	1%
Normal Loans (Services/Commercial)	50% coverage	1.5%	1%
Tamkeen Loans	80% coverage	1.5%	1%

3.3.1.3 Returns on Investment

YLG has two deposits accounts at the Yemen Commercial Bank with an interest rate of 4% and 5% calculated on a daily basis on the balance of the deposit and credited to the YLG account on a monthly basis. The agreement was effective for the first deposit for a year starting from January 1, 2018, renewable annually upon mutual agreement of both parties. Another agreement for the second deposit was effective for a year starting from September 1, 2021, renewable annually upon mutual agreement of both parties.

YLG has also a deposit account at Alamal Bank with an interest rate of 3.65% calculated on a yearly basis on the balance of the deposit and credited to the YLG account on a yearly basis. The agreement is effective for a year starting from September 1, 2021, renewable annually upon mutual agreement of both parties.

3.3.2 Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand, current accounts, and deposits.

3.3.3 Property, Plant and Equipment

Property, plant and equipment are initially recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life as follows:

Asset:	%
Electrical Equipment	25 %
Furniture and Fixtures	25 %
Computers and Related Equipment	50 %

3.3.4 Provisions

3.3.4.1 Provision for Defaults on Loans Guaranteed

The Program uses the transition matrix of arrears to estimate the probabilities of defaults and calculate the annual provision for defaults. Estimating probabilities are based on data of the last two months of the year and are calculated based on the arrear status of ending balances of loans as of November per each band and the transition between states or bands as a result of subsequent collections or defaults. The following bands are used:

Bands
Current no of Arrears
0 - 30
31 - 60
61 - 90
91 - 120
More than 120

The resultant transition matrix is multiplied by itself many times to obtain the best estimate of lifetime provisioning.

3.3.4.2 Provision for Annual Leaves

The leave allowance is calculated based on the employees' remaining leave balance at the end of the year.

3.3.5 Foreign Currencies

Transactions denominated in foreign currencies are translated into Yemen Riyal and recorded at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of activities.

3.3.6 Fair Value

The fair values of the Program financial instruments are not materially different from their carrying values at the balance sheet date.

4 Issued and Outstanding Guarantees

Loan Category	Issued Loan Guarantees for Basic Products	Issued Loan Guarantees for VOLIP Products	Issued Loan Guarantees for PORTFOLIO Products	Total
	2021	2021	2021	
Opening Balances	1,386,410,190	35,345,358	-	1,421,755,548
*Adjustment in Opening Balances	23,818,513	2,707,984	-	26,526,497
Issued Loan Guarantees during the Year	3,174,453,749	61,435,000	71,237,630	3,307,126,379
Recovered Loan Guarantees during the Year	(2,312,230,356)	(32,686,215)	-	(2,344,916,571)
Defaults during the Year	(36,682,875)	(2,209,613)	-	(38,892,488)
Total	2,235,769,221	64,592,514	71,237,630	2,371,599,365

* A provision has been made for expected default guarantees, as shown in Note No. (9).

5 Cash and Cash Equivalents

This item consists of the following as of 31 December:

	2021 YER	2020 YER
Bank Deposits	4,367,925,672	1,210,053,874
Cash in Bank	8,234,662	533,788,946
Total	4,376,160,334	1,743,842,820

The amount of the deposits as of 31 December 2021 includes the amounts donated to the Program by the Social Development Fund either for the purpose of issuing guarantees or to be used as technical support to the Program. Gains from investments are reinvested in the deposits again. The Program has three main deposits agreements. Two agreements with the Yemeni Commercial Bank and one with Alamal Bank.

6 Prepayments and Other Assets

This item consists of the following as of 31 December:

	<i>Note</i>	2021 YER	2020 YER
Guarantee Fees Receivable	6.1	39,454,447	7,146,835
Investment Returns Receivable - Bank Alamal		15,109,229	-
Prepaid Health Insurance		1,040,957	-
Prepaid Life Insurance		884,574	-
Employees Advances		449,700	-
Cash Margin against Credit Card at Commercial Bank		-	740,452
Total		56,938,907	7,887,287

6.1 Guarantee Fees Receivable

This item consists of the following as of 31 December:

