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AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Yemen Loan Guarantee (YLG) Program

22 June 2023



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Independent Auditor's Report
To: The Steering Committee
Yemen Loan Guarantee Program
Sana'a - Republic of Yemen

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Opinion

We have audited the financial statements of Yemen Loan Guarantee (YLG) Program which comprise the statement of financial position at 31 December 2022, the statement of activities, and the statement of cash flows for the year from 1 January 2022 to 31 December 2022, 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 2022, its financial performance and its cash flows for the year from 1 January 2022 to 31 December 2022, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 17 in the financial statements. On March 22, 2023, Law No. 4 of 1444 Hijri was issued to prevent usurious transactions. As stated in Note No. 17, this event or condition indicates that a material uncertainty exists that may cast significant doubt on the continuity or the scale of the activities of the Program in the areas covered by the law. Our opinion is not modified in respect of this matter.

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 Program'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 Program'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 Program 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

22 June 2023

AuditVisor..

Chartered Accountants – License no 1501

Ahmed Al-Khalafash

CPA, FCCA, CIA, CIS, CFE, CRMA



Statement of Financial Position

As of 31 December 2022

	Note	2022 YER	2021 YER
Assets			
Current Assets			
Cash and Cash Equivalents	5	5,252,685,999	4,376,160,334
Prepayments and Other Assets	6	74,297,870	56,938,907
Total Current Assets		5,326,983,869	4,433,099,241
Non-Current Assets			
Property, Plant and Equipment	7	9,369,064	21,387,439
Total Non-Current Assets		9,369,064	21,387,439
Total Assets		5,336,352,933	4,454,486,680
Liabilities and Net Assets			
Current Liabilities			
Payables and Accrued Expenses	8	50,383,576	19,433,635
Provisions	9	103,086,297	230,563,706
Conditional Contributions	10	3,603,310,937	2,850,109,089
Total Current Liabilities		3,756,780,810	3,100,106,430
Net Assets			
Capital	11	500,000,000	500,000,000
Accumulated Surplus or Deficit		1,079,572,123	854,380,250
Total Net Assets		1,579,572,123	1,354,380,250
Total Liabilities and Net Assets		5,336,352,933	4,454,486,680

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 9 October 2023

Finance Manager

Mohammed Ahmed Al-Ahdal



Managing Director

Rami Mahmoud Al-Sabri



Statement of Activities

For the Year Ended 31 December 2022

	Note	2022 YER	2021 YER
Revenue			
Contributions	12	339,745,005	247,823,021
Guarantee Issuance Fees	13	66,927,935	118,259,167
Other Revenue	14	301,196,375	106,338,203
Total Revenue		707,869,315	472,420,391
Expenses			
Default on Guarantees' Payment Expenses		-	(108,876,930)
Operating and Administrative Expenses	15	(318,287,998)	(226,193,206)
Provision Expenses	9	(55,317,949)	(226,202,265)
Depreciation	7	(15,115,273)	(17,326,824)
Total Expenses		(388,721,220)	(578,599,225)
Other Gains and Losses			
Exchange Rate Differences		(93,506,622)	29,253,283
Financing Costs		(449,600)	(233,200)
Surplus or Deficit for the Year		225,191,873	(77,158,751)
Accumulated Surplus or Deficit at the Beginning of the Year		854,380,250	931,539,001
Accumulated Surplus or Deficit at the End of the Year		1,079,572,123	854,380,250
Capital		500,000,000	500,000,000
Net Assets End of Year		1,579,572,123	1,354,380,250

The accompanying notes are an integral part of these financial statements

Finance Manager

Mohammed Ahmed Al-Ahdal



Managing Director

Rami Mahmoud Al-Sabri




Statement of Cash Flows

For the Year Ended 31 December 2022

	2022 YER	2021 YER
Operating Activities		
Surplus or Deficit for the Year	225,191,873	(77,158,751)
Adjustments to Reconcile Change in Surplus or Deficit for the Year to Net Cash Flows from Operating Activities:		
Depreciation	15,115,273	17,326,824
(Increase) in Prepayments and Other Assets	(17,358,963)	(49,051,620)
Increase in Payables Accrued Expenses	30,949,941	15,172,430
(Decrease) Increase in Provisions	(127,477,409)	215,825,413
Increase in Conditional Contributions	753,201,848	2,529,627,749
Net Cash Flows from Operating Activities	879,622,563	2,651,742,045
Investing Activities		
Purchase of PP&E	(3,096,898)	(19,424,531)
Net Cash Flows (Used in) Investing Activities	(3,096,898)	(19,424,531)
Increase in Cash and Cash Equivalents	876,525,665	2,632,317,514
Cash and Cash Equivalents on 1, January	4,376,160,334	1,743,842,820
Cash and Bank Balances	5,252,685,999	4,376,160,334

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

Finance Manager

Mohammed Ahmed Al-Ahdal



Managing Director

Rami Mahmoud Al Sabri



Notes to Financial Statement

31 December 2022

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 2022

The following new standards, amendments to standards, and interpretations are effective for annual periods beginning on 1 January 2022:

- Reference to the Conceptual Framework (Amendments to IFRS 3) (Effective January 1, 2022).
- COVID-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16) (Effective April 1, 2021).
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16) (Effective January 1, 2022).
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 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).

