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Risks and Financial Indicators in Managing Bank Liquidity in Islamic Banks: A Case Study of Asia Islamic Bank for Finance and Investment in Iraq

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Abstract. The aims of this study to demonstrate the importance of liquidity indicators and the role of liquidity management in addressing liquidity risk and achieving alignment between the bank's objectives of maximizing profitability, determining an optimal level of liquidity and providing security for depositors and shareholders by following specific strategies and working according to specific mechanisms to achieve harmonization and alignment between its objectives Foremost among them is the forecasting, planning and follow-up of the volume and timing of cash flows, early disclosure of possible deficits and surplus cash balance and planning for investing surplus. In addition to using the financial ratios of the legal reserve, the legal liquidity ratio and the cash balance ratio through which the liquidity risk can be addressed and the bank's objective of securing optimal cash liquidity, maximizing profitability and providing security to the parties dealing with it can be achieved. Liquidity management should also pay attention to creating compatibility, balance and harmonization in the management of assets and liabilities and the role of reserves in securing liquidity.

Keywords: Financial Indicators, Bank.

INTRODUCTION

Praise be to Allah, Lord of all worlds, and may peace and blessings be upon our prophet Muhammad, the last of the Prophets and Messengers, as well as upon his family, companions, and those who follow their guidance with righteousness until the Day of Qiama.

Islamic banking has demonstrated unparalleled and distinguished presence since its actual operations began in the early 1970s. This remarkable presence indicates a growing demand for its products by customers and the increasing profitability of Islamic banking, primarily due to its higher risk profile. It is well-established that the higher the risk, the greater the returns.

As a result, Islamic banks face several risks that are no less significant than those encountered by conventional banks. Among these, liquidity risk is one of the most crucial credit risks that Islamic banks may encounter. This risk has garnered considerable attention from banking professionals, management, and regulatory bodies such as central banks and financial audit offices, due to its significant impact on the bank's operations, profitability, reputation, sustainability, and continued presence in the financial market.

Therefore, it is essential to understand the liquidity risks that Islamic banks may face, along with the methods for measuring and hedging against them. This necessity arises from the nature of banking operations and the challenges Islamic banks face in resorting to borrowing from the central bank to address liquidity shortages, which are considered the first line of defense against various risks that Islamic banks may encounter.

CHAPTER ONE: RESEARCH METHODOLOGY

1-1 Research Problem:

The research problem is rooted in the observation that the expansion and growth of Islamic banking activities in the present time led to risks, particularly in terms of liquidity loss or short-term sustainability. This exposes Islamic banks to financial crises that may result in their potential failure and collapse, especially when these risks extend to non-compliance with Islamic law (Sharia).

1-2 Research Significance:

The significance of this research lies in its focus on one of the most critical risks that banks, in general, and Islamic banks, in particular, may face. This risk affects a bank's ability to meet its obligations and continue its banking operations without encountering financial distress during repayment. The research underscores the importance of liquidity, which ensures that the bank can meet its commitments, especially during financial crises. Even the mere rumor of a liquidity shortage can lead to a loss of depositor confidence, potentially resulting in bankruptcy as depositors withdraw their funds.

1-3 Research Objective:

The objective of this research is to highlight the liquidity risks that banks, particularly Islamic banks, may face and the impact these risks may have on achieving their return rates. The study aims to use financial indicators to predict financial failure and the risk of liquidity shortages in Islamic banks.

1-4 Research Hypothesis:

The hypothesis of the research is that the use of liquidity financial ratios aids in predicting and identifying financial failure and liquidity shortages in Islamic banks.

1-5 Research Methodology:

The research adopts an inductive, deductive, and analytical approach, relying on books, literature, and articles that address this topic. For the practical aspect, the research utilizes data, information, and figures published in the financial reports of the bank under study.

CHAPTER TWO: THE CONCEPT, IMPORTANCE, AND COMPONENTS OF LIQUIDITY

2-1 The Concept of Liquidity:

One of the most liquid elements of wealth is cash, given its unlimited and complete ability to be converted into all types of goods and services available for consumption. From this perspective, liquidity is defined as the bank's ability to promptly meet its obligations by converting its assets into liquid cash quickly and without significant losses [5].

Generally, liquidity refers to the bank's ability to settle its current obligations individually without encountering financial distress during repayment [16].

