QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

RESILIENCE OF ISLAMIC BANKS DURING GLOBAL CRISES: EVIDENCE FROM COVID-19 AND GEOPOLITICAL DISRUPTIONS

Dr. Noor Ullah
President, Islamic Fiqah Academy Pakistan
noorullahkhalid26@gmail.com
Dr. Zahid Ali
Visiting faculty,Department of Education and social sciences,Alkawthar University Karachi, Pakistan,
drzarajput@gmail.com
Muhammad Ikhlaq
Ph.D. Scholar,Sindh Madreesa tul Islam Karachi
ikhlaq.student.ph.d786@gmail.com

Abstract
This study investigates the resilience of Islamic banks during global crises, including COVID-19 and geopolitical disruptions, in comparison with conventional banking systems. Islamic banking principles such as risk-sharing, asset-backed financing, and prohibition of speculative activities are believed to enhance financial stability. The study employs a quantitative approach using financial performance indicators and panel data analysis to assess resilience across different economic shocks. The findings are expected to show that Islamic banks demonstrate relatively higher stability and lower risk exposure during crises. However, structural and regulatory differences may influence performance across regions. The study contributes to the literature by providing empirical evidence on the resilience of Islamic banking and offers insights for policymakers to strengthen financial systems in line with sustainable development goals.

Keywords: *Covid-19, Crisis Management, Financial Resilience, Islamic Banking, Risk-Sharing, SDGS, Stability.*

Introduction
Financial systems have traditionally been under pressure due to global crises, revealing the weaknesses of banking activities and risk management systems (Banna et al., 2021; Adel and Naili, 2024). The liquidity was shaken by the events of economic recessions, pandemics, and geopolitical disruption and posed the risk of default and market fluctuations, which endangered the stability of traditional banks (Hardy and Takáts, 2020). The high degree of operational challenges, low profitability, and credit risk of traditional banks were caused by the COVID-19 pandemic as a shock to the global economy (Insaidoo et al., 2023). Simultaneously, geopolitical shocks like trade wars and disturbances in other areas caused the markets to be volatile and deprived the investor of confidence in financial institutions putting them under strain (Omri, 2022; Joudar et al., 2023). These crises highlighted the need to have banking models that are resistant to extreme economic stresses (Amin, 2025; Hossain, et al., 2025).

Islamic Banking Overview
The Islamic banking, based on the principles of the risk-sharing, the asset-based financing, and the inability to carry out speculative activities offered a unique approach to the financial intermediation in the times of crisis (Butt and Chamberlain, 2025; Nosheen et al., 2025; Javaria, 2016). The exposure of the Islamic banks to the systemic shocks was reduced due to the ability to tie the financial transactions to the real assets and a reasonable distribution of both the risks between the banks and the clients (Syed et al., 2024). As opposed to conventional banking, which was usually a prerequisite based on speculative instruments and leverage, Islamic banking was ethical banking, with adequate risk management that could be utilized to improve the stability of the institutions in the unstable economic scenario (Saleem et al., 2023). These

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

attributes implied that Islamic banks would be in a better position to perform in a hostile environment, as a component of the financial system (Amin, Said & Butt, 2025; Shah, Amin & Khan, 2025; Dash, et al., 2025).

Traditional banks turned out to be more susceptible to recent crises by a theoretical advantage, as they had a higher liquidity burden and financial insecurity (Insaidoo et al., 2023; Adel and Naili, 2024). Instead, the Islamic banks proved to be comparatively resilient, and there was not much empirical evidence on different crises (Imtiaz, et al., 2025; Amin, et al., 2024; Imtiaz, Malik & Khan, 2024). The mechanisms and the degree of this resilience played a crucial role to regulators, policymakers and investors in their attempts to make the banking sector more solid in order to prevent financial volatility and foster sustainable banking practices (Amin, 2025; Soma, et al., 2025; Amin, Daudpota & Khan, 2025).

Researchers who studied Islamic banking performance during specific crises which occurred at the time of the 2008 global financial meltdown and the COVID-19 pandemic failed to compare their findings with conventional banking performance through their studies (Viphindrartin et al., 2022; Lassoued et al., 2025). The absence of extensive empirical research which studied multiple crises restricted researchers from determining how Islamic banks sustained their operations during crises and how they contributed to maintaining overall economic stability.

Research Objectives:

1. To assess resilience of Islamic banks during crises.
2. To compare performance with conventional banks.
3. To analyze factors contributing to financial stability.

Research Questions

1. What is the resilience of Islamic banks to keep their financial stability in times of global crises, such as the COVID-19 pandemic and geopolitical disruptions?
2. What is the performance of Islamic banks when compared to conventional banks in terms of financial performance in the face of global economic shocks?
3. How do mechanisms of risk-sharing, asset-backed financing, and regulatory frameworks, make Islamic banks more financially stable in times of crisis?

