

Targeted perspective for Islamic financial institutions in the UAE

The ongoing regional developments have once again reinforced a long standing truth; operational resilience is now a frontline capability for Islamic financial institutions (IFIs), not a back office discipline. In today's environment, marked by heightened geopolitical disruption and elevated market uncertainty, IFIs must demonstrate the ability to sustain critical services, uphold Shariah compliance and preserve customer confidence under stressed conditions. MAZIN KHALIL explains.



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In its 17th March 2026 meeting, the Central Bank of the UAE (CBUAE) reviewed the performance of the financial system and confirmed that, despite extraordinary global and regional circumstances, UAE payment systems and banking operations remained unaffected. This assessment accompanied the approval of a comprehensive Financial Institution Resilience Package, reinforcing national efforts to ensure continuity of essential financial services.

This article outlines what the latest measures mean specifically for IFIs, linking the regulatory direction to the practical, Shariah aligned resilience expectations now required across the sector.

Operational resilience as a Shariah imperative

For IFIs, operational resilience extends beyond business continuity. In times of disruption, IFIs must preserve not only service delivery but also the Shariah compliance of all products, processes and decisions. This includes ensuring that transactional execution, documentation flows, profit calculations, restructuring decisions and customer communications remain compliant whether operations are running under normal or stressed conditions.

The CBUAE's Operational Risk Regulation and Standards set out expectations around governance, IT resilience, business continuity management and internal reporting including a dedicated section on Islamic finance. These standards emphasize structured risk identification, disaster recovery requirements and control mechanisms that prevent operational events from escalating into systemic

concerns while upholding the required expectations with respect to Shariah governance and compliance.

In practice, this means that any operational lapse that leads to Shariah non compliance is not simply a conduct issue; it is an economic, reputational and regulatory exposure that directly undermines institutional resilience.

Another aspect of the package highlighted is liquidity access, which is a core enabler of Shariah compliant business continuity. Unlike conventional institutions, IFIs must avoid interest bearing facilities and ensure liquidity solutions adhere to Shariah provisions as set out in CBUAE's Standard Re Liquidity at Islamic Banks. The CBUAE provides the necessary Shariah compliant facilities to enable IFIs to access increased reserve balances, stabilize settlement needs, manage intraday liquidity and maintain the availability of Shariah compliant financing without resorting to conventional tools.

In addition, IFI products are associated with asset backed and partnership based financing and deposit taking structures, which may have longer operational settlement cycles (e.g. Ijarah processing, Murabahah documentation or project based Istisna disbursements). Liquidity ratio relief therefore provides operational breathing space to continue serving clients while managing inflows and outflows across these multi step Shariah compliant structures.

Furthermore, an important element of the package relating to Shariah compliant financing is Pillar IV, as IFIs require contractual restructuring mechanisms that differ from conventional loan modifications. Classification flexibility gives Islamic institutions additional time to restructure contracts while ensuring Shariah compliance and governance throughout the process, avoiding premature classification that may distort mechanisms approved by each

institution's internal Shariah supervision committee (ISSC) in light of the current extraordinary circumstances.

As an overarching factor, the continuity of Shariah governance during these circumstances must prevail to ensure that stress testing of relevant frameworks is appropriately undertaken in times of uncertainty. IFIs should have contingency plans for ISSC engagement, ensuring timely escalation and approvals are maintained to prevent compliance gaps when operations shift to crisis mode. It is equally important for the internal Shariah audit plan of each institution to remain agile in response to such circumstances, ensuring the audit scope captures any potential gaps that could hinder continuity and resilience.

The UAE's financial system has demonstrated resilience despite severe regional shocks, backed by the CBUAE's proactive approach and underpinned by its long standing regulatory frameworks. For IFIs, this moment underscores a broader mandate: resilience is not merely operational – it is Shariah-aligned, reputational and strategic. Institutions that rapidly align their resilience strategies with CBUAE expectations, while preserving the integrity of their Shariah governance, will be better-placed to navigate volatility and continue serving as trusted financial partners to their customers and communities.

The coming period is therefore an opportunity for IFIs to recalibrate their resilience posture and close long standing structural gaps that become more visible during times of stress. Institutions that invest in stronger Shariah governance, automate their operational controls and modernize their resilience frameworks will be better-positioned to operate confidently through volatility. More importantly, these enhancements serve to protect customer trust – an asset that is central to the long term sustainability of Islamic finance in the UAE. ☺