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 2022

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 (Effective January 1, 2023).
- Amendments to IFRS 17 'Insurance Contracts' (Amendments to IFRS 17 and IFRS 4) (Effective January 1, 2023).
- Classification of Liabilities as Current or Non-Current - Amendments to IAS No. (1) (Effective January 1, 2023).
- Disclosure of Accounting Policies - Amendments to IAS No. (1) And IFRS Practice Statement No. (2) (Effective June 1, 2023).
- Extension of the Temporary Exemption from Applying IFRS No. (9) - Amendments to IFRS No. (4) (Effective June 1, 2023).
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) (Effective January 1, 2023).
- Definition of Accounting Estimates - Amendments to IAS No. (8) (Effective June 1, 2023).
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) (Effective January 1, 2024).
- Non-current Liabilities with Covenants (Amendments to IAS 1) (Effective January 1, 2024).

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 15,000,000. 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 on 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 Basic Products and 5% for VOLIP Products for the period from January 2021 until August 2021. The fee changed to 1% for Basic Products and 5% for VOLIP Products, the situation remained as is during the year 2022.

YLG charges establishing fees on 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 guarantee coverage of Basic loans ranges between 50% and 80% of the total amount of loan including Murabaha during 2021 (between 50% and 90% During 2022) and VOLIP loans are covered by the total loan amount.

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</i>
Basic Project	50% - 70%	1%
Youth Empowerment Product	80%	1%
Women Empowerment Product	80%	1%
Geo-spread	70%	1%
VOLIP Product	100%	5%

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. The agreements are still valid between the two parties during the year 2022.

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. During the year 2022, a new interest rate has been agreed with the bank which is 4% calculated on a yearly basis on the balance of the deposit and credited to the YLG account.

YLG has also a deposit at Yemen Kuwait Bank with an interest rate of 5.05% 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 November 8, 2022, 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:

<i>Bands</i>
<i>Current no of Arrears</i>
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.



4 Issued and Outstanding Guarantees

<i>Loan Category</i>	<i>Issued Loan Guarantees For Basic Products 2022</i>	<i>Issued Loan Guarantees for VOLIP Products 2022</i>	<i>Issued Loan Guarantees for Portfolio Products 2022</i>	<i>Issued Loan Guarantees for YLG Portfolio Products 2022</i>	<i>Total</i>
Opening Balances Issued Loan Guarantees during the Year	2,235,769,221	64,592,514	71,237,630	-	2,371,599,365
Recovered Loan Guarantees during the Year	2,903,529,156	430,371,700	3,104,660,336	82,291,518.00	6,520,852,711
Defaults during the Year	(2,743,712,919)	(174,785,992)	(1,298,586,860)	(18,858,330)	(4,235,944,101)
	(63,761,198)	(4,495,040)	-	-	(68,256,238)
Total	2,331,824,260	315,683,182	1,877,311,106	63,433,188	4,588,251,737

* 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:

	<i>2022 YER</i>	<i>2021 YER</i>
Bank Deposits	5,150,406,602	4,367,925,672
Cash in Bank	102,279,397	8,234,662
Total	5,252,685,999	4,376,160,334

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 four main deposits agreements. Two agreements with the Yemeni Commercial Bank, one with Alamal Bank, and one with Yemen Kuwait Bank.

