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A study on the Relationship between Liquidity Risk and Financial Performance of Libyan Commercial Banks

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Abstract

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The literature provided some evidence to support a positive association between strategies that banks follow while mange the liquidity and risk and banks performance. In Libyan context, no studies have explored the characteristics of risk management in general and specifically liquidity risk management, or the effect of such management on banks performance. Libyan commercial banks operating in the western region were identified as the study's population. Boards of directors and members of risk committees, executive managers, and department heads of Libyan commercial banks were among the potential constituents. Liquidity risk management, as well as financial performance, were the primary criteria for selecting these special interest groups. Sample size was carefully chosen, and structured questionnaires were given to participants to elicit their opinions and knowledge about the impact of bank risk management on the financial performance of universal banks in this study. A partial least squares (PLS) technique was used to analyse the empirical data using structural equation modelling (SEM). Banks' liquidity risk management and financial performance, as measured by bank managers' perceptions, had a significant positive relationship. Thus, liquidity risk management is a major antecedent for the financial performance in the Libyan banking industry.

Keywords: Liquidity risk, Financial performance, Risk management, Commercial bank, Libya

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Introduction

Banks and financial institutions are essential not just for financing activities, but for providing all kinds of financial services. Increased financial performance is the best approach to improve a business' financial activities, say researchers and students studying financial performance. The measuring of financial institution performance in the fields of finance and management has evolved considerably. These financial institutions are part of

a sound financial system since they help investors get access to capital and the money market in a country (Ansari, Munir, & Gregg, 2012).

Commercial banks (CBs) differ from other private corporations in that they provide a wide range of services, from mobilising deposits to lending money to remittances and international banking to helping implement monetary policy at the highest level. They are also unique in terms of the level of regulatory attention and the types of assets and liabilities they hold that only CBs have. The value of a company's common equity to its shareholders, on the other hand, is the ultimate test of a CB's performance. This means that when it comes to performance evaluation, CBs need to receive special treatment and consideration.

The banking business involves the transformation of deposits into loans (Hachem & Song, 2016). This basic function, also known as financial intermediation, relies on a maturity mismatch between the bank's assets and liabilities, making them exposed to bank runs (Brunnermeier, Gorton, & Krishnamurthy, 2013). Over the years, banking has increasingly become a complex business to run, due to the intertwined set of risks involved (Bonfim & Kim, 2012).

Liquidity in banking is very essential, in that a bank needs to keep adequate cash or other liquid assets to meet the withdrawal demands of customers as well as their loan demand (Hryckiewicz & Kozłowski, 2017). The International Monetary Fund (IMF), defines funding liquidity as "the ability of a solvent institution to make agreed-upon payments in a timely fashion" (Drehmann & Nikolaou, 2013). As also reiterated by Edem (2017), funding liquidity could be described as the ability of banks to meet their obligations with immediacy, so by implication, funding liquidity risk is the possibility that within a certain time frame, a bank becomes unable to settle its obligations with immediacy.

Linking this to banking, liquidity can be seen as the ability of banks to meet the withdrawal demands of customers, the absence of which can lead to a run on the bank (Kashyap, Rajan, & Stein, 2002). A run on the bank occurs when all the customers of a bank are seeking to withdraw their deposits for fear of the fact that the bank would not be able to meet their withdrawal demands in the future. Such a situation could actually lead to a bank failure, as the bank liquidity problem could now pose a threat of solvency.

Tibor and Veronika (2011) stated that liquidity is easier to recognize than to define. Liquidity is a complex concept defined by multiple factors, which are used in different ways. Basically, the term liquidity means how easy we can generate cash from assets. Cash may be generated either by using creditworthiness to obtain external funds, or by the sale of owned assets in the market (Tibor & Veronika, 2011). According to Denčić-Mihajlov, Malinić, and Grabiński (2015) liquidity is interpreted as the ability of a company to pay outstanding liabilities as they come due. It is also true that both the asset structure and the capital structure are important determinants of liquidity. Liquidity is a complex concept and cannot be described by using just one indicator. Due to its complexity, liquidity can be explored in various contexts. Some studies explore the optimal level of the volume of current assets (Denčić-Mihajlov et al., 2015), while others focus on the relationship between the volume of current assets and the company´s profitability. The most common indicators of measuring liquidity are the current ratio and the quick ratio (also referred to as the acid-test ratio). They are static measures of liquidity, based on forced liquidation of assets, and do not measure the ongoing ability of a firm to go back to cash (Karanović, Karanović, & Gnjidić, 2018).

