

# **Building a Successful Islamic Banking Window in Kazakhstan: A Practical Roadmap for Banks Entering the Market**

## **Introduction**

Kazakhstan is entering a new phase in the development of its financial sector. With the adoption of the new Law “On Banks and Banking Activities” on 25 December 2025, banks holding a universal license may establish Islamic banking windows subject to regulatory approval and segregation requirements. This allows them to offer Shariah-compliant products alongside their existing conventional operations. The new legislation provides an opportunity to diversify the country's banking sector, attract new sources of investment and expand access to Shariah-compliant financial services. The framework gives Kazakhstan a distinct competitive edge as Central Asia’s primary hub for Shariah-compliant capital.

Several factors support the development of Islamic finance in Kazakhstan. The country has a population of about 20.5 million, of whom around 70% identify as Muslim, making it one of the largest Muslim-majority markets in the former Soviet Union. It also enjoys growing economic ties with the Gulf Cooperation Council (GCC), which collectively manages some of the world's largest pools of Islamic capital and sovereign wealth. These factors, together with increasing interest from policymakers and market participants, have strengthened the case for expanding Shariah-compliant financial services in the country. The Astana International Financial Centre (AIFC) and the Islamic Development Bank Institute estimate potential demand for Islamic retail financing in Kazakhstan at over KZT 3.9 trillion, with Islamic deposits potentially reaching KZT 2.8 trillion.

Since the launch of the AIFC in 2018, Kazakhstan has made substantial investments in building the legal, regulatory and financial market infrastructure needed to establish Astana as a regional financial hub linking Central Asia with the Middle East and global capital markets.

Despite these favourable fundamentals, Islamic finance is a relatively small part of the banking sector. The country's three Islamic banks, ADCB Islamic Bank (formerly Al Hilal, established in 2010), Zaman Bank and Al Safi Bank, held combined assets of roughly US\$621 million in 2024. This represents only 0.5% of total banking sector assets. By comparison, Islamic banking accounts for more than 25% of banking assets in Saudi Arabia and close to 39% in Malaysia. The disparity suggests that Islamic banking remains at an early stage of development and has substantial room for growth in Kazakhstan.

Context matters here too. Globally, Islamic finance is no longer a niche proposition. According to the Islamic Financial Services Board's (IFSB) Islamic Financial Services Industry Stability Report 2025, total industry assets reached US\$3.88 trillion in 2024, representing a robust 14.9% year-on-year increase. Islamic banking, the largest segment of the industry, recorded growth of 17.0% during the same period. The IFSB noted that Africa and Central Asia posted the highest growth rates globally among emerging regions. Kazakhstan is well positioned to benefit from these trends, but only if institutions entering the market establish strong foundations from the outset.

Having worked in the GCC and ASEAN for more than two decades, and having been directly involved in establishing the first Islamic banking operations in Kazakhstan in 2010, I have

observed that success in Islamic finance is rarely determined by who enters the market first or who launches the largest number of products.

### **Governance Must Come Before Product Development**

One of the most common misconceptions about Islamic banking is the belief that Islamic financial products are merely conventional products repackaged with Arabic terminology. According to this view, remove the Murabaha label and what remains is simply a conventional loan. In reality, Shariah compliance is not determined by terminology but by the substance of the transaction. It depends on the underlying contractual structure, ownership arrangements, transfer of assets, operational processes and governance framework that collectively ensure the transaction complies with Shariah principles. For this reason, governance should be established before the first Islamic product is launched.

A successful Islamic banking window requires a governance framework that is embedded across the institution rather than treated as a compliance exercise. The board of directors should approve a dedicated Islamic banking strategy, define the bank's risk appetite for Islamic activities and ensure that sufficient resources are allocated to support Shariah-compliant operations.

At the centre of the governance framework should be an independent Shariah Supervisory Board (SSB) comprising qualified scholars with expertise in Islamic jurisprudence, Islamic finance and contemporary banking practices. The role of the SSB extends far beyond product approval. It should provide ongoing oversight of products, contracts, policies, investments, profit allocation methodologies and operational practices to ensure continued compliance with Shariah principles.

However, governance cannot rely solely on external scholars. International best practice increasingly emphasises the establishment of a "three lines of defence" model for Shariah governance.

