



جامعة الإمارات العربية المتحدة  
United Arab Emirates University

The College of Graduate Studies and the College of Business and Economics

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**DBA Dissertation Defense**

Entitled

*THE RELATIVE RISK PERFORMANCE OF THE ISLAMIC SUKUKS OVER THE CONVENTIONAL BONDS: NEW EVIDENCE FROM VALUE AT RISK APPROACH*

by

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Date & Venue

9:00 AM

Sunday, 26 November 2017

Room 2021, H3 Building

Abstract

Sukuk are financial instruments similar to bonds that are compliant with Islamic Shari'a law. Since their inception in 2002, Sukuk markets have experienced dramatic growth rates attracting the attention of investors, analysts and researchers alike. Despite Islamic bonds (thereafter termed as Sukuk) which held successfully their place in the international bond markets, the literature survey reveals that there are limited empirical studies on risk analysis of Sukuk market from the investors' perspectives. Both the conventional bonds and Sukuk as financial instruments are exposed to various types of financial and market risks. The purpose of this dissertation is to explore the risk analysis of Sukuk market compared to conventional bonds. Using a value at risk (VaR) approach, we examine whether the Sukuk expose to higher market risk than conventional bonds. In addition, we investigate whether the inclusion of the Sukuk in the investment portfolio will provide diversification benefit to individual investors. We find that, for a given issuer, (conventional) Bond VaR is significantly higher than Sukuk VaR, indicating that Sukuks are less risky. We also find evidence of persistent Sukuk illiquidity. We further show that introducing a Sukuk allocation to a bond portfolio improves the risk-return tradeoff. The findings of this dissertation have important policy implication for investors and Islamic bond issuers. Moreover, they are of particular importance to policy makers.

**Keywords:** Islamic finance, conventional bonds, Islamic bonds, Sukuk, VaR, hedging analysis.