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Uzbekistan introduces a legislative framework for Islamic banking

APRIL 2026



OVERVIEW

On 27 March 2026, the President of Uzbekistan signed Law No. LRU-1126 (the “**Islamic Banking Law**” or “**IBL**”), marking a historic milestone in the development of Uzbekistan’s financial sector.

The Islamic Banking Law introduces a dual banking system designed to expand the scope of available financial services and introduce innovative banking products aligned with international Islamic finance standards. This framework enables Sharia-compliant financial services to operate concurrently and on equal footing alongside conventional banking¹.

The Islamic Banking Law introduces comprehensive amendments to the Civil Code, Tax Code, Law on the Central Bank, and Law on Banks and Banking Activities. Its primary objective is to diversify financial instruments, attract foreign direct investment from OIC countries, and integrate funds from the shadow economy into the formal banking sector, according to official statements.

The Islamic Banking Law will enter into legal force on 28 June 2026 (three months following its official publication). During this transition period, the Central Bank of Uzbekistan (the “**CBU**”) is expected to issue a series of secondary regulations detailing specific prudential requirements and operational standards Islamic banks and conventional banks running so called “Islamic window”.

Given Uzbekistan’s constitutional status as a secular state, the IBL represents a landmark effort to integrate Sharia-compliant financial concepts into a civil law statutory framework, introducing specialized profit-sharing models while striking a delicate balance between international Islamic finance standards (such as AAOIFI) and national secular legislation.

Beyond its legal significance, in practical terms, the IBL is expected to have broader commercial and economic implications for Uzbekistan’s financial sector. In particular, introduction of IBL may widen access to formal financial services for customer groups that so far remained outside the conventional banking system, for religious or product-structure reason.

Existing market surveys suggest that demand for Islamic finance in Uzbekistan is substantial. IFC’s demand-side assessment indicates that only 37% of respondents in Uzbekistan reported having access to bank accounts in 2017, although this represented an increase from 22.5% in 2011², while according to a survey cited by market participants, 56% of individuals avoid conventional borrowing for religious reasons, while 75% of individuals and 61% of businesses would be willing to use Shariah-compliant financial services if they were available³. The World Bank and Islamic Development Bank report notes that the global Islamic finance industry is valued at nearly USD 4 trillion and Islamic banking and sukuk are increasingly used as sources of funding for infrastructure, sustainable development and various of long-term investment projects⁴.

1. As of 6 April 2026, there are 35 banks, including 1 microfinance bank, operating in Uzbekistan.
2. IFC, *Enhancing Financial Capability and Inclusion in Uzbekistan: A Demand-side Assessment* (June 2020)
3. IMAN annual report page: *IMAN Annual Report 2021*
4. World Bank and Islamic Development Bank, *Islamic Finance and Climate Agenda* (November 2025)

KEY REGULATORY FEATURES

01 | Market Entry: Dual-Licensing and Operational Models

The IBL has introduced a flexible regulatory framework, providing market participants with two distinct operational models for delivering Islamic financial services. These licensing options are available to both conventional commercial banks and microfinance banks:

Two Routes to Market:

- **Full-fledged Islamic banks:** new or existing banks (including microfinance banks) operating exclusively under an Islamic banking license. These institutions would conduct all operations in strict accordance with Islamic finance standards;
- **“Islamic Windows”** (dual-banking license model⁵): conventional commercial banks and microfinance banks may now obtain a separate, additional Islamic banking license, while retaining their existing conventional license. This dual-licensing approach allows to operate “Islamic windows”, offering Sharia-compliant products alongside traditional interest-based services within a single legal entity, provided there is strict functional and financial segregation.

Licensing and Regulatory Review:

To obtain the Islamic banking license (whether for a new Islamic bank or an “Islamic window”), applicants must, among others:

- implement IT and accounting infrastructure that ensures complete segregation of Islamic and conventional funds;
- establish an internal Islamic finance council (the **“Internal Sharia Board”**) and specialized internal audit functions dedicated to Islamic operations; and
- submit a three-year business plan detailing market analysis, financing models, and risk management protocols.