### **What Shariah Compliance and Governance Actually Require**

Compliance is not determined by what a product is called, but by how it is structured and executed. Calling a product a Murabaha or an Ijara means little if the underlying transaction does not reflect the requirements of those contracts. For Islamic banking windows, the challenge is not whether a bank physically holds an asset for a lengthy period. In a properly structured murabaha, ownership may pass through the bank only briefly. The key question is whether the bank can demonstrate that ownership was acquired, the associated risks were assumed, and the transaction was carried out in accordance with the approved structure. Management, Shariah boards, auditors and regulators must be able to verify this through clear documentation, robust processes and effective oversight.

None of this happens by itself. The ability to structure, execute, monitor and evidence Shariah-compliant transactions depends on having the right governance framework in place from the outset.

This is why the governance framework must be established before the first Islamic product is launched. It should not be viewed as a regulatory requirement to be completed after obtaining a

licence, but as the foundation upon which the entire Islamic banking operation will function. Every product, transaction and operational process will ultimately depend on it.

Experience has shown that it is far easier to establish the right governance structure from the beginning than to correct weaknesses later. Once products have been launched and staff have developed established ways of working, any shortcomings in governance become more difficult and costly to address. Remedial reviews, process changes, contract revisions and staff retraining can consume significant time and resources, while exposing the institution to unnecessary Shariah and reputational risks. Getting the foundations right from the outset is therefore not only good governance, but also good business.

### **The Shariah Supervisory Board**

A key component of any Islamic banking governance framework is the Shariah Supervisory Board (SSB). Its members should possess a strong grounding in Islamic jurisprudence and a sound understanding of modern banking and finance. For Kazakhstan, it is also helpful for scholars to understand the AIFC regulatory environment and the practical realities of operating Islamic banking services within a financial system that remains largely conventional.

The role of the SSB is often misunderstood. It is not simply a committee that approves products and issues Shariah opinions. Its responsibility extends much further. The SSB is expected to oversee whether products, contracts and banking activities continue to comply with Shariah requirements after they have been launched. This includes reviewing operational practices, examining how profits are calculated and distributed, assessing any departures from approved structures, and overseeing the institution's Shariah audit and compliance arrangements. Its decisions should carry authority within the organisation and should not be overridden for commercial reasons.

In practice, this is not always the case. The challenge is often more pronounced in Islamic banking windows, where Islamic and conventional banking activities operate within the same institution. In some cases, the role of the SSB is largely focused on approving products at the outset, with less involvement once those products are offered to customers. Scholars may not have access to sufficient information, time or support to review transactions on a regular basis. This can create a gap between the structures approved by the SSB and the way products are implemented in practice.

This is why simply appointing a SSB is not enough. An internal Shariah compliance function is also required to work alongside the board. Typically staffed by dedicated Shariah officers, this function is responsible for day-to-day monitoring, transaction reviews, reporting compliance issues and staff training. It helps ensure that the policies approved by the SSB are applied consistently across the institution's operations and products. Without such a function, the SSB may have only a limited view of day-to-day activities and may have to rely largely on information provided by management rather than independent checks and reviews.

## **Independence and Structural Integrity**

The effectiveness of a SSB depends on its ability to act independently. If that independence is compromised, the board risks becoming little more than an instrument for endorsing management decisions rather than a genuine source of oversight and accountability. Such a situation can weaken Shariah governance and undermine confidence among customers, investors and other stakeholders.

If scholars feel constrained by commercial considerations or are placed in a position where their views can be influenced by management, the quality of oversight will inevitably suffer. Difficult issues arise from time to time, and scholars must be able to raise concerns or reject proposals without worrying about the consequences.

This is why major Islamic finance jurisdictions place considerable emphasis on the governance arrangements surrounding the SSB. AAOIFI Governance Standard No. 1, as well as the frameworks adopted in Malaysia and the UAE, emphasise that the SSB should report to the board of directors rather than management. The appointment, remuneration and removal of scholars should also be handled in a manner that preserves their objectivity and avoids unnecessary commercial influence.

These considerations are especially important for Islamic banking windows. In many cases, the Islamic business represents only a small part of the overall institution. Management teams may be under pressure to launch products quickly, meet revenue targets or respond to competitive pressures. Without clear governance arrangements, there is a risk that Shariah considerations become secondary to commercial objectives.