Therefore, liquidity represents the cash held by financial institutions, including banks, or the assets readily convertible into cash without a loss in value. Consequently, one of the primary duties of a bank, as part of its strategy, is to always be capable and prepared to secure the liquidity of its financial position.

2-2 The Importance of Liquidity for Banks:

The significance of liquidity for banks can be summarized as follows:

1. The bank's constant need to address deposit withdrawals and meet its clients' demands for financing and credit facilities without missing investment opportunities.

2. Liquidity serves as a vital indicator for all parties interacting with the bank, instilling high confidence among borrowers, depositors, shareholders, and the financial market, assuring them of the bank's ability to respond promptly to their needs.
3. The availability of liquidity prevents the bank from having to sell its assets at a loss to meet its obligations.
4. Sufficient liquidity ensures that the bank does not have to resort to borrowing from other banks or the central bank [5].
5. Adequate cash liquidity enables the bank to face financial and operational risks arising from internal and external factors [8].

2-3 Components of Liquid Assets in Banks:

Banks should aim to arrange their assets to achieve two important goals: maintaining liquidity and maximizing profitability. The components of liquidity can be categorized as follows [5]:

1. Immediate Liquidity (Primary Reserve):
   This consists of readily available cash that banks hold and can use at any time without difficulty or significant losses. Although it does not generate returns for the bank, it serves as a safeguard for the bank's liquidity, maintaining the soundness of its financial position and ensuring timely fulfillment of its obligations. It also enhances customer confidence. However, excess reserves beyond the required limit can reduce the volume of credit granted, negatively impacting the bank's profitability. Therefore, prudent bank management must balance liquidity and profitability goals. Key components of the primary reserve include:
   - Coins and banknotes, whether in local or foreign currency, kept in the bank's vaults.
   - Balances with the central bank as a legal reserve, amounting to 20% of total deposits, used to protect depositors and influence the granting of credit or money creation.
   - Credit balances with local banks within the country and foreign banks outside the country, in foreign currencies.
   - Checks under collection submitted by bank customers for processing and crediting to their accounts in the bank.
2. Near-Cash Liquidity (Secondary Reserve):
   These are assets that can be quickly and easily converted into cash within a short period, such as short-term investments in securities, including stocks, bonds, commercial papers, and treasury bills. These reserves are characterized by their short maturity periods and low returns, contributing to the strengthening of primary reserves while generating some profits for the bank.

2-4 Types of Risks Faced by Islamic Banks:

Islamic banks encounter a range of risks, which can be briefly summarized as follows:

Credit Risk: This risk arises from the nature of the financing and financial instruments used by Islamic banks and is associated with fluctuations in the bank's net cash flow, potentially leading to a liquidity crisis. Credit risk specifically refers to a customer's inability to fulfill their obligations to the bank, such as installments or lease payments under contracts like Murabaha (cost-plus financing) or lease (leasing ending with ownership), or under working capital financing contracts like speculation (profit-sharing), Salam (advance payment), and Istisna (manufacturing contract) [7].

2-4-1 Joint Investment Risk:

This type of risk pertains to the financial loss a bank may suffer due to its involvement in financing any productive or service-oriented projects. In such cases, the bank becomes a partner in the risks associated with the project.

2-4-2 Profit Rate or Rate of Return Risk:

Generally, all banks face risks related to the rate of return when they experience market pressures to offer a return-on-investment accounts that exceeds the actual rate achieved on the assets financed. This situation may compel the bank to forfeit all or part of its share of the profit.

2-4-3 Currency or Market Risk:

These risks arise when a bank is exposed to fluctuations in the values of borrowed or invested currencies. Specifically, the bank faces the risk of foreign exchange rate fluctuations, where the value of its foreign currency-denominated assets or net investments might decrease due to changes in exchange rates. This situation could negatively impact the bank's revenues and shareholders' equity. Numerous cases have shown that increased burdens from obligations in certain currencies or a decline in the value of invested currencies can lead to significant losses. These risks accompany all Islamic banking operations, including Murabaha, speculation, and Musharaka (partnership) [17].

Other market risks include fluctuations in interest rates, securities prices, and commodity prices, particularly in partnership-based financing, as they accompany the activities of the bank's clients and the bank's own investment operations.