CBU is mandated to review such applications within a fixed period of two (2) months and will maintain a list of banks that have been granted with license on its website.

Branding:

Banks operating solely under an Islamic banking license are granted the right to use the term “Islamic” in their corporate name and branding. To prevent consumer confusion, conventional banks holding both licenses are generally prohibited from using “Islamic” in their primary firm name, though they may use it to describe their specific Sharia-compliant products or services.

02 | Regulatory and Institutional Governance

The IBL establishes a centralized dual-layered Sharia governance framework operating on two interconnected levels: (i) a regulatory level overseen by CBU to ensure national uniformity, and (ii) an entity-level within each bank⁶ to ensure day-to-day compliance.

Centralized Authority: CBU's Islamic Finance Council (the **“Centralised Sharia Board”**) – is the supreme religious-legal authority acting as the governing body authorised for policy development Islamic banking sector.

The Centralised Sharia Board:

- has the exclusive mandate to develop and approve national Islamic financial standards. This should prevent conflicting interpretations between different banks (known as “Shariah arbitrage”).
- is empowered to issue expert opinions on disputes⁷ related to Islamic finance.
- provides official clarifications on contentious issues, ensuring that a product approved at the regulatory level remains legally valid throughout its lifecycle.

Entity-Level: Internal Islamic Finance Councils – Sharia Boards of the banks. To ensure day-to-day operational compliance, every licensed bank must establish an internal Sharia Board.

- The Sharia Board is responsible for the “ex-ante” (prior) approval of all products, contracts, and internal policies. No Islamic financial service can be launched without its formal “fatwa” / certificate of compliance.
- To ensure its functional independence, the Sharia Board operates as an independent vertical within the bank's corporate structure. Its members are elected by and it reports directly to the general meeting of shareholders. Its duties are exclusive and cannot be delegated to the bank's management or other governing bodies.
- All Sharia Board members must meet qualification requirements set by CBU and undergo a formal CBU approval process.

5. The IBL establishes that if the Islamic license is revoked, the conventional bank may continue its operations under its primary license. However, the revocation of the conventional banking license automatically triggers the revocation of the Islamic license (unless the conventional bank is specifically undergoing a pre-approved transformation into a full-fledged Islamic bank).

6. For the purposes of this Alert, any reference to a “bank” from this point forward includes both full-fledged Islamic banks and conventional banks (including microfinance banks) holding a license to perform Islamic banking activities (Islamic windows).

7. The legal status of expert opinions of the Centralised Sharia Board in civil and economic courts remains subject to procedural interpretation. Under current Uzbek procedural codes, these opinions are likely to be treated as expert evidence (expertiza) rather than binding legal precedents or sources. Consequently, in the absence of a Resolution of the Plenum of the Supreme Court of Uzbekistan explicitly mandating courts to follow these opinions, judges may exercise discretion. There remains a risk that courts could prioritize traditional civil law doctrines (e.g., classical contract law principles) over specialized Islamic finance standards when evaluating the validity or enforcement of Sharia-compliant contracts.

03 | Recognition of Islamic Finance Structures

The IBL introduces specific exemptions from general banking prohibitions on commercial activities and equity participation. The IBL explicitly authorizes the following core Islamic finance operations:

- **Profit-Sharing Financing (Mudarabah):** banks can provide financing to clients based on profit-sharing agreements, ensuring mutual benefits for both the bank and the client, as well as attracting funds into investment deposits structured in compliance with Islamic law;
- **Agency Agreements & Investment Deposits (Wakalah):** banks may facilitate fund provision through agency agreements, acting as intermediaries, or attract investments through Islamic-compliant deposit structures that guarantee transparency and fairness;
- **Deferred Payment Sale of Goods (Murabaha):** banks are authorized to finance clients through the sale of goods on credit, with payment deferred in accordance with Shariah-compliant terms, ensuring equity and fairness in every transaction;
- **Advance Payment Financing (Salam):** banks can provide financing via advance payments for goods, establishing an ethical framework for prepayment transactions that aligns with Islamic financial principles;
- **Partnership Financing & Capital Participation (Musharakah):** banks may also engage in financing through joint ventures or partnerships (Mudarabah and Musharakah), or by participating in the charter capital of legal entities, fostering growth and collaboration in a socially responsible manner;
- **Islamic Leasing with Purchase Option (Ijarah):** banks can lease property with the right to purchase, creating flexible opportunities for clients while staying true to Islamic finance principles.