	2021 YER	2020 YER
Basic Programs		
Guarantee Fees Receivable Al-Tadhamon Microfinance Program	22,127,430	2,144,895
Guarantee Fees Receivable Al-Amal Microfinance Bank	8,320,696	2,508,864
Guarantee Fees Receivable Yemen Kuwait Bank	6,263,080	111,150
Guarantee Fees Receivable Al-Etihad Microfinance Program	799,915	-
Guarantee Fees Receivable Al-Kuraimi Microfinance Bank	769,905	356,005
Guarantee Fees Receivable Hadhramout Microfinance Program	641,248	-
Guarantee Fees Receivable National Microfinance Foundation	466,314	2,025,921
Guarantee Fees Receivable Shamil Bank of Yemen and Bahrain	65,859	-
Total	39,454,447	7,146,835

7 Property, Plant and Equipment

This item consists of the following as of 31 December:

	<i>Furniture and Fixtures YER</i>	<i>Computers and Related Equipment YER</i>	<i>Electrical Equipment YER</i>	<i>Right of Use Assets (Office) YER</i>	<i>Total YER</i>
Cost:					
On 1 January 2021	11,542,460	14,233,313	17,647,782	12,821,989	56,245,544
Additions during the Year	-	4,530,703	203,021	14,690,807	19,424,531
Disposals	-	-	-	(12,821,989)	(12,821,989)
On 31 December 2021	11,542,460	18,764,016	17,850,803	14,690,807	62,848,086
Accumulated Depreciation					
On 1 January 2021	(6,973,320)	(11,591,489)	(9,765,233)	(8,625,770)	(36,955,812)
Charge for the Year	(2,885,615)	(3,201,153)	(4,339,458)	(6,900,598)	(17,326,824)
Disposals	-	-	-	12,821,989	12,821,989
On 31 December 2021	(9,858,935)	(14,792,642)	(14,104,691)	(2,704,379)	(41,460,647)
Carrying Value	1,683,525	3,971,374	3,746,112	11,986,428	21,387,439

8 Payables and Accrued Expenses

This item consists of the following as of 31 December:

	<i>Note</i>	<i>2021 YER</i>	<i>2020 YER</i>
Lease Liabilities	8.1	7,415,200	-
Murabaha Fees Payable - VOLIP Program	8.2	6,708,750	-
Salary Payable		2,206,632	-
Audit Fee		1,166,100	3,053,700
Social Security Payable		1,056,959	-
Accrued Consultants' Fees		316,160	-
Payroll Tax Payable		304,029	-
Amounts Due to Social Fund for Development - Health Insurance Paid by the SFD on behalf of the Program		259,805	1,207,505
Total		19,433,635	4,261,205

8.1 Lease Liabilities

The following table shows the details of the lease liabilities for right-of-use assets that are disclosed in the financial position statement:

<i>Right-of-Use Assets</i>	<i>Range of Remaining Term</i>	<i>Average Remaining Lease Term</i>	<i>No. of Leases with Extension Options</i>	<i>No. of Leases with Options to Purchase</i>	<i>No. of Leases with Variable Payments Linked to an Index</i>	<i>No. of Leases with Termination Options</i>
Program Building	20 months	20 months	1	0	0	1

8.2 Murabaha Fees Payable - VOLIP Program

This item consists of the following as of 31 December:

	<i>2021</i>	<i>2020</i>
	<i>YER</i>	<i>YER</i>
Murabaha Fees Payable Al-Etihad Microfinance Program	4,885,000	-
Murabaha Fees Payable Azal Microfinance Program	1,400,000	-
Murabaha Fees Payable Nama Microfinance Foundation	423,750	-
Total	6,708,750	-

9 Provisions

This item consists of the following as of 31 December:

	<i>Note</i>	<i>Provision for Defaults on Loans Guaranteed</i>	<i>Provision for Annual Leaves</i>	<i>Provision for End of Service</i>	<i>Total</i>
		<i>YER</i>	<i>YER</i>		<i>YER</i>
Opening Balance		13,619,141	1,119,152	-	14,738,293
Amount Provided for the Year	15,16	224,313,693	354,068	1,534,504	226,202,265
Amount Paid during the Year		(10,410,831)	-	-	(10,410,831)
Exchange Differences		-	33,979	-	33,979
Closing Balance		227,522,003	1,507,199	1,534,504	230,563,706

Due to the late issuance of the financial statements for the year 2021, the provision for default was calculated based on the actual default cases that occurred during the year 2022.

10 Conditional Contributions

This item consists of the following as of 31 December:

	2021	2020
	YER	YER
Contributions from SFD - Portfolio Program	1,233,486,677	-
Contributions from SFD – FCDO	1,196,000,000	-
Contributions from SFD - VOLIP Program	398,482,048	312,833,050
Contributions from SFD - Operating Expenses	22,140,364	7,648,290
Total	2,850,109,089	320,481,340

11 Capital

This amount represents the amount of capital transferred by the Social Fund for Development (SFD) to the Program in accordance with the SFD's Administrative Decree No. (1) establishing the Program.