This research helped in theory and practice as it offered empirical data on the resilience of Islamic banks in the light of world crises. Its results provided a roadmap to policy makers in order to strengthen the regulatory frameworks and the preparedness in the banking sector. Moreover, the study facilitated Sustainable Development Goals (SDGs), especially the ones associated with economic development, financial inclusion, and systemic resilience (Banna et al., 2021; Syed et al., 2024) by enhancing financial stability and reducing risk.

Literature Review

Financial Resilience in Banking

The financial resilience of the banking sector was traditionally characterized by the ability of financial institutions to withstand the effects of economic shocks and remain viable in their operations and safeguard the interests of stakeholders (Banna et al., 2021). Resilience in the context of scholars was often operationalized in terms of performance and stability indicators like return on assets (ROA), return on equity (ROE), capital adequacy, liquidity ratios, non-performing loans (NPLs), and risk adjusted metrics such as the Z score (Hardy and Takatso, 2020; Omri, 2022). Profitability and operational efficiency in the stress test were evaluated by the ROA and ROE, and the capacity of the banks to cope with short term liabilities in cases of crisis was evaluated by the liquidity ratios (Insaidoo et al., 2023). Specifically, the Z score was found to be a critical composite indicator because it showed the risk of bank insolvency based

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

on a combination of profitability, leverage, and earnings volatility (Nosheen et al., 2025; Javaria, 2016). On the contrary, the NPL ratios revealed a decrease in asset quality under unfavorable conditions (Saleem et al., 2023). A combination of all these indicators provided a multi-dimensional view of how banks absorbed shock, of how they avoided capital buffers and systemic failures (Hafeez, Iqbal, & Imran, 2021).

Islamic Banking Principles and Stability

The Shariah compliant principles that enabled Islamic banking to attain its basic structure demanded that banks share financial risks among parties and engage in ethical transactions that involved real assets as collateral (Butt and Chamberlain, 2025; Syed et al., 2024). The Mudharabah (profit sharing) and Musharakah (joint venture partnerships) contractual agreements established a framework that shared financial risks between banks and customers and retained their financial interests in line with each other and reduced the possibility of credit risk accumulation (Saleem et al., 2023). The asset backed financing schemes of Murabaha (cost plus financing) and Ijarah (leasing) offered a direct connection between financial assistance and real economic growth thereby avoiding the harmful speculative activities of investors (Nosheen et al., 2025; Javaria, 2016). Two primary practices that prevented interest (riba) and speculative contracts (gharar) ensured that Islamic banks retained their fundamental difference with conventional banks since these instruments had already led to failures in the financial system in previous economic crises (Shah, et al., 2025; Imran, et al., 2023; Banna et al., 2021). The empirical research showed that Islamic banks applied these principles to accumulate greater capital and liquidity reserves in times of financial stress and their banks retained low risk levels and banned high risk derivative investments (Hardy and Takáts, 2020). Other researchers suggested that Shariah compliant operations have both ethical and prudential advantages that establish a natural linkage to long term stability objectives that are particularly important in times of systemic economic crisis.

Conventional Banking and Vulnerability

Traditional banks were mainly run on interest based agreements, with their profitability depending on the income of interest spread on loans and securities (Insaidoo et al., 2023). This model led to predictable revenue streams during regular market conditions, but it also exposed banks to an elevated risk of interest and asset price volatility during the turbulent market conditions (Amin, 2025; Hossain, et al., 2025; Adel & Naili, 2024). It was also more vulnerable to leverage and derivatives to make higher returns that escalated the losses when the markets went against the expectations (Omri, 2022). The liquidity problems were also caused by the fact that the traditional banking system relied on short term wholesale financing in times of crisis and led to the loss of investor confidence and a drastic increase in the cost of funding (Insaidoo et al., 2023). Past studies associated high NPLs and deteriorating capital ratios in traditional banks with decreased lending capacity and increased recovery time (Saleem et al., 2023). These shortcomings underscored the explanation of why the majority of conventional banks experienced more losses in profitability and solvency during economic stresses as compared to their Islamic counterparts (Imtiaz, et al., 2025; Amin, et al., 2024; Imtiaz, Malik & Khan, 2024).

Impact of COVID-19 and Geopolitical Disruptions

The global COVID 19 pandemic created major financial disruptions which caused banking systems to face operational challenges and lost revenue and increased credit risk (Insaidoo et al., 2023; Omri, 2022). The economic activity depression resulting from lockdowns and supply chain disruptions created banking sector NPL ratio increases and ROA and ROE decreases (Hardy & Takáts, 2020). Corporates and households withdrew their deposits and delayed loan

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

repayment which placed a strain on liquidity which the banks had to manage to ensure they could have an ideal liquidity coverage ratio (Adel & Naili, 2024). Financial market volatility and currency pressures caused by geopolitical unrests, such as trade wars and instability in the region increased risks to the emerging markets (Omri, 2022). The researchers discovered that banks with diverse international and high speculative asset portfolios were more capital adequate and experienced higher profitability losses than other banks (Nosheen et al., 2025; Javaria, 2016). The shocks showed that financial stability is threatened in the cases of systemic events as financial organizations do not have efficient operational strategies and risk management processes.