2-4-4 Operational Risk:

Operational risk refers to the potential for losses resulting from inadequate or failed internal processes, people (management and staff), or systems, due to human, professional, or technical errors, insufficient training, performance development, ineffective supervision, or external events [6]. Additional operational risks include those related to electronic banking and globalization, which affect Islamic banks similarly to conventional banks.

2-4-5 Sharia Compliance Risk:

Deviation from Sharia standards is considered one of the most significant operational risks facing Islamic banks. This risk stems from the inadequacy of personnel (both employees and management) within the bank or their lack of understanding of the Sharia rules and regulations, leading to failures in their application. This situation could immediately affect customer relations and trust in the bank, negatively impacting their willingness to deposit funds with the bank [4].

2-4-6 Liquidity Risk:

Liquidity risk occurs when there is an unexpected decrease in the bank's net cash flow, and the bank is unable to mobilize its resources at a reasonable cost, whether by selling its assets or borrowing through issuing new financial instruments. This incapacity prevents the bank from meeting its obligations as they come due or from financing new profitable business opportunities. In other words, it is the inability of the bank to fulfill its due obligations and provide the necessary funds without incurring losses or high costs [11].

2-5. Concept of Liquidity Risk:

Liquidity risk is defined as the inability of a bank to meet its obligations when they come due because of a lack of required cash, as well as the inability to secure appropriate and necessary financing. This risk also manifests when a bank is unable to finance an increase in assets without having to liquidate assets at unfair prices or resort to high-cost funding sources [5]. The Islamic Financial Services Board defines liquidity risk as: "The potential loss that an Islamic financial institution may incur due to its inability to meet its obligations or finance an increase in assets at maturity without incurring unacceptable costs or losses" [3].

2-6 Types of Liquidity Risk: (Madani, Ebrahimi, 2004, pp.80-81)

Liquidity risks can be classified from several perspectives, each reflecting a specific classification. Among them are:

1. Funding Liquidity Risk:

This type of risk arises when a bank is unable to efficiently manage expected and unexpected cash flows without negatively impacting its daily operations or overall financial position. These risks also occur when there is an unexpected decline in the bank's net cash flow, and it is unable to mobilize resources at a reasonable cost, either by selling assets or by borrowing through issuing new financial instruments. This situation leaves the bank

unable to meet its obligations when due or to finance new profitable business opportunities (Al-Jawadi, 2010, p. 164).

2. Market Liquidity Risk:

Sometimes, a bank may find it difficult to liquidate certain assets in its possession, whether through sale or mortgage, at prevailing market prices due to the difficulty in facilitating such transactions. If the bank is forced into this situation, it may incur losses that it is unwilling to bear. These losses are due to risks associated with interest rate fluctuations, currency exchange rate fluctuations, securities price fluctuations, and commodity price fluctuations. These risks accompany partnership-based financing operations as they are tied to the activities of the bank's clients (beneficiaries). They also accompany the investment operations carried out by the Islamic bank in areas where it invests its funds (such as Salam contracts, Istisna contracts, Mudaraba, and Musaqat contracts, etc.) [4].

3. Contingency Liquidity Risk:

This type of risk arises from unexpected withdrawals that a bank may face from customer deposits or sudden withdrawals from accounts with credit facilities granted to certain clients. This often occurs during times of political, economic, and environmental turmoil [4].

Chapter Three Liquidity Management and Financial Ratio Indicators

3.1 Liquidity Management:

Liquidity management is defined as the optimal investment of available funds to achieve the highest possible return while ensuring the ability to meet creditors' obligations at the minimum cost (Al-Shibli, 2002, p. 2).

This requires Islamic banks, like commercial banks, to achieve their objectives of profitability, safety, and liquidity when conducting their activities, such as providing banking services, attracting funds and savings, investing them optimally, and safeguarding depositors' funds.

To accomplish these goals, banks must develop an appropriate strategy, as illustrated in the diagram below. This process necessitates that the bank follows a logical sequence in risk management, starting with risk prediction and then moving on to the formulation of strategies aimed at reducing the likelihood of risks occurring [9].