For Kazakhstan, these issues deserve careful attention as the Islamic banking window model develops. The legal and regulatory framework now provides a pathway for growth, but regulation alone cannot ensure effective Shariah governance. Much will depend on the quality of governance within individual institutions. Even the strongest regulatory framework cannot compensate for weak oversight, insufficient resources or a lack of commitment to compliance at the management level.

Meeting regulatory requirements should be viewed as the starting point, not the destination. The institutions that succeed over the long term will be those that build governance structures capable of earning the confidence of regulators, investors and customers through their actions and decisions.

## **Three Lines, Not One**

Relying solely on external scholars is insufficient and increasingly out of step with international standards. The IFSB's framework for Shariah governance most recently elaborated in IFSB-31, published in July 2025 emphasises a three-lines-of-defence model that embeds compliance capability throughout the institution.

### **First Line: Business and Operations**

The business units themselves are responsible for ensuring that Islamic products are executed in accordance with approved Shariah structures. Relationship managers, product teams, operations personnel and treasury staff must understand the operational requirements of Islamic contracts and ensure that transactions are implemented correctly.

### **Second Line: Independent Shariah Compliance Function**

An internal Shariah compliance unit should provide day-to-day oversight of Islamic activities, review transactions, monitor compliance with Shariah rulings, assess new initiatives and report potential breaches. This function should operate independently from revenue-generating business units and have direct access to senior management and the Shariah Supervisory Board.

### **Third Line: Internal Shariah Audit**

A dedicated Shariah audit function should periodically review products, processes, documentation and transactions to provide independent assurance that the bank is operating in accordance with approved Shariah standards. Findings should be reported directly to the Board Audit Committee and the Shariah Supervisory Board.

Banks also need clear policies for managing Shariah non-compliance risk. Unlike conventional banks, which focus mainly on credit, market and operational risks, Islamic banks face the additional risk of transactions or activities being found inconsistent with Shariah requirements. Such breaches can lead to financial losses, damage the institution's reputation and weaken customer trust.

### **Managing What Goes Wrong**

Shariah non-compliance risk differs from the credit and market risks that conventional banks typically deal with. If a transaction is later found to be inconsistent with Shariah principles, the consequences can be significant. Any income derived from the transaction cannot be recognised as profit and must be separated and dealt with in accordance with the guidance of the Shariah Supervisory Board, usually through charitable donation.

The impact is not limited to financial loss. Questions over Shariah compliance can also damage a bank's reputation and weaken customer trust. This is especially important in emerging Islamic finance markets, where public confidence is still being built and institutions have yet to establish a long track record.

Banks need formal procedures for identifying, reporting, and remediating non-compliance events. The absence of such procedures doesn't mean events won't occur; it means they won't be caught, documented, or corrected in a systematic way.

Treasury operations deserve special attention because they are often overlooked during the early stages of establishing an Islamic banking window. Most of the focus tends to be on customer products, while liquidity management receives far less attention. However, without access to

Shariah compliant money market instruments, commodity murabaha facilities and a suitable framework for managing the Islamic balance sheet, banks may find it difficult to invest surplus funds and manage liquidity in a Shariah compliant manner.

This is not merely a technical issue. In many jurisdictions, it has been one of the most common weaknesses in the development of Islamic banking windows, creating a mismatch between the liabilities raised and the assets available to support them.

### **The Human Capital Problem**

A shortage of experienced Islamic banking professionals will be one of the main constraints on the industry's development. This is not unique to Kazakhstan and the issue is more evident in Central Asia. Many of the region's early practitioners received their training in Malaysia, Bahrain or the UAE, or gained experience through institutions such as Al Hilal Bank. However, the number of qualified professionals has not kept pace with the growing interest in Islamic banking.

Developing talent therefore needs to be a priority from the beginning. Board members, risk officers, compliance personnel, internal auditors and relationship managers all require an understanding of Islamic banking, although the level of knowledge required will differ according to their responsibilities. Institutions that delay training until after products have been launched are more likely to encounter compliance issues that could have been avoided through proper preparation.

### **Governance as Competitive Positioning**

Beyond the technical and operational requirements, customer confidence plays an important role in the success of Islamic banking. In any market where customers can choose between established conventional banks and Islamic banking products, confidence cannot be taken for granted. It must be built over time through consistent practices and credible institutions.