Assessment of financial performance is highly useful to identify the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account (Khairi, Laili, & Sabri, 2014; Tugas, 2012). It also helps in short-term and long-term forecasting and growth can be identified with the help of a financial performance analysis. Moreover, bank performance assessment can also help improve managerial performance by identifying best and worst practices associated with high and low measured efficiency (Iyer & Banerjee, 2016; Singh, Sidhu, Joshi, & Kansal, 2016).

Commercial banks contribute significantly to the mobilisation of financial resources for investment in Libya by extending credit to a variety of businesses and investors (Barghathi, Collison, & Crawford, 2017). Lending is the lifeblood of the banking industry, and loans and advances are the industry's dominant assets, accounting for the lion's share of operating income. Loans, on the other hand, expose banks to the highest level of risk. Failures of commercial banks have been relatively high in recent years in all over the world while the reason of each bank failure is somewhat unique experiences, which differ from one bank to another (Al-Jarrah, Al-Abdulqader, & Hammoudeh, 2019). Numerous banks have failed in recent years, including Al-Ahli Commercial Bank and Umma Bank in Libya, as a result of poor facility management, as evidenced by high levels of non-performing loans (Elsakit, 2017). Given the recent emphasis on liquidity risk management by commercial banks, the extent to which this factor contributes to financial performance has not been quantified, necessitating this study. As a result, the researcher turned to the study of liquidity risk which provides natural experiments for improving the performance assessment of Libyan commercial banks (Barghathi et al., 2017; Elsakit, 2017).

Financial managers have traditionally placed a premium on liquidity. Liquidity issues frequently result in a deterioration of one's financial status and even bankruptcy (Raykov, 2017). As a result, it is critical to manage liquidity risk in order to limit its negative impact on the organisation. It is widely accepted that even the most prosperous business can go bankrupt if its liquidity is not managed properly (Blach, Wieczorek-Kosmala, Gorczynska, & Dos, 2014). To ensure a company entity's optimal liquidity, particular business management tasks are required. In order to manage liquidity effectively, management must take a complete and in-depth look at the financial state of the business entity in question. In terms of liquidity, this entails monitoring the asset structure and sources of asset financing, the link between short- and long-term asset financing sources, as well as the main actions that determine the speed with which assets circulate throughout the business process. Maintaining a healthy balance of current assets and current liabilities is critical for the company's performance and value enhancement (Hiadlovsk, Ryboviová, & Vinczeová, 2016). This study investigates the existence of organised risk management for business and financial risks, as well as the knowledge and application of liquidity risk and risk management techniques in business operations, as well as the perceptions of business subjects regarding the importance of liquidity risk management in business. Numerous studies have demonstrated the critical nature of liquidity for both firms and investors. For starters, it introduces risk (Brunnermeier & Pedersen, 2008); secondly, illiquid forms must generate larger returns; and thirdly, liquidity is a significant predictor of capital costs (Karanović et al., 2018). Duse, liquidity risk is a significant risk factor. A critical aspect affecting liquidity is the type of business with which a company entity is involved. While the activities of a corporate organisation is critical in determining its liquidity, the structure of its assets and liabilities is equally significant. The asset and

liability structure of a company organisation is highly correlated with its size (Hryckiewicz & Kozowski, 2017).

No research has been conducted in Libya on the characteristics of risk management in general, and specifically on liquidity risk management, or on the influence of such management on bank performance. Thus, the goal of this research is to close this gap by focusing on Libyan Commercial Banks (LPCB) and examining the influence of liquidity risk management on the financial performance of banks.

Literature Review

The Theory of Liquidity Preference

According to Keynes, people value money for both "current business transactions and its use as a store of wealth." As a result, they will forfeit the ability to earn interest on money they intend to spend immediately and want to keep on hand as a precaution. When interest rates rise, however, they become more willing to hold less money for these purposes in order to earn a profit (Baron & Kenny, 1986).