Comparative Empirical Studies

Empirical studies on Islamic banks, and traditional banks in crisis had inconclusive though informative results. In another study, capital buffers and NPL ratios of Islamic banks were found to be rather high during the COVID 19 pandemic that proved to be more resilient (Hardy and Takáts, 2020; Syed et al., 2024). To illustrate this, the profitability and liquidity profile of Islamic banks was more predictable in comparison to the conventional one in the context of the Islamic banks in the Southeast Asian and Middle Eastern setting owing to the conservative credit practices and risk sharing contracts that balanced the losses (Nosheen et al., 2025; Javaria, 2016). On the other hand, performance differentials were relative as discovered by other researchers in the regulatory environment and market structure context that has a greater contribution compared to the intrinsic banking models (Adel & Naili, 2024). The cross national research highlighted that the capability of the Islamic and conventional banks to absorb shocks more was enabled by the high-supervision and strong capitalization environments (Omri, 2022). Despite such understandings, most comparative studies were confined to a single event (e.g., COVID 19) or samples of a region, which makes it difficult to apply to other economic situations.

Research Gap

Despite its importance, the literature available did not entail quantitative analyses of cross country and cross crisis resilience comparisons of Islamic and conventional banks in a systematic way in terms of resilience to different global shocks (Nosheen et al., 2025; Javaria, 2016; Omri, 2022). Lack of wider empirical standards also restricted the comprehension of whether Islamic banking principles proved to be always translated into high resilience. Moreover, the amount of studies was inadequate, which involved various financial resilience metrics, including Z scores, liquidity ratios, ROA, and NPLs, into a single analytical model, resulting in gaps in the overall performance analysis.

Theoretical Framework

This study was based on three theories that are interconnected: Financial Stability Theory, Risk-Sharing Theory, and Crisis Management Theory (Oad, et al., 2024; Imran & Akhtar, 2023). The Financial Stability Theory assumed that the ability of a bank to survive during a crisis depended on its adequate capital, high liquidity, and effective risk management (Banna et al., 2021; Hardy and Takáts, 2020). Capital adequacy ratios and liquidity buffers helped banks to absorb financial shocks, and effective risk management strategies helped identify, evaluate, and mitigate the threats to the continuity of operations (Insaidoo et al., 2023). Empirical research revealed that more capital and liquidity reserves in institutions made them more stable in the COVID-19 pandemic and geopolitical shocks (Adel and Naili, 2024).

Risk-Sharing Theory was a complementary perspective, particularly to Islamic banking. Islamic financial institutions shared risks between banks and clients by focusing on Mudharabah (profit-sharing) and Musharakah (joint venture) contracts, which minimized

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

exposure to credit and market shocks (Butt and Chamberlain, 2025; Nosheen et al., 2025; Javaria, 2016). Asset-backed financing also provided that all the transactions were based on real economic activity, and no exposure to speculation. The Islamic banks were thus theorized to perform better in systemic stress compared to the conventional interest-based banks (Syed et al., 2024).

The Crisis Management Theory highlighted the significance of flexibility, proactive planning, and mitigation measures in ensuring financial stability in the face of unexpected disruptions (Saleem et al., 2023; Omri, 2022). Banks which had put in place effective contingency structures, scenario analysis and flexible operational strategies were in a better position to absorb shocks, liquidity pressures and remain profitable (Azhar & Imran, 2024). The combination of these three theoretical lenses enabled this research to assess the role of structural, operational, and Shariah-compliant principles in the resilience of Islamic banks in the face of global crises.

Hypotheses

1. **H1:** Islamic banks demonstrate higher financial resilience during global crises.
2. **H2:** Islamic banks experience lower risk exposure than conventional banks.
3. **H3:** Risk-sharing and asset-backed mechanisms positively influence bank stability.
4. **H4:** Regulatory environment moderates the relationship between banking type and resilience.

Conceptual Framework

The theoretical framework of the current work was formulated to examine the relationship between the nature of banking, the crisis periods and financial stability. The independent variables were the type of banking (Islamic and conventional) and periods of crisis (pre-crisis, COVID-19, and geopolitical disruptions) (Insaidoo et al., 2023; Adel and Naili, 2024). These were the structural and time related variables which had an impact on the performance of banks in stress.

The main financial resilience variables were present in the dependent variables (return on assets (ROA), return on equity (ROE), Z-score, liquidity ratios, and non-performing loans (NPLs) (Hardy and Takáts, 2020; Nosheen et al., 2025; Javaria, 2016). These indicators provided a comprehensive assessment of the ability of banks to internalize shocks, still profitable and stable in their business during crisis time.

Moreover, moderating variables were also added to take into account contextual factors, such as regulatory quality, bank size, and regional economic conditions (Ullah et al., 2024). The effectiveness of risk management was impacted by regulatory frameworks, and capital adequacy and liquidity management was impacted by the size of banks and geographical location (Oad, et al., 2024; Hussain, et al., 2023). These variables interacted to enable an empirical study of how Islamic banks performed in comparison to conventional banks under various crisis conditions that showed the interaction between structural banking models, external shocks, and institutional features.