This is where strong Shariah governance matters. Customers need confidence that products have been structured in accordance with Shariah principles, reviewed by qualified scholars and subject to proper oversight after launch. Effective governance provides that assurance and helps strengthen confidence in both the institution and the products it offers.

In Kazakhstan, the market is still developing and public confidence in Islamic banking is still taking shape. The Astana International Financial Centre has estimated the potential size of the Islamic finance market at more than KZT 6.8 trillion, or approximately US\$15 billion. Murabaha and Ijara account for more than 90 percent of current demand, showing that interest in Islamic banking already exists. What customers need are institutions that can offer these products in a way that is credible, transparent and consistent with Shariah principles.

This is where governance becomes important. A well governed Islamic banking window is more likely to gain the confidence of customers, investors and regulators. It also helps reduce the risk of compliance failures and operational weaknesses. For banks entering the market, governance should be built into the business from the start rather than treated as a regulatory formality. Over time, the institutions that earn trust will be the ones best placed to grow and attract customers.

## **Fund Segregation Is Not an Accounting Detail. It Is a Structural Requirement**

Customers who place funds into Islamic deposit products are not simply choosing a different interest rate or a more competitive savings structure. They are making a values-based decision, often rooted in religious conviction, that their money will be managed in a way that does not involve prohibited activities, interest-bearing instruments, or exposure to sectors such as alcohol, conventional insurance, or speculative trading. That expectation does not end at the point of deposit. It extends to everything the bank does with those funds afterwards.

This is why fund segregation is one of the most operationally demanding aspects of running an Islamic banking window, and one of the most frequently underestimated.

At the most basic level, a bank operating both conventional and Islamic activities must ensure that Islamic customer funds are never commingled with conventional funds in a way that exposes them to non-compliant assets or income streams. In practice this requires separate ledger structures. Not simply a different product code within the same general ledger, but a genuinely distinct accounting architecture that tracks Islamic funds from the moment they are received through to the point at which they are deployed and returned. The SSB should have visibility of this architecture and the ability to verify that it is functioning as intended.

Profit allocation is one of the more complex aspects of running an Islamic banking window. Banks must be able to show that profits distributed to Islamic depositors come from Shariah-compliant assets and activities. Whether the deposit structure is based on Mudarabah, Wakalah or another approved arrangement, the way profits, income and costs are allocated should be clearly defined and approved by the Shariah Supervisory Board.

This requires systems that can track Islamic assets and transactions separately from conventional banking activities. Clear fund segregation is essential. If income from conventional activities is used to support returns paid to Islamic depositors, even unintentionally, it may result in a Shariah compliance issue and could affect customer confidence in the Islamic banking window.

Cost allocation requires equal discipline. Islamic windows inevitably share infrastructure with the broader institution, covering technology platforms, branch networks, back-office functions and compliance teams. The methodology for apportioning those shared costs between conventional and Islamic operations must be documented, consistently applied, and approved by the SSB. An arbitrary or opaque cost allocation can distort the profit calculation that flows through to depositors, and in certain structures may itself raise compliance questions that the bank is not prepared to answer.

Reporting adds a further layer of responsibility. Islamic depositors, and where applicable regulators and the SSB, need to be able to see how funds were managed, what assets they were deployed into, what return was generated, and how that return was distributed. In markets where Islamic finance disclosure standards are still developing, and Kazakhstan is certainly one of them, banks that build transparent reporting frameworks early will find themselves better positioned as regulatory expectations eventually tighten. That is not a distant prospect. The AIFC's Shariah

Governance Rules, endorsed in early 2026, signal a direction of travel that institutions would be unwise to ignore.

The consequences of getting segregation wrong extend well beyond regulatory risk. If customers or the SSB determine that Islamic funds were not properly managed, the income generated during that period must be removed from the profit pool entirely and disposed of in accordance with Shariah requirements, typically through charitable donation under SSB guidance. That is a direct financial cost. The reputational cost in a market where the Islamic banking proposition is still building its credibility with retail customers is harder to quantify and considerably harder to recover from.

Banks entering Kazakhstan's Islamic banking window space should therefore treat fund segregation not as a downstream accounting task to be sorted out after products go live, but as a foundational design decision made before the first deposit is taken. The ledger structure, the profit allocation methodology, the cost apportionment framework and the reporting architecture should all be reviewed and approved by the SSB as part of the governance build-out. Retrofitting these systems once the operation is running, and the complexity of unwinding entangled accounts has multiplied, is a far more costly exercise than building them correctly from the start.