Banks may undertake other Islamic finance operations, provided they adhere to generally accepted international banking practices.

04 | Cross-Legislative Amendments

The reforms introduced by the Islamic Banking Law are implemented through amendments to multiple legislative acts, reflecting a broad and strategic overhaul of key areas of the legal and regulatory framework.

These amendments span across several legislative acts of Uzbekistan, including:

☑ Civil Code: Contractual Recognition

The IBL introduces certain amendments to the Civil Code to accommodate the unique nature of Islamic contracts, which previously faced conflicts with the Civil Code's "interest-only" banking definitions, in particular:

- the classic definition of a bank deposit was limited to a principal amount returned with interest. The IBL expands this by explicitly permitting deposits to be returned with "other income" (profits) or without any return. This creates the necessary legal "room" for Mudarabah (investment) and Qard al-Hasan (interest-free) accounts within the Civil Code framework;
- the IBL introduces flexibility in how a trust manager distributes profits. By adding a similar "unless otherwise provided" clause, the Civil Code may be deemed allowing the customized profit-and-loss sharing ratios essential for "Wakalah" and "Mudarabah" structures, which were previously constrained by standard fiduciary accounting

rules.

☑ Tax Code: Achieving Fiscal Neutrality

To ensure that Islamic products are competitive with conventional ones, the IBL introduces the principle of tax neutrality, eliminating "tax friction" and double taxation:

- mark-ups on goods sold under Murabaha contracts, lease payments under Ijarah (Islamic leasing), transactions related to Islamic securities (certificates) are exempt from VAT. This prevents the "double taxation" typically associated with buy-sell financing structures;
- income earned by individuals from Islamic investment deposits (e.g., Mudarabah) is exempt from personal income tax, placing it on par with interest income from conventional deposits;
- mark-up payments are treated as deductible expenses for corporate clients, and Ijarah is recognized as a financial lease for tax purposes, ensuring no additional tax burden for the bank or the client.

☑ Law on Public Procurement: Operational Flexibility

Banks with a state share of 50% or more are exempt from the public procurement rules specifically for transactions related to Islamic finance operations (e.g., purchasing an asset for a client or managing liquidity).

☑ Law on Deposit Insurance: Enhancing Consumer Trust

The IBL extends the bank-deposits state insurance system to "investment deposits" (e.g., Mudarabah accounts).

☑ Mandatory External Sharia Audit

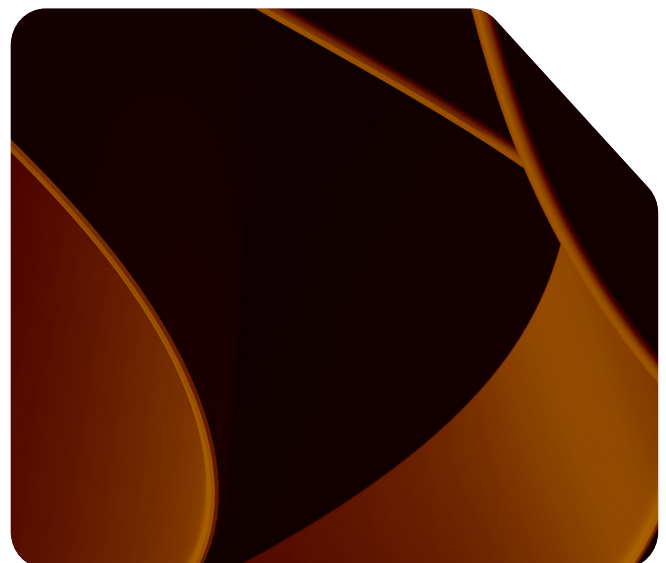
To maintain market integrity and consumer confidence, the IBL introduces a requirement for an annual external audit of Sharia-compliance. Banks must engage independent auditors to certify that their operations and transactions strictly adhere to the approved Islamic finance standards.

