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Authors: Faisal Alqahtani, David G. Mayes

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# Financial stability of Islamic banking and the global financial crisis: Evidence from the Gulf Cooperation Council

Faisal Alqahtani<sup>a,\*</sup> and David G. Mayes<sup>b</sup>

<sup>a</sup>*Taibah University, Al Madinah, Kingdom of Saudi Arabia*

<sup>b</sup>*University of Auckland, Auckland, New Zealand*

\*Corresponding author. Taibah University, Al Madinah, Kingdom of Saudi Arabia.

E-mail addresses: d.mayes@auckland.ac.nz, fqahtani@Taibahu.edu.sa

## Highlights

- We make an annual comparison of Islamic and conventional banks during the global financial crisis.
- The difference between Islamic and conventional banks was not significant during the GFC.
- Islamic banks suffered more in the later phases of the financial crisis.
- Small Islamic banks demonstrated a relatively better handling of the crisis than large Islamic banks.

## Abstract

Using a sample of 76 banks from the Gulf Cooperation Council region, we use accounting- as well as market-based measures of financial stability to examine whether Islamic banks outperformed conventional banks in the time of financial shocks during the period 2000-2013. We find that the difference between the two banking types was initially not significant during the GFC. However, when the financial shock spread to the real economy during the later phases of the crisis, Islamic banks suffered a significantly higher level of financial instability than conventional banks. This result holds true for large banks but not for small Islamic banks. Small Islamic banks demonstrated a relatively better

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