E. Elgar (1999) states that one requires money to finance expenditure plans, speculate on the future path of interest rates, or, finally, because one is uncertain about the future, it is prudent to hold a portion of one's resources in the form of pure purchasing power. These motives for money demand became known as transactional, speculative, and precautionary motives. The banks' liquidity preference approach implies that banks should pursue active balance sheet management rather than passively accommodating credit demand.

It is widely recognised that the banking industry plays a critical role in enhancing and maintaining financial and economic stability in both developing and developed countries (Gamal et al., 2017). As is the case in other countries in the region, Libya's banking sector is the primary source of financial services for the economy (Troug & Sbia, 2015). With 11 commercial banks and total assets of LYD 73.2 billion (as of the end of 2013), the banking sector accounts for 81 percent of the financial sector's total assets. These banks are divided into three categories: seven privately held banks (including three with 49 percent foreign ownership), two jointly owned banks by the Libyan government (51 percent) and foreign states (UAE and Qatar), and four large state-owned banks (including two with a 19 percent stake owned by foreign strategic partners) (Troug & Sbia, 2015).

The literature established a positive correlation between banks' liquidity and credit risk management strategies and their performance under conditions of high uncertainty dynamism (UD) (Chi & Li, 2017; Zhongming, Mpeqa, Mensah, Ding, & Musah, 2019). In contrast, when perceived environment uncertainty is low, there is no relationship between risk management and organisational performance, or there may be a negative relationship. These studies suggested that the relationship between risk management and bank performance is conditional on the degree of uncertainty in the environment in which the bank operates (Li & Simerly, 1998; Sicotte & Bourgault, 2008).

According to Aydemir and Guloglu (2017), the banking sector in Libya has been predominantly dominated by the public sector which controlled the bulk of its financial activities which makes Libya’ s financial system is outdated and highly centralized. However, Libya since 2005 started to reform its banking system, since the highly centralized banking system is widely seen as the main obstacle to growth, as well as in response to international pressures to modernize their financial system (Bryson, 2018). The rapid developments witnessed by the new technology and the increased demand for ICT in

banking sector, which in turn improve the quality of banking services, became obvious and unavoidable internationally in general and in Libya in particular (Aydemir & Guloglu, 2017). Thus it is important to take appropriate steps to help Libyan banks engage in the global economy and stand on an equal footing with international banks through reformulation strategies and policies with a more sophisticated and comprehensive shift towards e-banking, in order to enhance the quality of service and the competitiveness of Libyan banks in both the domestic and international arenas (Banerjee & Jackson, 2017).

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Trivedi & Shilpa, 2010).

Liquidity Risk

Liquidity risk management entails maintaining an adequate cash position, marketable securities, and funding availability for committed credit facilities (CBK, 2016). BCBS (2008) asserts that banks' fundamental role in converting short-term deposits to long-term loans exposes them to liquidity risk. A liquidity crisis at a single bank can have systemic consequences. The global subprime mortgage crisis of 2007–2008 underscored the critical nature of liquidity management in the banking sector. The Basel Committee published its "Principles for Sound Liquidity Management and Supervision," which defined liquidity as having two components: funding liquidity and market liquidity. Liquidity of funding refers to an organization's ability to raise capital. Market liquidity is high if it is straightforward for an organisation to raise funds through the sale of an asset, rather than through borrowing against it as collateral. If the magnitude of the impact varies randomly over time, liquidity becomes a risk factor (Clemens, Iman & Robert, 2015).

Lartey, Antwi and Boadi (2013) proposed a number of methods for quantifying liquidity risk, including the cash in hand to asset ratio, the liquidity ratio, the borrowing fund-asset ratio, the borrowing fund-deposit ratio, the cash reserve ratio, the deposit-credit ratio, the lending fund-deposit ratio, and the debt paying ability. Mohamad Norazwa and Hawati (2015) examined Liquidity Risk and Performance in Bahrain and Malaysian Banks. For the period 2008 to 2014, panel data were used to determine liquidity risk. The changes in the current ratio, growth in total asset loan volatility, bank capitalization, deposit volatility, loan to deposit ratio, management efficiency, interbank ratio, and bank size were used as indicators of liquidity risk. Deposit volatility, bank capitalization, growth in total asset loan volatility, management efficiency, bank size, and loan to deposit ratio all play a role in determining liquidity risk. For banks in Bahrain, deposit volatility and liquidity risk had a significant negative relationship; higher deposit volatility results in decreased liquidity, which increases liquidity risk exposure. Additionally, it was discovered that the bank capitalization coefficient had a positive and significant relationship with the liquidity risk of all banks.