6 Prepayments and Other Assets

This item consists of the following as of 31 December:

	<i>Note</i>	<i>2022 YER</i>	<i>2021 YER</i>
Guarantee Fees Receivable	6.1	44,551,260	39,454,447
Investment Returns Receivable		22,353,123	15,109,229
Prepaid Health Insurance		4,185,000	1,040,957
Stationery and Cleaning Inventory		2,140,989	-
Employees Advances		1,067,498	449,700
Prepaid Life Insurance		-	884,574
Total		74,297,870	56,938,907

6.1 Guarantee Fees Receivable

This item consists of the following as of 31 December:

	2022 YER	2021 YER
Basic Programs		
Guarantee Fees Receivable Al-Tadhamon Microfinance Program	17,043,092	22,127,430
Guarantee Fees Receivable Yemen Kuwait Bank	9,219,248	6,263,080
Guarantee Fees Receivable Al-Etihad Microfinance Program	5,500,020	799,915
Guarantee Fees Receivable National Microfinance Foundation	5,114,249	466,314
Guarantee Fees Receivable Azal Microfinance Program	2,896,875	-
Guarantee Fees Receivable Nama'a Microfinance Foundation	2,302,694	-
Guarantee Fees Receivable Al-Kuraimi Microfinance Bank	1,665,284	769,905
Guarantee Fees Receivable Shamil Bank of Yemen and Bahrain	442,573	65,859
Guarantee Fees Receivable Hadhramout Microfinance Program	323,120	641,248
Guarantee Fees Receivable Yemen Kuwait Islamic Bank	37,810	-
Guarantee Fees Receivable Al-Amal Microfinance Bank	6,295	8,320,696
Total	44,551,260	39,454,447

7 Property, Plant and Equipment

This item consists of the following as of 31 December:

	<i>Furniture and Fixtures</i> YER	<i>Computers and Related Equipment</i> YER	<i>Electrical Equipment</i> YER	<i>Right of Use Assets (Office)</i> YER	<i>Total</i> YER
Cost:					
On 1 January 2022	11,542,460	18,764,016	17,850,803	14,690,807	62,848,086
Additions during the Year	663,200	1,663,956	769,741	-	3,096,897
On 31 December 2022	12,205,660	20,427,972	18,620,544	14,690,807	65,944,983
Accumulated Depreciation					
On 1 January 2022	(9,858,935)	(14,792,641)	(14,104,691)	(2,704,379)	(41,460,646)
Charge for the Year	(1,164,309)	(3,237,850)	(3,631,914)	(7,081,200)	(15,115,273)
On 31 December 2022	(11,023,244)	(18,030,491)	(17,736,605)	(9,785,579)	(56,575,919)
Carrying Value	1,182,416	2,397,481	883,939	4,905,228	9,369,064



8 Payables and Accrued Expenses

This item consists of the following as of 31 December:

	Note	2022 YER	2021 YER
Murabaha Fees Payable - VOLIP Program	8.2	34,417,800	6,708,750
Social Security Payable		9,145,726	1,056,959
Amounts Due to Social Fund for Development – Health and Life Insurance Paid by SFD on behalf of the Program		4,444,794	259,805
Salary Payable		1,119,789	2,206,632
Audit Fee		1,088,100	1,166,100
Payroll Tax Payable		167,367	304,029
Lease Liabilities	8.1	-	7,415,200
Accrued Consultants' Fees		-	316,160
Total		50,383,576	19,433,635

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	8 months	8 months	1	-	-	1

8.2 Murabaha Fees Payable - VOLIP Program

This item consists of the following as of 31 December:

	2022 YER	2021 YER
Murabaha Fees Payable Al-Etihad Microfinance Program	18,560,300	4,885,000
Murabaha Fees Payable National Microfinance Foundation	7,900,000	-
Murabaha Fees Payable Azal Microfinance Program	6,250,000	1,400,000
Murabaha Fees Payable Nama Microfinance Foundation	1,707,500	423,750
Total	34,417,800	6,708,750



9 Provisions

This item consists of the following as of 31 December:

	<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>	<i>YER</i>
Opening Balance	227,522,003	1,507,199	1,534,504	230,563,706
Amount recovered from Provisions	(113,000,975)	(1,268,702)	-	(114,269,677)
Amount Provided for the Year	55,317,949	-	-	55,317,949
Amount Paid during the Year	(68,256,238)	(69,413)	-	(68,325,651)
Exchange Differences	-	(97,387)	(102,643)	(200,030)
Closing Balance	101,582,739	71,697	1,431,861	103,086,297

10 Conditional Contributions

This item consists of the following as of 31 December:

	<i>2022</i>	<i>2021</i>
	<i>YER</i>	<i>YER</i>
Contributions from SFD - Portfolio Program	2,243,885,819	1,233,486,677
Contributions from SFD - FCDO	1,116,000,000	1,196,000,000
Contributions from SFD - VOLIP Program	243,425,118	398,482,048
Contributions from SFD - Operating Expenses	-	22,140,364
Total	3,603,310,937	2,850,109,089

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:

	<i>2022</i>	<i>2021</i>
	<i>YER</i>	<i>YER</i>
Contributions from SFD - Operating Expenses	187,028,984	199,885,192
Contributions from SFD - VOLIP Program	129,314,632	26,259,814
Contributions from SFD - Portfolio Program	23,401,389	21,678,015
Total	339,745,005	247,823,021

