

THE OPEN UNIVERSITY OF SRI LANKA  
BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE IN  
ACCOUNTING AND FINANCE  
FINAL EXAMINATION – 2025  
LEVEL - 05  
AFU5322 –MICROFINANCE  
TIME DURATION- THREE (03) HOURS



---

Date: 21<sup>st</sup> June 2025

Time: 01:30 pm – 04:30 pm

---

**Instructions:**

- Answer five (05) questions only.
- All questions carry equal marks.
- Use of non-programmable calculators is allowed.

**Question No. 1**

- a. Define microfinance and explain how it differs from traditional banking. Use relevant examples to support your answer. **(10 marks)**
- b. Explain the historical evolution of microfinance by highlighting key milestones in its development, major policy shifts, and initiatives that shaped the microfinance industry. **(10 marks)**

**Question No. 2**

- a. “Effective risk management for Microfinance Institutions (MFIs) begins with a comprehensive assessment of potential threats to their operations” Describe the four essential steps involved in the risk management process. **(10 marks)**
- b. Identify and briefly explain four major types of risks faced by Microfinance Institutions (MFIs). **(10 marks)**

**Question No. 3**

- a. “Microfinance has emerged as a powerful tool to address financial exclusion” Do you agree? Explain. **(12 marks)**
- b. Identify the different funding sources available to MFIs, and explain how these sources contribute to their operations and sustainability? **(08 marks)**

**Question No. 4**

- a. Discuss the key risks associated with financial inclusion. **(10 marks)**
  
- b. Explain the three core principles of microfinance product design, and why are they important? **(10 marks)**

**Question No. 5**

- a. Discuss how the use of technology could benefit microfinance institutions and its clients, particularly those in rural areas of Sri Lanka. **(08 marks)**
  
- b. Explain the key challenges faced by Microfinance Institutions (MFIs) in fulfilling their role as financial intermediaries, particularly in today's dynamic economic, social, and regulatory environments. **(12 marks)**

**Question No. 6**

A Microfinance Institution (MFI) has provided the following data extracted from its audited Financial Statements and Loan Portfolio Report for the financial year 2024. You are required to analyze this information to evaluate the performance of the MFI.

**Income Statement Highlights**

Financial income	118,500,000.00
Financial expense	13,500,000.00
Salaries and benefits	38,500,000.00
Other operating expenses	18,500,000.00
Loan loss provision expense	6,500,000.00
Net Income after tax	22,500,000.00

**Balance Sheet Highlights**

Total assets	297,000,000.00
Total equity	98,500,000.00
Total liabilities	198,500,000.00
Loan loss reserves	10,500,000.00

**Loan Portfolio Report Highlights**

Total outstanding loans	248,500,000.00
Value of payments in arrears	12,800,000.00
Amount of loans in arrears	50,500,000.00
Loans written off during the year	3,500,000.00
Total loans disbursed during the year	363,500,000.00
Total number of loans disbursed during the year	9,800

Average loan portfolio	238,500,000.00
Average number of credit officers	32
Average number of active loans	13,000
Average equity	78,500,000.00
Average total assets	273,500,000.00

Using the information provided, calculate the following performance indicators and critically evaluate the MFI's performance in terms of Portfolio quality, Productivity, Efficiency, Financial Viability and Profitability. Show all your workings and formulas used.

Arrears rate (AR), Portfolio at risk (PAR), Loan loss reserve ratio (LLRR), Loan loss ratio (LLR), Average number of active loans per credit officer, Average portfolio per credit officer, Total amount disbursed per period per credit officer, Operating costs ratio, Salaries as a percentage of average portfolio outstanding, Cost per loan made, Spread, Operational self-sufficiency, ROA, ROE, Debt-to-equity ratio.

**(20 Marks)**

***-All Rights Reserved-***