Bastomi, Salim & Aisjah (2017) examine liquidity risk in three ways. The first is considered when a bank is unable to raise funds at a reasonable cost due to interest rate levels, transaction volumes, and funding difficulties with a counterparty. The second perspective views liquidity as a safety net that enables gains in difficult circumstances. Thus, liquidity risk exists when there is a mismatch between short-term assets and short-

term liabilities. The final perspective is one in which liquidity risk is viewed as an extreme circumstance. Such situations arise when a significant loss results in liquidity issues. While large-scale deposit withdrawals can create liquidity risk in the banking sector, they are unlikely to be a significant source of liquidity risk. Additional factors that may contribute to liquidity risk include large commitments or a high exposure to long-term lending, which may result in liquidity problems (Abdullah, 2016).

Saeed and Bampton (2013) examined the determinants of banking sector profitability in Bangladesh, examining both bank-specific and macroeconomic determinants. The research findings indicate that liquidity levels have a significant impact on a bank's profitability. This finding is consistent with that of (Dang, 2011), who discovered that an adequate level of liquidity has a positive relationship with bank profitability. Other authors discovered insignificant relationships between liquidity risk and bank profitability (Paulinus & Jones, 2017).

Kazi and Khalid (2012) examined the effect of liquidity risk on bank performance in European Union member countries using panel data for the three years to 2009 and sample data from 23 European Union member countries. The results indicated that there was a negative correlation between liquidity ratios and performance. On the other hand, other authors discovered that the ratio of loans to deposits as a proxy for liquidity risk is significant and positively related to net interest margins in their research on liquidity risk and performance in EU countries (Brown & Moles, 2014). Ibtissem and Bouri (2013) examined the effect of liquidity risk management on firm performance in Pakistan's traditional banking sector. For the period 2009 to 2013, the study examined two banks and discovered that the current ratio was negative and significantly related to performance. Similar studies have demonstrated a significant inverse relationship between the current ratio, a proxy for liquidity risk, and performance (Nowak & Wójtowicz, 2015; Saebi, Lien & Foss, 2017).

Arif and Anees (2012) conducted research in Pakistan on liquidity risk and its impact on bank profitability. The study discovered a significant negative correlation between liquidity, deferred loans, and liquidity gap and performance. In a similar study conducted by (Ahmed & Ahmed, 2012), they examined 22 banks in Pakistan from 2004 to 2009. The findings indicated that bank deposits and cash had a significant positive relationship with performance, whereas the non-performing loans ratio had a negative relationship with performance. Similarly, (Chen, Shen, & Kao, 2010) examined the relationship between bank liquidity risk and performance for commercial banks in 12 advanced economic countries from 1994 to 2006 and discovered that liquidity risk was a determinant of bank performance. Alper and Anbar (2011) examined the special and macroeconomic determinants of Turkish bank performance from 2002 to 2010 using panel data and discovered that liquidity had a positive effect on the bank's performance. Other authors found a similar effect on the performance of 15 Iranian banks from 2003 to 2010 (Naser, Mohammad, & Ma'someh, 2013).

Nora and Maytham (2015) examined the liquidity risk and performance of 21 commercial banks in Malaysia from 2005 to 2013. This study analysed panel data from this time period. The loan-to-deposit ratio, the liquid asset-to-total asset ratio, and the capital-to-asset ratio were all independent variables. Performance was the dependent variable, as measured by return on assets and return on equity. The loan-to-deposit ratio had no statistically significant relationship with measures of bank performance. In terms of liquid assets to total assets and capital ratios, both liquidity risk indicators had a significant correlation with bank performance measures. The negative result of liquid asset to total

asset implies an inverse relationship, which is to the detriment of banks with a higher level of liquid assets. Capital ratio effects on performance cannot be inferred due to the mixed results, which show positive significant effects with return on assets and negative effects with return on equity. The authors concluded that liquidity risk measures may differ due to a variety of factors such as bank regulations and policy that may affect how banks manage the effects of liquidity risk, and they recommended additional research to clarify the relationship.