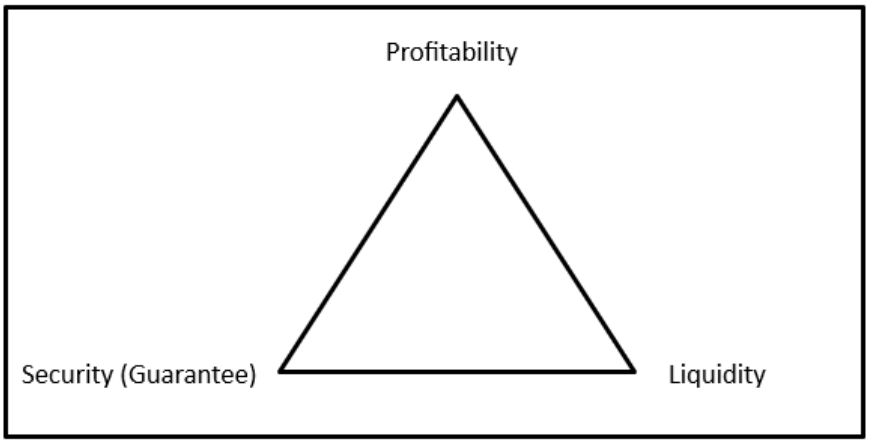


Figure 1: The Relationship Between Profitability, Liquidity, and Security (Guarantee) (Bank Objectives)

The primary objective is to achieve optimal profitability by increasing revenue, especially since the majority of costs are fixed. A decrease in revenue leads to a more significant decline in profits. The second objective is to avoid severe liquidity shortages, which can impact depositors' confidence. Depositors expect the bank to maintain a substantial amount of liquid assets and to allocate its resources to investments with minimal risk to protect the owners' and depositors' funds. However, this necessarily impacts the bank's profitability [10].

The third objective is to maximize safety (security) for depositors, especially when the bank's small capital is insufficient to provide the desired protection. Safety can also be achieved through regulations and central bank directives. However, according to Jessup, liquidity and safety should indeed be objectives for a commercial bank, but the bank's highest and ultimate goal is to maximize returns for the owners [18].

It is important to note that there is a trade-off among these three objectives. As the liquidity of assets increases, the bank's ability to generate profit decreases, while the level of safety (security) increases. This indicates an inverse relationship between liquidity and profitability. Conversely, as liquidity decreases, the ability of assets to

generate profit increases, while the level of safety decreases, suggesting a direct relationship between liquidity and safety (security). Therefore, a sound liquidity management strategy in any bank should follow certain strategies and operate according to specific mechanisms to achieve harmony and alignment among these objectives. Foremost among these is forecasting, planning, and monitoring.

Forecasting should involve predicting the volume and timing of future cash flows, allowing for early detection of potential cash deficits or surpluses, thus enabling preemptive action (the liquidity objective).

Planning is also crucial, as it helps identify potential surpluses and plan for their optimal investment (the profitability objective), especially considering the high opportunity cost of holding a portion of the bank's resources as idle cash that generates no return. Banks should determine the inflows and outflows of cash, forecast the size and timing of cash flows, and then evaluate alternative measures to address anticipated or unexpected cash flow deficits or surpluses.

Additionally, sound liquidity management must recognize that achieving liquidity at the cost of losses from converting assets into cash is not in the best interest of the bank or its owners, nor does it reflect efficient, effective, and sound management capable of balancing asset management with liability management. This includes the role of reserves in ensuring bank liquidity [5].

This requires the following actions:

- Analyzing liquidity and identifying maturity gaps.
- Maintaining a certain level of liquidity to meet outgoing cash flows, legally set between 30-35%.
- Diversifying sources of funding.
- Distributing loans across different economic sectors—industry, trade, agriculture, real estate—and various geographic regions to reduce concentration risk.
- Monitoring the bank's liquidity using various financial ratios and through the analysis of asset and liability maturities to create harmony and balance between them. This involves aligning the maturities of liabilities with the maturities of assets, as illustrated in Figure 2 below, which represents the mechanism of asset and liability management and the role of reserves in ensuring bank liquidity [5].