☑ Liquidity Management

The IBL empowers CBU to act as a "Lender of Last Resort" for the Islamic banking sector. Amendments to the Law on the Central Bank authorize CBU to provide emergency liquidity support using specialized Islamic financial instruments.

☑ Credit Infrastructure and Transparency

The IBL ensures that Islamic financial transactions are integrated into the national credit reporting system. Credit bureaus are now authorized to collect and process data regarding mark-ups and profit-sharing ratios, ensuring that the credit history of Islamic finance clients is accessible to market participants.



STRATEGIC OUTLOOK FOR INVESTORS

While the practical integration of the IBL is in its formative stage, the current momentum signals a transformative shift in Uzbekistan's financial landscape. This transition period offers a unique strategic window for investors to collaborate with the regulator and other actors with an opportunity to capitalize on significant untapped market potential.

01 | Market Momentum and Scale

CBU anticipates that the reform will attract USD 1 billion in new investments and deposits, primarily by "de-shadowing" the economy by integrating a significant segment of the population and SMEs that have historically avoided conventional banking. The introduction of Sharia-compliant products is expected to mobilize these dormant domestic savings into the formal financial system.

Currently, 10 local banks are reported to proceed with preparing to launch Islamic windows (at least one of them is expected to establish the Islamic window in 2026), and 4-5 foreign financial institutions have already initiated talks to enter the market, according to the CBU. The strategic goal is to establish ten Islamic banks and launch Islamic windows in major state-owned banks by 2030.

02 | Strategic Entry

Strategic investors may view the current "preparatory phase" in 2026 as the critical window for market entry. The IBL provides an important bridge to tap into the vast liquidity of the Middle East, as Sharia-compliant structures are essential for attracting capital from GCC-based sovereign wealth funds and private institutional investors. In particular, new framework may facilitate participation by Islamic banks, funds, development institutions and other investors whose mandates often require Sharia-compliant investment structures.

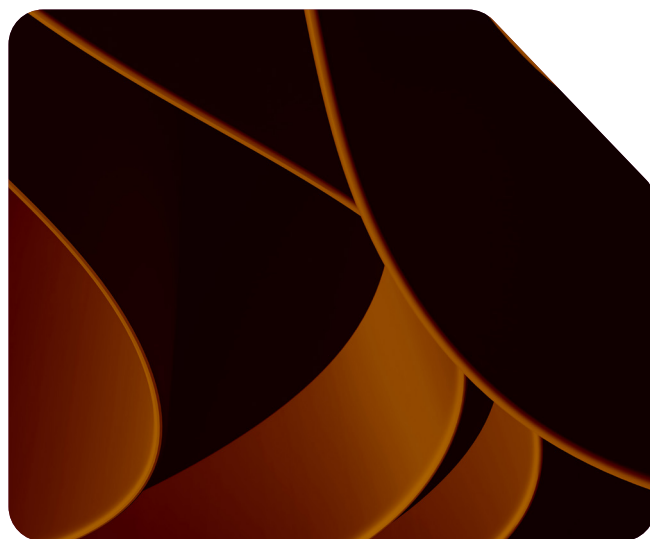
For foreign investors and sponsors, this may also create greater flexibility when designing financing packages, including use of hybrid structures or separate Islamic tranches alongside conventional financing. A recent joint World Bank-Islamic Development Bank report notes that sustainable sukuk issuances in Organization of Islamic Cooperation markets increased from USD 464 million in 2017 to USD 9 billion in 2024, with hybrid structures accounting for a material proportion of such transactions⁸.

03 | Regulatory Dialogue

The CBU has recently demonstrated a high degree of transparency and openness to dialogues and feedback from market participants and international experts.

Pioneering financial institutions appear to have a unique opportunity to engage in a proactive dialogue with the CBU and other authorities. Market participants and pioneering financial institutions may be able to provide valuable input that may be taken into consideration in drafting of secondary regulations and prudential standards, ensuring that the practical implementation of the Islamic finance ecosystem aligns with both international best practices and operational realities.