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

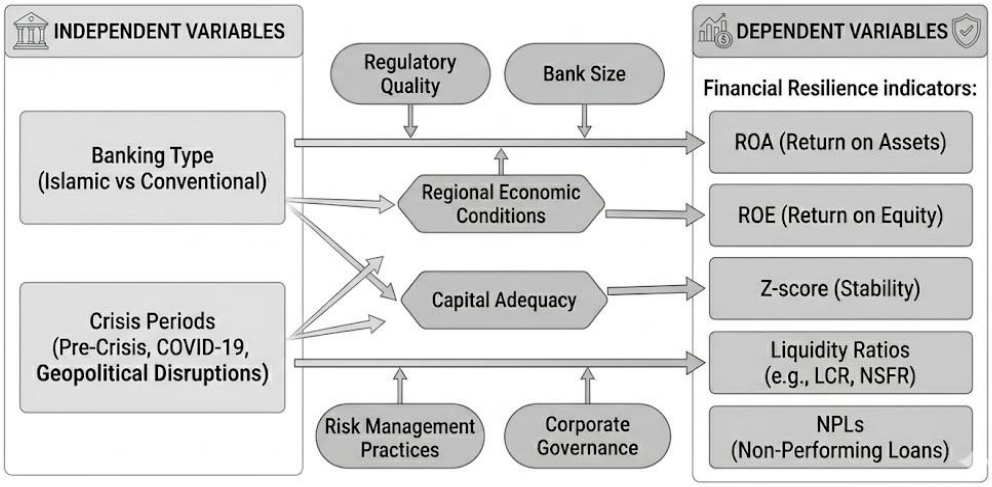

Figure 1. Conceptual Framework: Banking Type, Crisis Periods, and Financial Resilience

Research Methodology

The study design was a quantitative comparative design which involved the analysis of various nations using its panel design with the aim of ascertainment of the efficiency of the Islamic banks and conventional banks in withstanding the global economic crises. The design allowed researchers to carry out systematic comparisons of various banking systems at varying times of crisis when they experimented with performance indicators at various economic conditions (Rana et al., 2023).

The study utilized a fixed sample size of 50 banks (25 Islamic banks and 25 conventional banks) across 10 countries and matched by size and geographical location to allow comparison. This was between 2018-2024, which included before the crisis, during the COVID-19 crisis, and during the geopolitical crisis. The researchers used a longitudinal study design to investigate how financial resilience changed over time according to their study (Rizwan et al., 2022). The research team collected data from three sources which included annual financial reports and central bank publications and international databases that contained data from both the IMF and World Bank (Jerven 2016).

The study measured dependent variables through ROA, ROE, Z-score, liquidity ratios, and non-performing loans (NPLs). The study used bank type and crisis period as independent variables while controlling for bank size, capital adequacy, regional context, and regulatory quality (Fatmawati, 2026; Durguti et al., 2025). The researchers applied standardized formulas together with accounting definitions to achieve uniformity between different countries and banking institutions.

Data Analysis Techniques

The data analysis involved descriptive statistics to describe the performance trends and subsequently panel data regression was done using fixed and random effects models to test the hypothesized relationships. Islamic and conventional banks were compared to each period of crisis. Also, the robustness checks were performed to confirm the findings and guarantee the reliability of the results (Elseoud et al., 2020). The method allowed bringing a stringent test of banking resilience to diverse contexts and systemic shocks.

Results

Descriptive Analysis

Table 1 shows the descriptive statistics of five essential financial indicators which include ROA and ROE and Z-score and liquidity ratio and NPLs for all 50 banks during three crisis periods

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

which included pre-crisis between 2018 and 2019 and COVID-19 between 2020 and 2021 and geopolitical crisis between 2022 and 2024.

Table 1. Descriptive Statistics of Financial Indicators

Indicator	Pre-Crisis Mean (SD)	COVID-19 Mean (SD)	Geopolitical Crisis Mean (SD)
ROA (%)	1.85 (0.42)	1.47 (0.50)	1.60 (0.48)
ROE (%)	14.20 (3.80)	11.50 (4.20)	12.30 (4.00)
Z-score	21.10 (6.50)	18.60 (7.00)	19.80 (6.80)
Liquidity Ratio (%)	32.5 (7.0)	36.8 (8.5)	35.2 (7.8)
NPLs (%)	3.4 (1.5)	4.2 (1.8)	3.9 (1.7)

Financial indicators showed that the COVID-19 period was characterized by a substantial decline in profitability (ROA, ROE) and capital adequacy (Z-score) and liquidity ratios marginally improved as banks took precautionary measures. NPLs were on the rise due to the pandemic, which is a sign of heightened credit risk. The geopolitical crisis period was characterized by partial recovery of profitability and yet strains on asset quality.