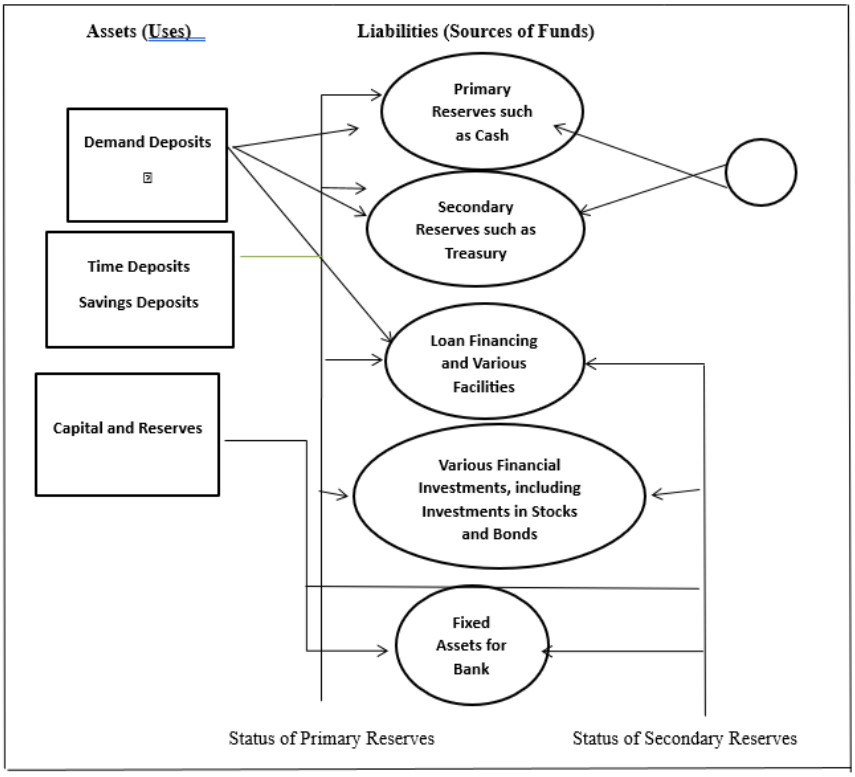


Figure (2) above illustrates the mechanism of managing assets and liabilities to ensure banking liquidity. Source:[5]. This mechanism facilitates the alignment and harmony between incoming and outgoing cash flows, as well as the synchronization and balance between the maturities of liabilities and the terms of assets.

3.2 The Key Financial Ratios for Evaluating Liquidity:

1. Legal Reserve Ratio: [5]

This ratio represents the deposits held by banks at the central bank, including the mandatory reserve and loss coverage reserve. It reflects the extent to which the cash assets held by banks at the central bank can meet the financial obligations owed by the bank. The Central Bank of Iraq has set this ratio at 20%, while the Central Bank of Jordan has set it at 7%. The legal reserve ratio is calculated using the following formula:

Legal Reserve Ratio (%) = (Legal Balances at the Central Bank + Mandatory Reserve + Loss Coverage Reserve) / Total Deposits (1)

2. Legal Liquidity Ratio:

This ratio measures the ability of primary and secondary reserves (cash and near-cash assets) to meet the bank's financial obligations under all circumstances. It is one of the most important indicators for evaluating liquidity management and is legally required to be between 30%-35% in economic systems (Al-Sisi, 1997, p. 34). The ratio is calculated as follows:

Legal Liquidity Ratio (%) = (Primary Cash Reserves + Secondary Near-Cash Reserves) / Total Deposits * 100 (2)

3. Cash Balance Ratio:

This ratio indicates the relationship between the bank's cash resources and its net financial obligations. An increase in this ratio allows the bank to extend more credit facilities to its customers and create more deposit accounts. Conversely, a higher ratio indicates lower liquidity risk because it reflects an increase in liquid assets (cash assets) that the bank uses to meet its obligations. It is calculated using the following formula:

Cash Balance Ratio (%) = Total Cash / Total Deposits * 100

Cash Balance Ratio (%) = (Cash in Vault + Cash at Central Bank + Other Liquid Balances) / Total Deposits * 100 (3)

4. Other Important Financial Ratios:

These ratios are significant indicators of a bank's financial condition and determine the bank's liquidity needs to meet deposit withdrawals and finance increased investment in various financing instruments. Some of these ratios include (Saleh, 2000, p. 28):