The IBL empowers the CBU to act as a Sharia-compliant "Lender of Last Resort" by providing emergency liquidity support through specialized Islamic financial instruments. This should provide an additional safety net for the sector, ensuring that Sharia-compliant institutions can be supported based on additional instruments in case of liquidity crises. For strategic investors, this significantly enhances the systemic stability of the dual-banking framework, placing Islamic banking on equal footing with conventional banking in terms of regulatory protection.



8. World Bank and Islamic Development Bank, *Islamic Finance and Climate Agenda* (November 2025)

KEY CONSIDERATIONS AND FURTHER DEVELOPMENT

The IBL is a significant milestone, yet much remains to be done to ensure its effective integration into the national financial system. We have identified below the key legal and operational considerations in this regard.

01 | Regulatory Gaps and Secondary Legislation

The IBL is a framework document that delegates significant authority to CBU. The industry's success depends on the timely adoption of detailed secondary regulations by CBU. Key areas awaiting clarification include specialized prudential ratios, specific liquidity requirements for "Islamic windows", and standardized accounting treatments.

02 | Liquidity and the Interbank Market

Unlike more mature markets (e.g., Malaysia), Uzbekistan, due to its historic traditions and peculiarities of its financial system, currently lacks a functional Islamic interbank money market. Pioneering financial institutions and users of Sharia-compliant financings may face challenges in managing short-term liquidity, as traditional interest-based interbank lending is prohibited under Islamic finance standards. The effectiveness of CBU's new role as a "Lender of Last Resort" through Sharia-compliant tools will be critical for systemic stability.

03 | Insolvency and Asset Protection

In an insolvency scenario, the distinction between "legal title" and "beneficial ownership" in Islamic structures (like *Ijarah* or *Murabaha*) is yet to be tested by Uzbek courts within insolvency cases. Clarity is required to ensure that assets held by the bank for the purpose of a transaction are properly protected and do not inadvertently become part of the general liquidation estate.

04 | Judicial Interpretation and Contractual Enforcement

The interaction between specialized Islamic finance standards and Uzbekistan's established civil law tradition represents an area of uncertainty:

Procedural Status of Centralised Sharia Board's Opinion

Although the Centralised Sharia Board is empowered to issue opinions on disputes, their legal weight in civil and economic courts is currently unclear. These opinions may be treated merely as expert opinion / testimony rather than binding legal interpretations. To mitigate this risk, it is essential to enhance

Uzbek judges' specialized knowledge through targeted capacity-building programs. Notably, Uzbekistan already possesses a growing pool of local Sharia finance experts who can provide the necessary technical support to courts;

Arbitrability of Commercial Disputes

Commercial Islamic finance disputes are generally arbitrable in Uzbekistan. Given the potential for conflict between traditional civil law doctrines and Islamic structures (e.g., ownership rights in *Ijarah*), market participants have two primary strategic options:

- international arbitration: institutions such as Tashkent International Arbitration Centre (TIAC) could play a pivotal role by attracting expert arbitrators who are specialized in Sharia law and/or international Islamic finance standards (e.g. AAOIFI standards); and
- domestic arbitration courts [in Uzbek: *hakamlik sudlari*]: under Uzbek law, commercial banks are permitted to establish their own permanent domestic arbitration courts. This provides a unique opportunity to create specialized dispute resolution forums with arbitrators who possess deep technical expertise in Islamic finance and Sharia law, ensuring that the Sharia-compliant nature of contracts is respected during enforcement;

Supreme Court Guidance

In absence of a Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan⁹, judges may exercise broad discretion. There is a potential for conflict where courts may prioritize traditional civil law doctrines (e.g., in the assessment of damages or the interpretation of ownership in *Ijarah*) over specialized Sharia-compliant contractual structures;

Tax Verification of Penalties

Islamic finance contracts often direct late-payment penalties to charity to avoid "interest". Whether Uzbek courts will recognize and enforce such specific "charitable penalty" clauses, or re-characterize them under standard Civil Code rules on liquidated damages, remains untested. Further, such structures might have tax implications: as charitable contributions are generally treated as non-deductible expenses for corporate income tax purposes, the banks may be required to pay tax on these penalty amounts, leading to an additional tax burden on funds they do not retain¹⁰. It is expected that tax authorities will provide guidelines on these matters.