### **Profit Distribution Requires Transparency**

One of the distinguishing features of Islamic banking is that returns to investment account holders are linked to the performance of underlying assets and investments rather than being based on a predetermined interest rate. While this principle is well understood in theory, managing customer expectations in practice can be more challenging, particularly during periods of market volatility or changing economic conditions.

In more mature Islamic banking markets, mechanisms such as Profit Equalisation Reserves (PER) and Investment Risk Reserves (IRR) are sometimes used to reduce fluctuations in returns and provide a degree of stability to investment account holders. PER is generally built up by setting aside a portion of profits during stronger periods to support returns during weaker periods. IRR is typically established to absorb potential losses arising from investments funded by investment account holders.

These mechanisms can play a useful role in managing volatility and supporting the long-term stability of Islamic investment accounts. However, they should not be introduced without appropriate governance, transparency and customer disclosure. Customers should understand how reserves are established, how they are used and how they may affect the returns distributed to them.

The methodology used to calculate and distribute profits is equally important. Banks should maintain clear and consistent profit allocation policies approved by the Shariah Supervisory Board and supported by appropriate systems and controls. Customers should have confidence that profits are being calculated fairly and that returns are generated from Shariah-compliant assets and activities.

For new Islamic banking windows, transparency may be even more important than the level of return itself. Customers are generally prepared to accept that returns may vary from period to

period if they understand how those returns are generated and how risks are shared. Unclear profit allocation practices, however, can quickly undermine confidence and raise questions regarding both governance and Shariah compliance.

As Kazakhstan's Islamic banking sector develops, institutions that communicate clearly with customers and maintain high standards of disclosure are likely to be better positioned to build long-term trust and confidence in Islamic banking products.

### **Start Small and Get the Fundamentals Right**

A more effective approach is to begin with a limited number of products whose structures are well established and operationally manageable. One of the common mistakes made by new entrants to Islamic finance is attempting to launch a full suite of products before the necessary systems, controls and expertise are in place.

On the deposit side, Mudarabah and Wakalah-based investment accounts are often suitable starting points. On the financing side, Murabaha and Ijara structures provide practical entry points for retail, SME and corporate customers. These products have been used extensively across Islamic banking markets and are supported by well-developed legal documentation, accounting treatments and Shariah standards.

Expanding the product range is relatively easy. Operating those products correctly is considerably more difficult. Each additional product introduces new operational processes, documentation requirements, accounting treatments, Shariah reviews and staff training needs. The complexity increases quickly, particularly for institutions that are entering Islamic finance for the first time.

For this reason, management should focus initially on a small number of products that can be executed consistently and in accordance with approved Shariah structures. Once the bank has gained practical experience, strengthened its internal capabilities and established the necessary systems and controls, it can gradually broaden its offering to include more sophisticated products and services.

In the early years, success is less about the number of products on the shelf and more about the bank's ability to deliver those products properly. A smaller product range that is managed well will generally contribute more to customer confidence than a larger offering that creates operational, compliance or Shariah risks.

### **Technology, AI, Blockchain and the Opportunity to Leapfrog**

Kazakhstan's Islamic finance sector remains relatively small, with Islamic banking accounting for less than 1% of total banking assets. While this highlights the scale of the industry's growth challenge, it also creates an opportunity. Unlike markets where Islamic banking infrastructure has evolved over several decades, Kazakhstan is not constrained by large legacy systems, complex product portfolios or established operating models. Banks entering the sector today have greater flexibility to adopt modern technologies and design digital-first Islamic banking platforms from the outset.

Kazakhstan's ability to embrace digital Islamic banking is supported by a broader commitment to financial innovation across the country. The AIFC has played an important role in advancing fintech, digital assets and financial innovation. At the same time, the development of digital banking in Kazakhstan extends beyond the AIFC. Islamic banking windows established under the new banking law will operate within the broader banking system regulated by the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (ARDFM) and supported by the National Bank of Kazakhstan. The country's banking sector has also made considerable progress in digital banking, payment systems and financial technology adoption. This provides new entrants with an opportunity to build Islamic banking platforms using modern technologies rather than adapting legacy systems developed for an earlier era of banking.