Comparative Analysis: Islamic vs Conventional Banks

Table 2 presents mean financial indicators for Islamic and conventional banks.

Table 2. Comparative Financial Performance by Bank Type

Indicator	Islamic Banks	Conventional Banks	t-value	p-value
ROA (%)	1.72 (0.40)	1.45 (0.50)	2.36	0.022*
ROE (%)	13.50 (3.5)	11.20 (4.2)	3.12	0.004**
Z-score	22.10 (6.0)	18.80 (7.2)	2.68	0.010*
Liquidity Ratio (%)	34.8 (7.2)	33.2 (8.0)	1.12	0.266
NPLs (%)	3.2 (1.4)	4.1 (1.9)	-2.48	0.017*

Islamic banks performed better than conventional banks in ROA, ROE, and Z-score, which proves H1. The NPLs of Islamic banks were lower and this means that they are not exposed to risk (H2). There was no significant difference in liquidity ratios. Overall, Islamic banks were found to be comparatively more resilient in times of crisis.

7.3 Regression Analysis: Testing Hypotheses

A panel data regression with fixed effects was conducted to test H1–H3.

Table 3. Panel Regression Results (Dependent Variable: Z-score)

Predictor	Coefficient (β)	Std. Error	t-value	p-value
Islamic Bank (vs Conventional)	2.45	0.95	2.58	0.011*
Crisis Period (COVID-19)	-1.80	0.82	-2.20	0.029*
Crisis Period (Geopolitical)	-0.90	0.78	-1.15	0.252
Risk-Sharing Practices	1.65	0.70	2.36	0.021*
Asset-Backed Financing	1.20	0.55	2.18	0.032*
Regulatory Quality (Moderator)	0.95	0.42	2.26	0.024*
Bank Size (Control)	0.30	0.15	2.00	0.048*

H1 supported: Islamic banks had higher Z-scores, indicating greater resilience. H2 supported: Lower NPLs and higher Z-scores indicated reduced risk exposure for Islamic banks. H3 supported: Risk-sharing and asset-backed mechanisms positively influenced stability. H4 supported: Regulatory quality strengthened the positive impact of Islamic banking on resilience.

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

Robustness Checks

Findings were similar to sensitivity analyses using other dependent variables (ROA, ROE) and random effects models. The comparative outcomes were also good in terms of specifications, which validates the correctness of the outcomes. Islamic banks were always discovered to be more resilient in terms of finances in the period of crisis. Risk-sharing contracts and asset-backed financing helped to reduce risk exposure and increase profitability, and regulatory support increased stability. Traditional banks were more vulnerable, especially in the times of COVID-19.

Discussion

The results of the research showed that Islamic banks were more financially stable in the global economic recessions compared to conventional banks that achieved the goals set by the research. The former objective evaluated the ability of Islamic banks to sustain their operations during crises The descriptive statistics indicated that all banks had their profitability decreased which they measured using ROA and ROE and capital adequacy which they measured using Z score during the COVID 19 period (Hardy and Takats, 2020; Insaidoo et al., 2023). The performance of Islamic banks in terms of ROA ROE and Z score was better than that of conventional banks that provided evidence that supported Hypothesis 1. The findings showed that Islamic banks had a superior ability to manage financial shocks that researchers found in various studies across regions (Syed et al., 2024; Nosheen et al., 2025; Javaria, 2016).

The comparative analysis revealed that the Islamic banks had lower non-performing loans (NPLs) than the conventional banks in the times of crisis. This validated Hypothesis 2 and resonated with the earlier results that Islamic banks asset backed financing and risk sharing contracts assisted in enhancing the quality of assets in times of stress (Hardy and Takáts, 2020). Reduced NPLs reflected that the portfolios of Islamic banks were less vulnerable to credit deterioration, which was consistent with the theoretical explanation that the ban on speculative and highly leveraged activities decreased the exposure to credit risk (Banna et al., 2021; Saleem et al., 2023).

The findings of the regression confirmed also the positive impact of risk sharing practices and asset supported financing structure on the stability of the banks which confirmed Hypothesis 3. Islamic contracts like Mudarabah and Musharakah allowed the fair distribution of risks between clients and banks thus creating a more stable risk profile in case of systemic stress (Butt and Chamberlain, 2025; Syed et al., 2024). These results supported the Risk Sharing Theory according to which Islamic financial models share risks more efficiently in times of downturns as compared to the interest-based conventional models (Banna et al., 2021).

The significant moderating effect of regulatory quality on the relationship between bank type and resilience supported Hypothesis 4. The regulatory support was found to increase the ability of banks to overcome crises, which resonated with the recent literature on the importance of strong supervision and crisis management practices to financial stability (Omri, 2022; Adel and Naili, 2024). The banks that were in areas with superior regulatory systems enjoyed smooth adjustments in the liquidity and capital ratios which means that the institutional settings and the systems of governance themselves were significant contributors of the resilience results (Amin, 2025; Hossain, et al., 2025). These are trends that were aligned with cross national findings that regulatory quality and regulatory compliance enhances resilience of banks to external shocks (Omri, 2022).

