

# The new UAE civil code:

What Banks Need to Do Differently from 1 June 2026



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## From 1 June 2026, the UAE will implement its new Civil Code (Federal Decree Law No. 25 of 2025), replacing the 1985 framework that has governed civil and contractual relationships for nearly four decades.

While the reform is wide-ranging, its impact on banks is immediate, practical and, in some areas, potentially disruptive. This is not just a legal update. It is a change in how banks will need to structure transactions, manage risk and approach enforcement.

### A shift from “rights-based” to “fairness-based” enforcement

A unifying theme across the new Civil Code is the move away from rigid contractual enforcement toward a framework grounded in good faith, proportionality and judicial oversight.

In practice, this means that having a contractual right is no longer the end of the analysis. The key question increasingly becomes: Is the way the bank is exercising that right proportionate and defensible?

This shift is crystallised in provisions such as Abuse of rights (Article 106), Pre-contractual good faith and disclosure (Articles 121–122) and an expanded hardship doctrine (Article 224).

Together, these create a “fairness overlay” across the entire lifecycle of a transaction—from negotiation to enforcement.

### Guarantees: from passive protection to active risk management

The most immediate and material impact for banks is in relation to guarantees.

Article 1006 introduces a rule that can have severe consequences: If the creditor does not commence judicial proceedings against both the debtor and the guarantor within 6 months of the debt falling due, the guarantor may be discharged.

Key practical implications:

- The 6-month period may start when any part of the debt becomes due, including missed instalments;
- Each missed payment may create its own separate deadline; and
- Commercial actions such as negotiations and demand letters do not stop the clock.

The result is a scenario banks are highly familiar with: a borrower misses a payment, the bank enters into “good faith” restructuring discussions, no formal proceedings are issued and then six months pass... At that point, the bank risks having lost its guarantee protection—often without realising it.

Under the New UAE Civil Code, joint and several liability in guarantees is no longer presumed and must be expressly agreed. The default position is now protective of guarantors: unless the guarantee is clearly structured as a joint and several (or “joint liability”) undertaking, the bank may be required to first

pursue the principal debtor and exhaust the debtor's assets and asset security provided before enforcing against the guarantor. This represents a material shift for lenders, as many standard forms of guarantee may not achieve the intended commercial outcome without explicit drafting.

### Restructuring behaviour: a new tension

The interaction between the 6-month rule and broader fairness principles creates a new tension for banks:

- On one hand, **Article 106** discourages aggressive or disproportionate enforcement
- On the other hand, **Article 1006** requires timely action or risk losing rights.

This creates difficult practical questions: Can the bank afford to delay enforcement while negotiating? When should a "protective filing" be made? How should borrower relationships be balanced against legal risk?

In effect, the new regime pushes banks toward earlier escalation, tighter monitoring and more structured restructuring strategies.

### Risk now begins before the contract is signed

Another important development is the codification of pre-contractual liability.

Under Articles 121–122 parties must negotiate in good faith, Banks may be required to disclose material information and liability can arise even if no contract is ultimately entered into.

This has practical implications for term sheets, mandate letters, credit approvals and deal communications. In particular, late-stage withdrawal or significant changes to terms may now carry legal exposure, especially where counterparties can demonstrate reliance.

### Hardship and the rebalancing of contracts

The expanded hardship doctrine (Article 224) gives courts broader powers to intervene where unforeseen events occur and performance becomes excessively onerous.

Courts may reduce obligations, adjust terms or even terminate contracts. For banks, this introduces uncertainty in long-term lending, increased restructuring leverage for borrowers and potential challenges to pricing and repayment assumptions.

### Final thought

The new UAE Civil Code represents a clear policy shift from a system primarily based on contractual certainty to one that balances certainty with fairness and judicial oversight. For banks, success under this new regime will depend less on legal formality and more on process discipline, timely decision-making and defensible commercial behaviour. Those that adjust early will not only mitigate risk—but also be better positioned to navigate increasingly complex borrower relationships in the market.

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