Artificial intelligence has the potential to improve several areas of Islamic banking operations. Customer onboarding can be accelerated through automated document verification, digital identity checks and biometric authentication. Compliance teams can use AI tools to strengthen transaction monitoring, anti-money laundering controls, sanctions screening and fraud detection. Credit assessment models can support faster financing decisions, particularly for SMEs, while customer-facing applications can deliver more personalised financial services and product recommendations.

The next stage of development may come from agentic AI systems. Unlike traditional AI models that respond to specific requests, agentic AI can perform tasks autonomously, gather information from multiple sources, make recommendations and execute predefined workflows with limited human intervention. In an Islamic banking environment, such systems could assist with customer onboarding, financing approvals, document reviews, compliance monitoring and customer service enquiries, while escalating exceptions and higher-risk cases to human specialists.

Several Islamic financial institutions have already begun exploring AI applications. Banks in the GCC and Southeast Asia are using AI-powered chatbots and virtual assistants to improve customer engagement, while machine learning tools are increasingly being deployed for fraud detection, risk management and compliance monitoring. Institutions such as Dubai Islamic Bank, Abu Dhabi Islamic Bank and Maybank Islamic have invested in digital banking platforms and AI-enabled customer service capabilities as part of their broader digital transformation programmes.

For Kazakhstan, the opportunity extends beyond improving efficiency. Islamic banking windows established under the new banking law have the advantage of building modern operating models from the outset rather than retrofitting technologies into legacy systems. Functions that traditionally required significant manual intervention, including customer onboarding, compliance reviews, financing assessments and account servicing, can increasingly be automated through AI-driven workflows.

However, the adoption of artificial intelligence should be accompanied by appropriate governance and oversight. Decisions involving credit approvals, customer suitability assessments, compliance matters and Shariah interpretation should continue to involve human judgement and accountability. AI can enhance efficiency and decision-making, but responsibility for customer outcomes, regulatory compliance and Shariah compliance must remain with the institution.

The opportunity extends beyond artificial intelligence. Blockchain and distributed ledger technologies may help address some of the longstanding challenges in Islamic finance relating to transparency, asset ownership, transaction traceability and record keeping. These technologies have the potential to support trade finance, cross-border payments, sukuk issuance and the tokenisation of real-world assets such as commodities, real estate and infrastructure projects.

Tokenisation refers to the process of representing ownership rights in an asset through digital tokens recorded on a blockchain or distributed ledger. For Islamic finance, this is particularly interesting because many Shariah-compliant financial structures are already linked to identifiable underlying assets. Digital tokens can potentially provide a more efficient way to record ownership, facilitate transfers, improve transparency and broaden investor access to asset-backed investments.

The global market for tokenised real-world assets has attracted growing attention in recent years. Several international financial institutions and industry studies have suggested that tokenised assets could reach trillions of dollars in value over the coming decade as financial markets explore more efficient methods of issuing, transferring and managing ownership interests in real assets. The emphasis on transparency, asset backing and ownership verification found in many tokenisation models is also broadly consistent with key principles underpinning Islamic finance.

A number of Islamic finance institutions and market participants have already begun exploring these opportunities. In the UAE, Dubai Islamic Bank has participated in blockchain-related initiatives and digital transformation programmes aimed at improving operational efficiency and customer experience. In Bahrain, Al Baraka Banking Group has explored blockchain applications in trade finance and financial services. In Malaysia, institutions such as Maybank Islamic and Bank Islam Malaysia Berhad have been active in digital banking and fintech initiatives that may provide foundations for future tokenisation and digital asset applications.

Beyond the banking sector, Islamic fintech firms have moved even more rapidly. Gold-backed tokenisation platforms, digital sukuk initiatives and tokenised investment products have emerged across the GCC and Southeast Asia. These developments demonstrate how blockchain technology can be applied to assets that are already familiar within Islamic finance, including precious metals, real estate and infrastructure-related investments.

Kazakhstan may be particularly well positioned to participate in this trend. As a major producer of oil, gas, uranium, metals and agricultural commodities, the country possesses a substantial base of real economy assets that could potentially support future tokenisation initiatives. Combined with the AIFC's growing digital asset ecosystem and the country's strategic position between Europe, the Middle East and Asia, this creates opportunities that extend well beyond traditional banking products.