BCBS (2008) published principles of sound liquidity risk management and supervision where fundamental principles for the management and supervision of liquidity risk were highlighted. Thus banks should have risk management framework that ensures availability of liquidity assets sufficient to survive stress environment (Kim, 2015). The principles recommend that banks should identify, monitor, measure and control potential cash flows related to off balance sheet commitments and contingent liability as most banks lend and underestimate the liquidity risk. Abdulla, Atheer and Delan (2017) posits that a requirement for effective liquidity management is to have both strong internal and external controls systems over daily operations, it calls for having contingency plans in place in case they face liquidity.

Kumar (2005), in his unpublished thesis on relationship between liquidity risk and financial performances of commercial banks panel data for 33 banks for the period 2008 to 2012 was used, the results were Liquidity gap and leverage had significant negative results to performance. In a similar research done in Kenya by other author where 43 commercial banks were used for the period 2010 to 2013 the findings were asset quality and banks to total Assets as proxies of liquidity were negatively correlated to performance and significant (Mwangi, 2014).

Muriithi, and Waweru, (2017) The study examined the effect of liquidity risk on financial performance of commercial banks for the period 2005 and 2014 for all the 43 registered commercial banks. The independent variables proxies for liquidity risk included liquidity coverage ratio and net stable funding ratio and dependent variable for performance was return on equity (ROE). Data was collected from commercial banks website and Central Bank of Kenya. Panel data techniques of random effects estimation and generalized method of moments were used. Findings were net stable funding ratio is negatively associated with bank profitability both in long run and short run while liquidity coverage ratio was not significantly for commercial banks in Kenya both in long run and short run. Liquidity risk had a negative effect on financial performance thus bank's management should pay attention to the liquidity management. For this thesis using secondary data the following were used to measure Liquidity risk, liquid assets to total assets (LQ1) and total assets to total deposits (LQ2).

The Relationship between Liquidity Risk Management and Commercial Bank Financial Performance

Konadu (2009) discovered no positive relationship between liquidity trend and profitability in Ghana's banking sector and concluded that there is a negative relationship between liquidity and profitability. According to Lamberg and Valming (2009), adaptation of liquidity strategies has no discernible effect on ROA. Only a greater reliance on liquidity forecasting and short-term financing during the financial crisis benefited ROA. Additionally, it was discovered that the importance of key ratios used to monitor a company's liquidity has remained constant over the time periods studied. Li (2007) discovered that the effect of liquidity on profitability is mixed and non-significant,

indicating that the impact of liquidity remains debatable and that additional research is necessary. In their 2013 study, Lartey et al. (2013) discovered a weak positive relationship between the liquidity and profitability of Ghana's listed banks. Olagunju et al. (2011) concluded in their study in Nigeria that commercial banks should not compromise on efficient and effective liquidity management, and that both illiquidity and excess liquidity are "financial diseases" that can easily erode a bank's profit base by impeding the bank's attempt to achieve a high level of profitability. Bordeleau & Graham (2010) suggest that a nonlinear relationship exists in which banks with some liquid assets improve their profitability; however, there is a point beyond which holding additional liquid assets reduces a bank's profitability, all other factors being equal (Mwangi, 2014). Simultaneously, estimation results indicated that the relationship between liquid assets and profitability is highly dependent on the business model of the bank and the risk of funding market difficulties. By adopting a more traditional (deposit and loan-based) business model, a bank can maximise profits while maintaining a low level of liquid assets. Similarly, when the probability of encountering market difficulties is low (as measured by economic growth), banks must hold less liquid assets in order to maximise profits. Against this backdrop, the following hypothesis is advanced.

H: Liquidity risk management has a positive association with financial performance.