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. During the year 2022, YLG signed an additional agreement with the Social Fund for Development with an amount of USD 2,000,000 to implement the portfolio program, and it also obtained USD 100,000 to cover the operating expenses. Up to the date of the financial statements, YLG has signed agreements with six 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	2022
	YER	YER
Basic Programs		
Guarantee Issuance Fees Yemen Kuwait Bank	16,705,677	29,754,652
Guarantee Issuance Fees Azal Microfinance Program	12,463,328	842,377
Guarantee Issuance Fees National Microfinance Foundation	9,752,660	3,435,402
Guarantee Issuance Fees Al-Tadhamon Microfinance Program	8,432,512	37,449,330
Guarantee Issuance Fees Al-Kuraimi Microfinance Bank	8,408,421	24,768,775
Guarantee Issuance Fees Al-Etihad Microfinance Program	5,226,065	799,915
Guarantee Issuance Fees Nama'a Microfinance Foundation	4,445,048	
Guarantee Issuance Fees Shamil Bank of Yemen and Bahrain	1,270,437	399,331
Guarantee Issuance Fees Hadhramout Microfinance Program	164,150	641,248
Guarantee Issuance Fees Yemen Kuwait Islamic Bank	37,810	
Guarantee Issuance Fees Al-Amal Microfinance Bank	21,827	17,096,387
Total	66,927,935	115,187,417
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
Total	-	3,071,750
Total	66,927,935	118,259,167

14 Other Revenue

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

	2022	2021
	YER	YER
Investment Returns on Deposit	183,516,330	105,463,838
Recovered from Provisions	114,269,677	-
Recovered from Default Guarantees	1,728,389	-
Others	1,681,979	874,365
Total	301,196,375	106,338,203

15 Operating and Administrative Expenses

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

	2022	2021
	YER	YER
Salaries and Wages	185,259,657	148,004,437
*Murabaha Expenses	88,284,617	15,358,750
Security Services	14,088,880	14,487,795
Travel	8,857,034	10,929,703
Advertising	7,443,992	7,314,331
Telecommunication, Internet, and Water	2,898,770	1,951,177
Subscription Fees	2,501,881	1,573,963
Workshops	2,279,175	1,703,299
Stationery	1,204,506	1,129,378
Repairs and Maintenance	1,197,852	2,150,402
Audit Fee	1,095,900	1,453,010
Professional Fees	1,052,216	17,212,506
Field Visits Expenses	958,173	1,377,775
Transportation	926,476	1,352,937
Other	238,869	193,743
Total	318,287,998	226,193,206

* 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, which is covered from VOLIP contributions.

16 Risk Management and Financial Instruments

16.1 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.

16.2 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 and Yemen Kuwait Bank in the form of deposits of an amount of USD 9,230,119 at the end of 2022 (equivalent to YER 5,150,406,602 at the year-end exchange rate). The Program has current assets of YER 5,326,983,869 and current liabilities of YER 3,756,780,810 on 31 December 2022.

16.3 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. 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.

16.4 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.

16.5 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.

16.6 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 2022. However, it has not yet obtained the final settlement for 2022.

16.7 Current Events

The Republic of Yemen has been suffering from political, security, and economic crises since March 2015, which led to a decline in business and 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 2022. The management confirms that it is taking appropriate measures to support the sustainability of the program's activities in the current economic conditions.

17 Material uncertainty related to going concern

The Program's activity is to guarantee the loans provided by the partner micro-finance institutions to the final beneficiaries in return for Murabaha fees from the Program or the final beneficiaries. On March 22, 2023, Law No. 4 of 1444 Hijri was issued to prevent usurious transactions. This law entails the prohibition of interest in all its forms, including Murabaha fees. This also led banks to stop calculating interest on all their deposits, including the Program deposits.

It should be noted that the law does not cover all geographical areas in the Republic of Yemen, and interest dealing still exists in areas not covered by the law.

The Program is a not-for profit entity that mainly depends on support from the Social Fund for Development in the form of grants to implement projects or cover operating expenses. In addition, the Program has taken some measures to mitigate the effects of the law, including:

- Studying the investment of cash in Islamic deposits to compensate for the interest that was earned.
- The program made a reconnaissance visit to an Islamic country to learn about Islamic guarantee products.
- Some partner financial institutions established Islamic products other than the Murabaha product (e.g., Mosawma), and they were implemented. When comparing the number of guarantees issued during the period from April to August 2023 with the same period last year, it was found that the decrease in the number of guarantees issued amounted to 35%.