1. Current Ratio (%) = Current Assets / Current Liabilities
   The numerator consists of current assets (cash, investments, credit advances, debtors), while the denominator includes current liabilities (creditors, total current accounts, and deposits). A higher ratio indicates the bank's ability to meet its obligations from its current assets. It also suggests that the bank has high liquidity, which could lead to missed investment opportunities and reduced returns. Hence, a higher ratio indicates more liquidity, less risk, and lower profitability [10]
2. Total Deposits = Current Deposits + Savings Deposits + Time Deposits
3. Ratio of Total Cash to Total Assets = Total Cash / Total Assets * 100
   The numerator consists of total investments, including short-term and long-term investments, while the denominator comprises total deposits (creditor current accounts, savings accounts, demand accounts, and time accounts).
4. Cash to Total Assets Ratio = (Total Cash + Investments) / Total Assets
   The numerator includes cash in the bank's vault, cash at other banks, short-term investments, and long-term investments. A higher ratio indicates lower liquidity risk as it reflects an increase in cash assets and investments that the bank uses to meet its various obligations.

3-3 The Practical Aspect:

This section involves a case study of Asia Iraq Islamic Bank for Investment and Finance, which was established in 2018 under the establishment license numbered 9/3/4935 on March 9, 2018, with a capital of 155 billion Iraqi dinars. The bank commenced its Islamic banking operations on April 15, 2018, in accordance with the Islamic Banking Law No. (43) of 2015 and other applicable laws. By the end of 2021, the bank's capital had reached 250 billion Iraqi dinars. In 2022, the bank received a 2A rating according to the CAMEL rating system

and a "Positive-B" rating from the International Islamic Rating Agency, which is also accredited by the Central Bank of Iraq.

The key activities undertaken by the bank include:

- Opening various types of accounts, including savings, current, and time deposits in both Iraqi dinars and U.S. dollars, for individuals and companies.
- Providing financing options to individuals and companies based on Islamic principles, including Murabaha, Mudaraba, Musharaka, Ijara, and others.
- Financing small, medium, and large projects.
- Investing in financial products such as securities, certificates of deposit, and Islamic bonds (sukuk).
- Issuing letters of guarantee and opening letters of credit.
- Conducting internal and external financial transfers.
- Issuing electronic payment cards, including MasterCard, and dispensing cash via these cards.
- Selling cash dollars according to the Central Bank's instructions.

The practical aspect of this study involves the researcher analyzing liquidity indicators at Asia Iraq Islamic Bank for Investment and Finance using data obtained from the tables attached at the end of the study for the year 2022, which include the balance sheet, cash flow statement, investments, and commercial and financial papers. Through the legal reserve ratio formula (Equation 1), the researcher observes a logical relationship between the numerator and the denominator. The denominator in the equation represents various risks that the bank may face, while the numerator represents the portion of deposits that must be held by banks at the central bank, according to its laws and regulations, to address the possibility of significant withdrawals by depositors, which the bank may not be able to meet if it expands its investment and financing policies [1].

Based on this, it is observed that the approximately 35% reserve ratio required for Asia Islamic Bank as a legal reserve is relatively high, particularly if the financing structures are funded by the bank's own capital. However, if the financing is funded through joint investment accounts, liquidity risks would be lower since both parties would bear the risk of loss or according to the mudarabah contract with deposit account holders. This 35% ratio indicates limited expansion in various financing and investment structures, as it exceeds the 20% threshold mandated by the Central Bank of Iraq. This suggests a reluctance to expand investments, and the elevated ratio reflects the bank's ability to manage liquidity risks effectively and meet its obligations to depositors, demonstrating the bank's financial stability and liquidity.

Regarding the legal liquidity ratio, calculated using Equation (2) and based on the bank's balance sheet data (Annual Report, 2022, pp. 56, 59, 60), the ratio stands at 225%. This is significantly higher than the legal requirement of 30% to 35%, reflecting the bank's capacity to meet its financial obligations under various conditions. This high ratio indicates that the bank has sufficient primary and secondary reserves (cash and near-cash assets) to cover its financial commitments, implying that the bank is not at risk of liquidity problems. It also signifies an ample amount of cash and near-cash assets, enabling the bank to extend credit and investment opportunities to achieve substantial returns, as well as providing adequate coverage against potential losses.