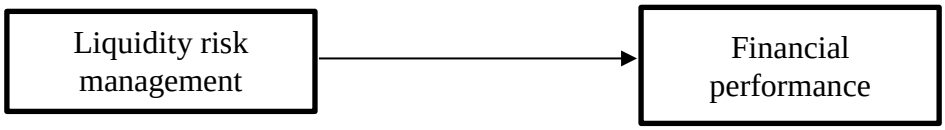

Figure 1 Conceptual Framework

Methods

A standard rating questionnaire was prepared and distributed to the personnel of the sampling population. The bulk of questions were provided and collected manually – participants were only sent a questionnaire if the hand-delivered version elicited no response – and participants were given sufficient time to complete the survey prior to it being collected (Saunders, Lewis & Thornhill, 2012). The questions were developed in response to a research of important literature (Abdullah, 2016; Karanović et al., 2018) in order to provide meaningful insight into the study's objectives. Copies were delivered to four members of the University of Misurata's academic staff, who were asked to provide feedback on the questionnaire survey in general. Similarly, two senior executives with experience in the Libyan banking sector and two heads of divisions at the Libyan Central Bank. This pilot test was conducted on the questionnaires in order to identify potential measurement errors, clarify unclearly phrased issues, and, most importantly, monitor non-verbal behaviour. After then, the questionnaires were updated as needed prior to conducting the research. Validity was determined using both face and content validity. A reliability analysis was conducted to determine the internal consistency of each construct, ensuring a high degree of generalizability across test items (Garwe, 2016). Additionally, participants were informed that participation was optional and that they might withdraw from the study at any time. The perceived financial performance items were adapted from Serwadda (2018) and measured on five Likert scale ranging from 1 to 5, with 1 indicating strong disagreement and 5 indicating strong agreement.

Pre-coded questions were used in this survey since they normally yield a high response rate. The replies were tallied using five-point Likert scales, which are frequently

used in social science research to quantify participants' views, beliefs, opinions, and attitudes as expressed in their responses to a series of statements (DeVellis, 2003). Respondents provided information about their gender, age, department, and time period of employment. SPSS version 21.0 was used to analyse the empirical data.

Libyan commercial banks operating in the western region were designated as the research population. As a result, the prospective population consisted of four distinct groups: directors, risk committee members, executive managers, and heads of departments at chosen Libyan commercial banks. These groups were chosen for their direct involvement in liquidity risk management, as well as financial success. Purposive sampling was used to determine the sample size for this study, and structured questionnaires were provided to ascertain their perceptions and understanding of the effect of bank risk management on the performance of these universal banks. Due to the sensitivity of the subject, all responses were kept anonymous. All completed questionnaires were housed in locked boxes strategically placed across the business. To conduct surveys and collect data, a freelance research assistant was employed. Additionally, the research assistant was made aware of the situation in order to assist respondents who required clarification on specific topics.

Results and Discussion

The questionnaire distributed to 300 target respondents. Of these 300 questionnaires, 233 were received. The final useable questionnaires were 216 with percentage 72%, which considered sufficient for data analyses. From the demographic data, the gender of the respondents was identified as 93 percent as male and 6.5 per cent as female. According to the data, the minority of respondents' ages fell in the age from 50 and more with a percentage rated of 37. Meanwhile the percentage of the percentage of 38.9 of the respondents' ages fell in the age range from 30 to 39. In terms of the respondents' Job were categorized as department head (30.1 per cent). Followed by external auditor (23.1 per cent). Most of respondents qualified as master degree with percentage 51.9 followed by respondent who has diploma 24.5 per cent. Regarding the experience, the majority of respondents have experience rage from 10 to less than 20 years with percentage of 38.9 meanwhile the minority of has experience less than 5 years. Furthermore, 87.5 percent of the samples were collected form respondents who work in public bank and 12.5 from private bank.

Table 1 Characteristics of respondents

Demographic characteristics	Categories	Frequency	%
Gender	Male	202	93.5
	Female	14	6.5
	Total	216	100 %
Age	From 20 to 29 years	39	18.1
	From 30 to 39 years	84	38.9
	From 40 to 49	50	23.1

	From 50 and more	37	17.1
	Missing	6	2.8
	Total	216	100 %
Job	Chairman	33	15.3
	Board member	36	16.7
	Manager director	32	14.8
	Department head	65	30.1
	External auditor	50	23.1
	Others	0	0
	Total	216	100 %
Qualification	Diploma	53	24.5
	Bachelor	39	18.1
	Masters	112	51.9
	PhD	12	5.6
	Total	216	100 %
Specialization	Accounting	71	32.9
	Finance	79	36.6
	Administration	52	24.1
	other	14	6.5
	Total	216	100 %
Experience	Less than 5 years	11	5.1
	From 5 to less than 10 years	34	15.7
	From 10 to less than 20 years	84	38.9
	More than 20 years	87	40.3
	Total	216	100.0
Type of bank	Public	189	87.5
	Private	27	12.5
	Total	216	100.0

The measurement model was assessed by examining the internal consistency reliability (composite reliability), indicator reliability (individual loading, cross loading), convergent validity (the average variance extracted) and discriminant validity, which have been also suggested Hair et al. (2011) as rule of thumb for model evaluation. Further, to test the reliability of the variables, Cronbach ‘s alpha test was carried out, which indicates that all the variables are reliable.