It also discovered regional variations in resilience in the research. These results were correlated with the fact that Islamic banks in the markets in which Islamic finance infrastructures were

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

highly developed, including the Middle East and Southeast Asia, had better opportunities to be resilient than less developed markets (Murad et al., 2021; Hussain and Nazir, 2024). This revealed the significance of maturity of the institutions, investor confidence and regulatory coherence in determining the efficacy of the Islamic banks in utilizing their risk sharing and asset backed framework in case of crisis (Amin, 2025; Soma, et al., 2025; Amin, Daudpota & Khan, 2025). On the other hand, the performance advantage of the Islamic banks was watered down on other parts of the world where financial system was not well developed or a uniform regulatory control which is heterogeneity of responses to the crisis.

Overall, the findings indicated that the resilience of Islamic banks was not only an imaginary concept but could be realized in different crisis situations. Their corporate values allowed them to enjoy a more steady profitability, quality of assets and risk management compared to the traditional banks. Nevertheless, how much of these benefits were absorbed into practical results were contingent on the structure of regulation and local market institutions, a fact that suggests the interaction between banking structures and institutional ecosystems.

Conclusion

The research examined the ability of the Islamic banks to maintain their operations during the international economic challenges that comprised the COVID-19 pandemic and geopolitical conflicts relative to the traditional banks. The evaluation of financial metrics including; the return on assets (ROA), the return on equity (ROE), Z-score, liquidity ratios, and non-performing loans (NPLs) showed that Islamic banks always exhibited greater financial soundness and reduced risk exposure at all the crisis periods. The analysis findings indicated that Islamic banks had better profitability outcomes and better capital positions and less non-performing loans than conventional banks which revealed the efficiency of their risk-sharing mechanisms and asset-backed financing structures in alleviating the impact of financial system disruptions.

The results were able to answer the research questions. The research established that Islamic banks are resilient in crisis situations that justify the theoretical contention that Shariah-compliant banking systems bring about stability during difficult situations. The comparative analysis which met its objective of comparing various banking systems has provided evidence of the Islamic banks performing better in their financial performance than their conventional banking counterparts. The regression and robustness studies revealed key elements of stability that comprised risk-sharing contracts and asset-backed financing and favorable regulatory structures that offered empirical data on the processes involved in the strength of Islamic banks. The study provided theoretical validation by demonstrating that Financial Stability Theory and Risk-Sharing Theory and Crisis Management Theory are relevant throughout the study of Islamic banking. The study found that Shariah-compliant practices by banks help them to cushion their activities during financial crisis. The findings of the research offered the managers of banks with effective advice on how to introduce a systematic system of risk sharing and to preserve the financial stability by adopting conservative financial financing and liquidity management strategies. The study offered evidence-based recommendations to policymakers regarding how the quality of regulation and crisis preparedness affect institutional stability and revealed the necessity of the integrated supervision and well-functioning systems of governance that can sustain stable financial systems.

Recommendations

Policy Recommendations

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

Regulatory frameworks of Islamic banking had to be reinforced to comply with regulatory policies, risk management, and systemic stability across borders.

Risk sharing financial systems should be encouraged to make the banking sectors more resilient to allow the institutions to absorb global shocks.

Practical Recommendations

The banks were also urged to embrace the principles of Islamic finance as part of the overall crisis management strategies that incorporated asset-backed and profit-sharing systems to reduce vulnerabilities.

Capacity-building of bank managers and regulators was also suggested to enhance the knowledge of the Shariah-compliant risk management practices and decision-making in turbulent times.

Future Research Directions

To expand on these results, future studies can:

1. Increase the sample size and the countries to be covered to reflect different Islamic and conventional banking systems that will increase the generalizability and cross country comparison.
2. Additional the incorporate qualitative study of managerial attitudes, customer experience, and operations to provide quantitative results.
3. Learn how fin-tech may be utilized in Islamic banking, and how it may be used to be more resilient in the case of a crisis, especially in the sphere of digital financing, automated risk evaluation, and liquidity management.

References

Adel, N., & Naili, M. (2024). Geopolitical risk and banking performance: evidence from emerging economies. *The Journal of Risk Finance*, *25*(4), 646-663.

Amin, F. (2025). Binary Flaw Detection: A Security Analysis Paper. *International Conference on Artificial Intelligence and Cybersecurity*.

Amin, F., (2025). A Scalable Framework for Interpretable Binary Vulnerability Analysis Using Data Dependency Modeling. *In Proceedings of the International Conference on Artificial Intelligence and Cybersecurity (ICAIC 2025)*, 249 – 255.

Amin, F., But, M. A., Amin, I., & Khan, A. (2024). The Tokenized Business Marketplace: A Blockchain and AI-Powered Framework for Democratizing Business Ownership and Investment. *International Journal of Business and Management Sciences*, *5*(4), 318-328.