Gold-backed tokenisation initiatives have also demonstrated how blockchain technology can be used to represent ownership of physical precious metals held in secure custody arrangements, creating new opportunities for savings, investment and cross-border transfers.

While tokenisation remains at an early stage of development, it has the potential to reshape how assets are owned, financed and traded. For Kazakhstan's emerging Islamic finance sector, this

presents an opportunity not only to adopt existing models from other markets, but also to participate in shaping the next generation of Islamic financial products and investment structures.

Kazakhstan is particularly well positioned to explore these opportunities. As a major producer of oil, gas, uranium, metals and agricultural commodities, the country possesses a substantial base of real economy assets that could potentially support future tokenisation initiatives. Combined with the AIFC's regulatory framework for digital assets and financial innovation, this creates opportunities that extend beyond traditional banking products.

The country's strategic location between China, the Middle East and Europe also creates potential for Islamic digital trade finance and cross-border payment solutions that support regional trade flows. As trade corridors across Eurasia continue to expand, demand for more efficient, transparent and Shariah-compliant financing solutions is likely to increase.

For Kazakhstan, the objective should not simply be to replicate Islamic banking models developed elsewhere. The greater opportunity may lie in combining Islamic finance, artificial intelligence, digital assets and financial technology to create a new generation of Islamic financial services. If executed successfully, Kazakhstan could establish itself not only as a regional centre for Islamic finance, but also as a leading hub for digital Islamic finance in Central Asia.

### **Looking Beyond Launch**

The introduction of Islamic banking windows under Kazakhstan's new banking law is an important milestone, but legislation alone will not determine the success of the industry. The real work begins after the first products are launched, the first customers are onboarded and the first transactions are booked.

Experience from other markets shows that the institutions that achieve long-term success are not necessarily those that enter the market first or launch the widest range of products. More often, they are the institutions that invest early in governance, people, systems and operational discipline. Islamic banking requires more than product approval. It requires the ability to execute transactions correctly, manage funds appropriately, maintain effective oversight and communicate clearly with customers.

For banks entering the sector, the initial years should be viewed as a period of capability building rather than simply a period of business expansion. Developing internal expertise, strengthening Shariah governance, refining operational processes and building customer awareness may prove just as important as achieving short-term growth targets. Institutions that establish these foundations early are generally better positioned to expand their product offerings and grow their market share over time.

Technology will also play an increasingly important role. The emergence of artificial intelligence, digital assets, tokenisation and new payment technologies is reshaping the financial services industry globally. Kazakhstan has an opportunity to develop its Islamic finance sector at a time when these technologies are becoming commercially viable. This creates possibilities that were not available to many of the Islamic banks established in other markets two or three decades ago.

At the same time, Islamic finance should not be viewed solely through the lens of technology. Customers choose Islamic banking because they expect financial services that are consistent with their values and beliefs. Technology can improve efficiency and customer experience, but it cannot replace sound governance, transparency and responsible management.

Kazakhstan has many of the ingredients needed to support the growth of Islamic finance: a large Muslim population, a strategic location linking Asia and Europe, a supportive regulatory environment, growing ties with the GCC and an increasingly sophisticated financial sector. The challenge now is to convert these advantages into sustainable growth.

The institutions that are likely to lead the market in the years ahead will be those that combine strong governance, sound execution, technological innovation and a long-term commitment to serving their customers. Islamic banking is, above all, a business built on confidence. Once that confidence is established, growth becomes much easier. Without it, even the most innovative products and technologies will struggle to gain traction.

### **About the Author**



Lim Say Cheong is a member of the Astana International Financial Centre Advisory Board (AIFAB), a Chevening–Oxford Centre for Islamic Studies Scholar, and an Islamic finance professional with more than 20 years of international experience in banking, capital markets, investment management and financial advisory. He has advised financial institutions, regulators and governments in the GCC, Southeast Asia and Central Asia.

He was directly involved in establishing the first Islamic banking operations in Kazakhstan in 2010 and continues to contribute to the development of Islamic finance, digital finance and emerging financial ecosystems. His experience spans Islamic banking, sukuk, Islamic investment funds, treasury and capital markets, financial sector development, and strategic advisory assignments for both public and private sector institutions.

A prolific contributor to leading Islamic finance publications and industry journals, Lim is a sought-after international

speaker and thought leader who regularly addresses conferences, executive forums and industry events around the world.

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