Table 2 Reliability test Cronbach’s Alpha

Variable	Cronbach’s Alpha	Number of items
Liquidity Risk management	0.932	10
Financial performance	0.860	6

Based on the hypotheses of this study, the direct effects between the variables were tested and findings of the result have been given.

Table 3 Results of Direct Relationships

Hypotheses	relationship	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Decision
H	LR -> FP	0.404	0.073	5.542	0.000	Supported

LRM = Liquidity Risk management, FP = Financial performance, P value significance <0.05

The results suggest that liquidity risk management has positive significant relationship with financial performance (β=0.404, p = 0.000). The degree to which financial objectives are or have been met is referred to as financial performance. According to the sample experience, the financial performance of Libyan banks is acceptable. This result is consistent with the findings of other studies that use the accepted measure of financial performance (Mohammad, Prajanti, & Setyadharma, 2020). The descriptive analysis establishes that there is somewhat acceptable financial performance, with a mean of 3.6.

According to the findings, there is a positive relationship between liquidity risk management and financial performance. Unchecked liquidity issues will have a negative impact on a bank's financial performance. Furthermore, a bank with liquidity issues may have difficulty meeting depositor demands; however, this liquidity risk can be mitigated by maintaining adequate cash reserves and increasing the deposit base. Thus, the findings indicated that liquidity risk management has a direct effect on financial performance, which is consistent with previous research findings (Muriithi & Waweru, 2017; Musembi, 2018; Wisdom, Isiaka, & Ogunlowere, 2018). The study suggests some policy implications for the country's managers and prospective investors. It is becoming clear that liquidity risk management has an impact on the financial performance of Libyan banks. As a result, banks must establish the required cash in each product segment and maintain the optimal level, which will aid in reducing the cash balance level. Simultaneously, banks should consider targeting corporate clients who are willing to keep a large cash base in the bank for an extended period of time.

To conduct an effective study, several methodological limitations were considered. Despite the fact that the research design was tailored to address the research objectives and focused on the critical elements of this study, this research is not without limitations. For starters, many of the respondents were uninterested in completing the questionnaire. The

research was especially difficult because of the political instability and fear of the sensitivity of the current situation in Libya.

Second, this study was based on information provided by top and middle management in the Libyan banking industry. Because the questionnaire was designed in such a way that individual banking managers were approached to complete it, the issue of common method variance was unavoidable.

Suggestions for Future Research

In response to the challenges posed by the COVID-19 pandemic, governments are looking to engage in trade finance to fill any financing gaps left by the private market and to mitigate the impact of the crisis. Based on the empirical analysis findings, the study makes the following recommendations for how they can work to improve liquidity risk management and play an effective role in achieving financial benefits during current pandemic. Libyan commercial banks should establish a proper liquidity risk management strategy by conducting sound credit evaluations before granting loans to customers. Furthermore, the current study has focused on the bank's liquidity risk management in order to determine the bank's performance. According to the study, other factors not studied in this research have a very significant contribution of 55.5 percent to bank financial performance, while the factors studied explain 44.5 percent. As a result, future research may take a broader look at other factors that may have an impact on a bank's financial performance.

Furthermore, because risk management in general contributes significantly to bank financial performance, banks are advised to place a greater emphasis on risk management. To reduce loan risk and achieve maximum performance, banks must allocate more funds to default rate management and strive to maintain only the optimum level of capital adequacy.

Concluding Remarks

Liquidity risk management is a significant determinant of financial performance in the Libyan banking industry. This study, conducted during the political instability and with fear of the sensitivity of the current situation in Libya, shows a positive relationship between liquidity risk management and financial performance. It also provides an important theoretical contribution with managerial implications for the realistic scenario in the context of Libyan banks. It is certain that if the Libyan banking industry considers the study's findings, they will perform well and, more importantly, will achieve superior financial performance.

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