The cash reserve ratio, calculated using Equation (3) based on the 2022 balance sheet data, is 547% of total deposits (Annual Report, 2022, pp. 56, 65). This high ratio highlights the relationship between the bank's cash resources and its net financial obligations. A higher ratio suggests that the bank is more likely to provide investment facilities to its clients and indicates reduced liquidity risk, as it reflects an increase in liquid assets (cash) available to meet other obligations.

The current ratio, calculated using Equation (4-A) and reported at 395% [1], demonstrates the bank's ability to settle its liabilities using its current assets. This high ratio indicates that the bank possesses a high level of liquidity, which might result in missed investment opportunities and a lower engagement in various financial activities, potentially leading to lower returns. Thus, while a high current ratio indicates more liquidity and less risk, it may also result in lower profitability.

The ratio of total cash to total assets, calculated using Equation (4-C) and reported at 34%, signifies a reduction in liquidity risk and an increase in cash assets. Similarly, the ratio of total cash and investments to total assets, calculated using Equation (4-D) and reported at 62%, indicates a decrease in liquidity risk, as it reflects an increase in cash and investment assets available to meet various obligations [1].

According to the bank's attached balance sheet, this ratio reaches 63%, further indicating a reduction in liquidity risk due to the increased availability of cash and investments to address the bank's various obligations.

CHAPTER FOUR: CONCLUSIONS AND RECOMMENDATIONS

1. Conclusions:

The following conclusions have been reached:

1. Inherent Risks: Various risks are inherent in any banking activity, and banks must take appropriate measures to mitigate these risks; otherwise, they could result in losses for the bank and the entire banking system.
2. Islamic Banking Principles: Islamic banks operate based on the principles of Islamic Sharia, which govern their activities. Deviating from these principles is a significant risk for these banks, in addition to the risks they face as institutions handling deposits and investments.
3. Liquidity Ratios: It is essential to use financial liquidity ratios to detect liquidity shortages that Islamic banks may face, similar to traditional banks.
4. Sharia Compliance and Borrowing: Islamic banks operate in accordance with Islamic Sharia, which prohibits interest (riba). This prohibition complicates the ability to seek loans from central banks in the event of liquidity shortages.
5. Legal Reserve Ratio: The legal reserve ratio is one of the cushions that can absorb unexpected losses or meet financial obligations in the event of a significant and sudden withdrawal of deposits.
6. Legal Liquidity Ratio: The legal liquidity ratio is also a tool for early detection of liquidity shortages and financial failure, necessitating effective measures through planning and oversight.
7. Comparison with Traditional Banks: The research indicates that Islamic banks are generally more secure than traditional (commercial) banks concerning liquidity shortages and their associated risks, due to their limited financial instruments and restricted expansion in customer financing.
8. Disclosure Requirements: There is a need for Islamic banks to disclose their financial activities through financial statements, in addition to general balance sheets, income statements, and cash flow statements.

2. Recommendations:

Based on the conclusions drawn from both theoretical and analytical perspectives, the researcher recommends the following to Islamic banks:

1. Adopt Liquidity Ratios: It is advisable for Islamic banks to adopt legal reserve ratios, legal liquidity ratios, and cash reserve ratios as measures to address liquidity shortages.
2. Central Bank Policies: The central bank should establish specific policies allowing the use of legal reserves in a manner that enables Islamic banks to expand their financial activities. Since the central bank is responsible for issuing currency and does not require money, it should assist Islamic banks.
3. Support Policies: The central bank should develop support and assistance policies for Islamic banks facing liquidity shortages, including establishing a system for benevolent loans and promoting cooperation and coordination among Islamic banks under the central bank's or a specialized entity's supervision.
4. Balance and Alignment: It is crucial to balance and align the maturities of assets, liabilities, and both primary and secondary reserves.
5. Issuing Guidelines: The central bank should issue guidelines and directives for classifying liquidity and credit, adopting qualitative analysis, and implementing modern techniques.
6. Liquidity Management: To achieve the objectives of profitability, liquidity, and security, liquidity management must adhere to specific mechanisms, including forecasting, planning, and monitoring cash flow volumes and timing, and identifying potential deficits and surpluses for strategic investment planning.
7. Deposit Insurance Institution: Establish a deposit insurance institution for depositors and investors in Islamic banks, with its capital contributed by Islamic banks operating in various countries.

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