12 Contributions

This item consists of the following for the year ended 31 December:

	2021	2020
	YER	YER
Contributions from SFD - Operating Expenses	199,885,192	160,719,304
Contributions from SFD - VOLIP Program	26,259,814	84,988,941
Contributions from SFD - Portfolio Program	21,678,015	-
Total	247,823,021	245,708,245

VOLIP Program

YLG previously signed an agreement with the Social Fund for Development (SFD) to implement two components of the VOLIP (Vocational Literacy Program for Poverty Reduction) program: Capacity Building component and Loan Guarantee component. According to the agreement, YLG fully guaranteed loans made by Microfinance Institutions to individuals. In exchange, YLG received 5% as a guarantee fee on the original amount of the loan (without Murabaha). In 2021, the program signed a new agreement with Social Fund for Development (SFD) with an amount of USD 176,446 to guarantee 82 additional cases, YLG received 5% as a guarantee fee on the original amount of the loan (without Murabaha). In addition, YLG received 10% of the total amount to cover overhead.

Portfolio Program

In 2021, YLG signed an agreement with the Social Fund for Development (SFD) with an amount of USD 2,100,000 to implement the Portfolio Program. According to the agreement, the program will partially guarantee portfolio of loans made by microfinance institutions to individuals. In exchange, YLG received USD 100,000 from SFD to cover the operating expenses. Up to the date of the financial statements, YLG has signed agreements with three microfinance institutions to initiate the guarantee portfolio program. According to the agreements, YLG receives an establishment fee of 0.5% of the portfolio guarantee ceiling amount.

13 Guarantee Issuance Fees

This item consists of the following for the year ended 31 December:

	2021	2020
	YER	YER
Basic Programs		
Guarantee Issuance Fees Al-Tadhamon Microfinance Program	37,449,330	16,777,528
Guarantee Issuance Fees Yemen Kuwait Bank	29,754,652	3,322,841
Guarantee Issuance Fees Al-Kuraimi Microfinance Bank	24,768,775	7,617,587
Guarantee Issuance Fees Al-Amal Microfinance Bank	17,096,387	12,815,329
Guarantee Issuance Fees National Microfinance Foundation	3,435,402	5,162,849
Guarantee Issuance Fees Azal Microfinance Program	842,377	767,982
Guarantee Issuance Fees Al-Etihad Microfinance Program	799,915	981,762
Guarantee Issuance Fees Hadhramout Microfinance Program	641,248	-
Guarantee Issuance Fees Shamil Bank of Yemen and Bahrain	399,331	-
Total	115,187,417	47,445,878
VOLIP Program		
Guarantee Issuance Fee Azal Microfinance Program	1,850,000	-
Guarantee Issuance Fee Al-Etihad Microfinance Program	1,137,000	-
Guarantee Issuance Fee National Microfinance Foundation	84,750	-
Guarantee Issuance Fee Al-Amal Microfinance Bank	-	2,584,644
Guarantee Issuance Fee Al-Tadhamon Microfinance Program	-	37,581
Total	3,071,750	2,622,225
Total	118,259,167	50,068,103

14 Other Revenue

This item consists of the following for the year ended 31 December:

	2021	2020
	YER	YER
Investment Returns on Deposit	105,463,838	54,347,346
Others	874,365	1,379,714
Total	106,338,203	55,727,060

15 Operating Expenses

This item consists of the following for the period ended 31, December:

		2021	2020
	Note	YER	YER
Guarantees Defaults Provision Expenses	9	224,313,693	10,687,545
Guarantees Defaults Expenses		108,876,930	-
Salaries and Wages		87,362,810	71,050,519
*Murabaha Expenses		15,358,750	9,426,488
Travel		10,318,603	247,076

Success Stories Expenses		6,565,176	3,632,138
Professional Fees		5,473,086	-
Field Visits Expenses		1,377,775	4,465,073
Transportation		989,887	-
Training		708,766	949,964
Recruiting		104,382	-
Telecommunication and Internet		79,810	-
Banking Fees		59,083	-
Subscription Fees		50,052	-
Workshops		44,400	-
Capacity Building Expenses		-	23,517,775
Rejection of Borrowing Expenses		-	317,634
Total		461,683,203	124,294,212

* This item represents payments to the microfinance institutions for issuing no-interest loans (Without Murabaha) to the beneficiaries of the VOLIP program. The Program bears the costs of Murabaha on behalf of VOLIP program beneficiaries according to the agreements.