05 | Framework for Islamic Securities and Sukuk

The IBL does not clarify the concept of "Islamic securities (certificates)", despite the Tax Code is being amended to provide specific exemptions for such securities. Currently, the Law "On the Securities Market" does not recognize Islamic instruments, creating a temporary legal gap for their issuance and trading within Uzbekistan.

9. Without a dedicated Resolution of the Plenum of the Supreme Court explicitly mandating that courts follow the Centralised Sharia Board's interpretations as a primary source for Sharia-compliant matters, courts may deviate from specialized standards in favor of classical "contractual freedom" or "penalty reduction" principles found in the Civil Code.

10. This alert provides a legal overview and does not address the full spectrum of tax or accounting complexities.

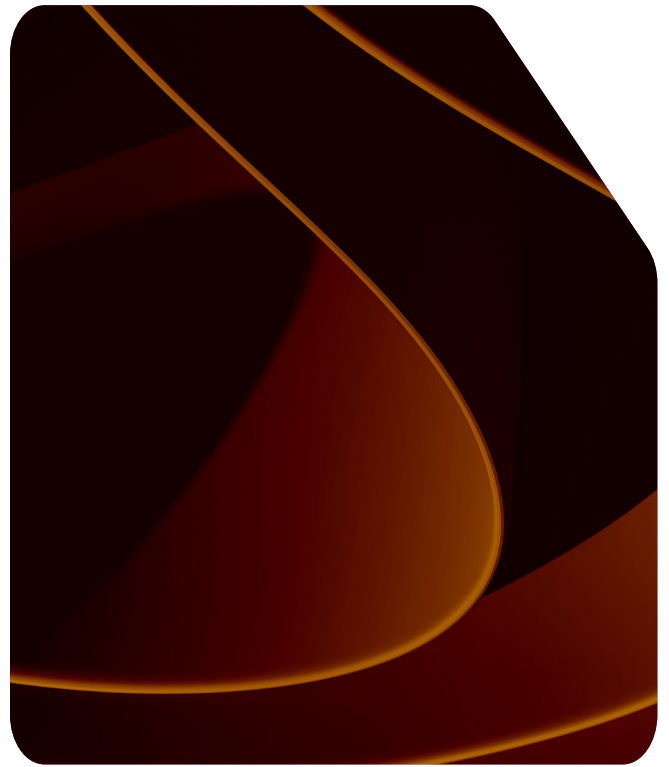
Parallel work is being conducted, at the Uzbek Government level, to amend the Law “On the Securities Market” to incorporate the necessary legal definitions for Sharia-compliant instruments.

Further, a draft regulatory act specifically governing Sukuk (Islamic bonds) is currently under development. This standalone law is expected to provide a comprehensive framework for asset-backed financing, SPV (Special Purpose Vehicle) structures, and investor protection mechanisms essential for a functioning Islamic capital market.

06 | Human Capital

CBU has identified staff training and professional expertise as one of the priorities for 2026. A successful integration of Islamic finance would require a comprehensive enhancement of human capital across the entire ecosystem – extending from CBU and commercial banks¹¹ to external auditors, legal consultants, and the general population at large.

Further, the cost of training personnel qualified to work on developing, servicing and certifying new Sharia-compliant products might be higher than in conventional banking during the initial stage, which may impact the initial profitability of first-movers compared to conventional banking operations. It is worth noting that several private educational platforms and specialized consulting firms are already active in the Uzbek market, providing certification programs and advisory services on Islamic financial products to both the business community and the general public, thereby supporting the initial phase of human capital development.



11. Since 2018, several commercial banks in Uzbekistan have already laid certain groundwork by conducting staff training programs, primarily aimed at establishing “Islamic windows” via agency-based structures (acting as agents for international financial institutions).

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