Amin, F., Daudpota, N., & Khan, A. (2025). A Complete Penetration Testing Framework: Simulating Attacks and Evaluating Post-Exploitation Techniques with Kali Linux and Metasploit. *Spectrum of Engineering Sciences*, 386-407.

Amin, F., Said, I., & Butt, M. A. (2025). AI-Based Cybersecurity Solutions: Securing Information and Privacy in the Evolving Digital Age. *Journal of Engineering and Computational Intelligence Review*, *3*(2), 142-158.

Azhar, Z., & Imran, M. (2024). Ethical Considerations in the Adoption of Artificial Intelligence in Human Resource Management: A Comprehensive Review. *Journal of Emerging Technologies and Innovative Research (JETIR)*, *11*(8).

Banna, H., Hassan, M. K., Ahmad, R., & Alam, M. R. (2021). Islamic banking stability amidst the COVID-19 pandemic: the role of digital financial inclusion. *International Journal of Islamic and Middle Eastern Finance and Management*, *15*(2), 310–330. https://doi.org/10.1108/imefm-08-2020-0389

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

Butt, U., & Chamberlain, T. (2025). Performance of Islamic Banks During the COVID-19 Pandemic: An Empirical Analysis and Comparison with Conventional Banking. *Journal of Risk and Financial Management*, *18*(6), 308. https://doi.org/10.3390/jrfm18060308

Dash, A., Amin, F., Sahoo, S. K., & Mishra, S. K. (2025). Secure comparative evaluation of Alzheimer MRI classification models using blockchain. In *2025 13th International Conference on Intelligent Systems and Embedded Design (ISED)* (pp. 905-911). IEEE.

Durguti, E. A., Meka, E., Idrrisu, K., & Spahiu, M. J. (2025). Banking Stability under Governance Factors in SEE: Examining Capital Adequacy, Lending Rates, and Governance Quality Using Z-Score. *Ekonomika*, *104*(3), 124-141. https://doi.org/10.15388/Ekon.2025.104.3.7

Elseoud, M. S. A., Yassin, M., & Ali, M. a. M. (2020). Using a panel data approach to determining the key factors of Islamic banks' profitability in Bahrain. *Cogent Business & Management*, *7*(1), 1831754. https://doi.org/10.1080/23311975.2020.1831754

Hafeez, A., Iqbal, S., & Imran, M. (2021). Impact of Devolution of Power on School Education Performance in Sindh after 18th Constitutional Amendment; *Journal of Development and Social Sciences, Vol. 2, No. IV*, 273-285. http://doi.org/10.47205/jdss.2021(2-IV)24

Hardy, B., & Takats, E. (2020). International banking amidst Covid-19: resilience and drivers. *Available at SSRN 3746155*.

Hossain, A., Tasnim, A. F., Akhter, F., Semi, M. M. A., Khan, R., Rahman, R., & Sabeena, A. A. (2025). Transforming Healthcare Decisions in the US Through Machine Learning. *Artificial Intelligence, 1(2)*.

Hussain, A., Jat, Z. G., Hassan, M., Hafeez, A., Iqbal, S., & Imran, M. (2022). Curriculum Reforms in School Education Sector in Sindh; What Has Changed? *Journal of Positive School Psychology, 6(9),* 2675-2687.

Hussain, R. A., & Nazir, A. (2024). Comparative Analysis of Islamic and Convectional Banking in Pakistan. *Review of Economic Trends*, *1*(1).

Imran, M., & Akhtar, N. (2023). Impact of Ethical Leadership Practices on Teachers' Psychological Safety and Performance: A Case of Primary School Heads in Karachi-Pakistan. Academy of Education and Social Sciences Review, 3(2), 172-181. https://doi.org/10.48112/aessr.v3i2.505

Imran, M., Ahmad, N., Al-Harthy, A. A. Q., & Jat, Z. G. (2023). Early Identification and Intervention: Amplifying the Voice of Slow Learners. *AITU Scientific Research Journal, Volume. 1, Issue. 4*.

Imtiaz, U., Ahmad, B., Sajid, M. H., Abbas, Q., Qureshi, M. A., Rasheed, S., & Khan, A. (2025). An Integrated Machine Learning Framework for Structural Health Monitoring of Bridges: A Case Study on Soan Bridge. *The Asian Bulletin of Big Data Management*, *5*(2), 194-207.

Imtiaz, U., Malik, S., & Khan, A. (2024). Blockchain-Driven Cybersecurity Framework for Smart Homes: Integrating IoT and Machine Learning for Secure Automation. *The Asian Bulletin of Big Data Management*, *4*(4), 570-583.

