

Sri Lanka: Market evolution and rising opportunity for alternate solutions



SRI LANKA

By Shiraz Refai

In Sri Lanka, a multiethnic and multireligious economy with a significant Muslim minority, Islamic finance has gradually gained ground over the past two decades. The industry's formal emergence began in the late 1990s and expanded after regulatory amendments permitted banks and finance companies to offer services based on Islamic economic principals under the supervision of the Central Bank of Sri Lanka. Key players today include full-fledged Islamic institutions as well as Islamic banking windows and units within mainstream financial organizations.

Current market size and structure

Islamic finance banks and non-banking financial institutions (NBFIs) emphasize ethical, interest-free, risk-sharing, transparent and asset-backed financial solutions such as Murabahah, Mudarabah, Ijarah, Wadiah gold storage facility and diminishing Musharakah.

With recent regulatory developments, interest for the issuance of tradable Sukuk are seen as a trending development. Sri Lanka's overall Islamic financial sector has been steadily growing as well as its banking and NBFI sector with total assets surpassing LKR320 billion (US\$1.03 billion) and liability portfolio exceeding LKR340 billion (US\$1.1 billion) as at December 2025.

Potential for Wadiah gold storage facility

The potential for Wadiah gold storage in Sri Lanka is considerable, given the deep cultural significance and economic value of gold across diverse communities. A transparent and secure gold safekeeping and liquidity solution has the capacity to appeal not only to Muslim customers but also to ethically conscious non-Muslim clients who prioritize asset protection, responsible finance and flexible access to liquidity. By integrating long-standing trust in gold ownership with robust institutional safeguards



such as formal certification and Takaful coverage, Wadiah facilities can contribute meaningfully to financial inclusion and enhance the financial resilience of households and SMEs, particularly during periods of economic uncertainty. The strong market potential of Wadiah gold storage in Sri Lanka is evidenced by the performance of key financial institutions that have successfully scaled this offering. Amana Bank leads the segment with a Wadiah gold portfolio of approximately LKR15 billion (US\$48.5 million), serving over 26,000 customers through its network of 33 branches, demonstrating deep market acceptance and customer trust.

In the NBFI sector, LOLC Al-Falaah has shown robust growth, managing a portfolio of around LKR5.2 billion (US\$16.81 million) for nearly 5,000 customers, supported by an extensive nationwide presence across 210 branches, which has significantly enhanced accessibility and outreach. Complementing these players, People's Leasing & Finance maintains a Wadiah gold portfolio of about LKR1.8 billion (US\$5.82 million), catering to 1,500 customers through 110 branches, underscoring the growing role of NBFIs in expanding gold safekeeping solutions across the country. The sustained growth and expanding customer adoption across leading banks and NBFIs provide

strong validation of Wadiah gold storage as a trusted, market-ready solution with significant potential for further expansion.

In conclusion, the evolution of Islamic finance in Sri Lanka, supported by a sound regulatory framework and increasing market acceptance, has created a strong foundation for the expansion of innovative alternate solutions such as the Wadiah gold storage facility. The demonstrated portfolio growth, broad customer adoption and extensive branch reach of leading banks and NBFIs clearly indicate both market readiness and scalability. As demand for ethical, asset-backed and resilient financial solutions continues to rise, these product solutions are well-positioned to play a strategic role in strengthening financial inclusion, enhancing economic resilience and contributing to the sustainable growth of Sri Lanka's Islamic finance ecosystem. (E)

Source: Compilation of available data on individual Islamic financial institutions – FY 2025/26 ending the 31st December 2025.

Shiraz Refai is the head of alternate financial services at LOLC Finance and head of strategic initiatives, international operations (Middle East & North Africa) at LOLC Holdings. He can be contacted at shirazr@lolc.com.