16 General and Administrative Expenses

This item consists of the following for the period ended 31 December:

<i>Item</i>	<i>Note</i>	<i>2021</i>	<i>2020</i>
		<i>YER</i>	<i>YER</i>
Salaries and Wages		60,287,900	47,472,364
Security Services		14,487,795	14,844,010
Professional Fees		11,739,420	9,414,630
End of Service	9	1,534,504	-
Audit Fee		1,453,010	1,122,410
Subscription Fees		1,286,609	863,019
Stationery		1,129,378	1,401,630
Telecommunication and Internet		1,040,452	941,400
Office Supplies		866,990	722,780
Computer Supplies		866,907	100,847
Water		830,915	473,950
Training		780,373	-
Advertising		749,155	-
Travel		611,100	-
Transportation		363,050	987,792
Annual Leaves Provision Expenses	9	354,068	1,267,485
Repairs and Maintenance		325,005	2,841,985
Recruiting		249,345	69,782
Banking Fees		178,219	98,846
Workshops		169,760	270,950
Electrical Supplies		91,500	134,550
Other		193,743	660,864
Total		99,589,198	83,689,294

17 Risk Management and Financial Instruments

17.1 Foreign Currency Risk

The Program receives contributions in US dollar and most of its expenses including guarantees issued to Partner Microfinance Institutes are denominated in YER. Accordingly, any material change in the exchange rates would not expose the Program to a foreign currency risk as the YER Rial has been depreciating against the US dollar since 2015.

17.2 Liquidity Risk

The Program is not exposed to liquidity risk. Its approach to managing liquidity is to ensure that it always has sufficient liquidity to meet its liabilities when they are due. The Program has a highly liquid investment at Yemen Commercial Bank and Alamal Bank in the form of deposits of an amount of USD 7,304,223 at the end of 2021 (equivalent to YER 4,367,925,672 at the year-end exchange rate). The Program has current assets of YER 4,433,099,241 and current liabilities of YER 3,100,106,430 on 31 December 2021.

17.3 Credit and Counterparty Risk

The Program is exposed to credit risk from its operating activities, primarily for guarantees issued to Partner Microfinance Institutions for loans issued, and from its financing activities, primarily cash at bank.

The credit including counterparty risk in relation to the Program operating activity is mitigated through:

- Portfolio diversification by applying caps on sector, Microfinance Institution, geographic location, target segment (Male vs Female).
- Review of applications submitted by Partner Microfinance Institutions including risk analysis and rating for each application.
- Intensive due diligence and follow up of SEEP analysis of Partner Microfinance Institutions.
- Contracts covenants giving the ability to cancel the agreement with a Partner Microfinance Institution if the fees are not paid within 30 days from the issuance of the guarantees, or if the Partner Microfinance Institution does not comply with the Operational Manual of YLG Program including furnishing the Program with SEEP analysis on a regular basis.

In relation to its credit risk arising from its financing activity, the Program has adopted a policy of only dealing with creditworthy counterparties. However, the Program is subject to counterparty risk in relation to its deposits at the Yemen Commercial Bank and Alamal Bank. The Program does not have an investment portfolio and any negative change in the financial position of the banks might expose the Program to a significant risk of non-collection of part or all of its deposits.

17.4 Concentration Risk

YLG Program has a diversified portfolio per geographical area, sector, and Partner Microfinance Institution. Caps and regular monitoring of the portfolio are two mitigation measures to ensure the continuance of diversification. In addition, the Program currently participates in collective loan portfolio guarantee programs.

17.5 Fair Values of Financial Instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash, bank balances, and receivables. Financial liabilities consist of payables. The fair values of the financial assets and liabilities are not materially different from their carrying values.

17.6 Tax Position

The program is exempted from the profit tax as per the Yemeni Income Tax Law No. 17 of 2010. YLG submitted the returns and pay the payroll tax in a timely manner. The Program consistently paid taxes on salaries for the year 2021. However, it has not yet obtained the final settlement for 2021.

17.7 Current Events

The Republic of Yemen has been suffering from political, security, and economic crises since March 2015, which led to a decline in the business and the economic activities in the country. It is difficult to predict the final decision and the effects of the above-mentioned events because these events continue until the date of issuance of the financial statements for the year 2021. The management confirms that it is taking appropriate measures to support the sustainability of the program's operation in the current economic conditions.