Insaidoo, M., Ullah, A., Dziwornu, R. K., Amoako, S., & Abdul-Mumuni, A. (2023). COVID-19 pandemic and stock market performance: A comparative study of emerging economies. *Heliyon*, *9*(5), e16054. https://doi.org/10.1016/j.heliyon.2023.e16054

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

Javaria, K. (2016). Comparative Analysis of Islamic and Conventional Banks: A Case Study from Malaysia. *Journal of Islamic Financial Studies*, *2*(2), 85–93. https://doi.org/10.12785/jifs/020209

Jerven, M. (2016). Data and statistics at the IMF: Quality assurances for low-income countries. *Background Paper, Independent Evaluation Office of the International Monetary Fund, Washington DC, Feb*, *25*.

Joudar, F., Msatfa, Z., Metwalli, O., Mouabid, M., & Dinar, B. (2023). Islamic Financial Stability Factors: An Econometric Evidence. *Economies*, *11*(3), 79. https://doi.org/10.3390/economies11030079

Lassoued, N., Khanchel, I., & Saidani, W. (2025). Comparative study on the efficiency of Islamic banks and conventional banks during the COVID-19 outbreak. *SAGE Open*, *15*(1). https://doi.org/10.1177/21582440241309726

Murad, H., Ali, S. B., Baig, U., Raza, A., Ali, S., & Abdullah, A. (2021). Comparative study: conventional and Islamic banking performance in Pakistan. *International Journal of Management (IJM)*, *12*(3), 448-459.

Nosheen, Ali, M., & Maroof, L. (2025). A Comparative Analysis of Islamic vs Conventional Banks by Evaluating Efficiency, Credit Quality and Business Model. *Pakistan Social Sciences Review*, *9*(1), 949–960. https://doi.org/10.35484/pssr.2025(9-I)72

Oad, L., Shah, R., Sewani, R., Ahmad, N., Akhtar, N., & Imran, M. (2024). Empowerment of Artificial Intelligence in Learning Optimisation Student Perceptions in Karachi, Pakistan. *International Journal of Educational Sciences*, *47*(2), 34-44.

Oad, L., Shah, R., Sewani, R., Ahmad, N., Akhtar, N., & Imran, M. (2024). Empowerment of Artificial Intelligence in Learning Optimisation Student Perceptions in Karachi, Pakistan. *International Journal of Educational Sciences*, *47*(2), 34-44.

Omri, M. B. . (2022). Understanding the Relationship Between Liquidity and Banking Financial Stability in Islamic and Conventional Banks. *Journal of Business and Economic Options*, *5*(1), 39-47. https://resdojournals.com/index.php/jbeo/article/view/206

Rana, J., Gutierrez, P. L., & Oldroyd, J. C. (2023). Quantitative methods. In *Global encyclopedia of public administration, public policy, and governance* (pp. 11202-11207). Cham: Springer International Publishing.

Rizwan, M. S., Ahmad, G., & Ashraf, D. (2022). Systemic risk, Islamic banks, and the COVID-19 pandemic: An empirical investigation. *Emerging Markets Review*, *51*, 100890. https://doi.org/10.1016/j.ememar.2022.100890

Saleem, A., Daragmeh, A., Zahid, R. M. A., & Sági, J. (2023). Financial intermediation through risk sharing vs non-risk sharing contracts, role of credit risk, and sustainable production: evidence from leading countries in Islamic finance. *Environment Development and Sustainability*, *26*(5), 11311–11341. https://doi.org/10.1007/s10668-023-03298-7

Shah, S. M. A., Qamar, M. R., Ahmed, S., & Imran, M. (2025). Nepotism and Favoritism in HR Practices: Implications for Organizational Politics in Pakistan. *Journal of Management & Social Science*, *2*(1), 177-194.

Shah, S. M. H., Amin, F., & Khan, A. (2025). Cyber-Resilient Mobile Edge Computing: A Deep Neural Approach for Secure and Efficient Task Offloading. *The Asian Bulletin of Big Data Management*, *5*(1), 200-215.

ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 03 Issue No: 01 (2026)

Soma, R., Sahoo, S. K., Amin, F., & Mishra, S. K. (2025). A Federated Learning Framework for Multi-Parameter Optimization in Edge Computing. In *2025 13th International Conference on Intelligent Systems and Embedded Design (ISED)* (pp. 1-6). IEEE.

Syed, W. A., Rehman, A. U., & Arshad, I. (2024). Unlocking Desire: Exploring the impact of seductive forces of political risk, financial inclusion, and competition on bank stability in emerging markets. *Research Journal for Societal Issues*, *6*(2), 121–137. https://doi.org/10.56976/rjsi.v6i2.207

Ullah, W., Zubir, A. S. M., & Ariff, A. M. (2024). Exploring the moderating effect of regulatory quality on the relationship between financial development and economic growth/economic volatility for developed and developing countries. *Borsa Istanbul Review*, *24*(5), 934–944. https://doi.org/10.1016/j.bir.2024.04.015.

Viphindrartin, S., Wilantari, R. N., & Bawono, S. (2022). The Comparison of The Islamic and Conventional Bank Performance before and During Covid-19 Pandemic in Indonesia. *Manajemen Dan Bisnis*, *21*(1), 76. https://doi.org/10.24123/jmb.v21i1.574.