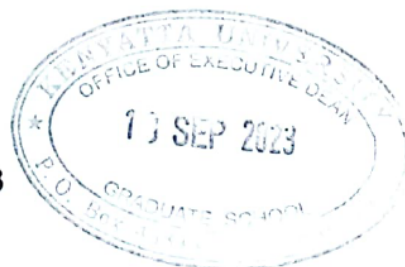


**LIQUIDITY MANAGEMENT POLICY AND FINANCIAL PERFORMANCE OF  
COMMERCIAL BANKS IN KENYA**

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D53/CTY/PT/28553/2018**


**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS  
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REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF  
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KENYATTA UNIVERSITY**

**SEPTEMBER, 2023**



## DECLARATION

I declare that the research I've done is utterly original and hasn't been submitted to a university for the purpose of receiving a degree or another type of academic credential. No portion of this project should be duplicated without the author's and/or Kenyatta University's permission.

Signature:.....

Date:.....12/09/2023

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## DECLARATION BY THE SUPERVISOR

This project has been submitted with my guidance as the University appointed supervisor.

Signature:.....

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## ABSTRACT

Over the last decade since two thousand and ten, the banking industry in Kenya has experienced some significant developments, in terms of performance, regulations as well as the number of banks in operation. Although some banks have benefited from the transformation, many commercial banks have found it difficult to remain competitive and maintain their day-to-day operations. Due to this, three banks—Dubai Bank, Imperial Bank, and Chase Bank—were deemed insolvent in August two thousand and fifteen, and October, two thousand and fifteen and two thousand and sixteen respectively due to liquidity problems. In two thousand and nineteen, the Due to financial problems impeding its day-to-day operations, Kenya Commercial Bank Ltd also acquired the National Bank of Kenya. The primary goal of the study was to ascertain how Kenyan commercial banks' financial performance was impacted by their liquidity management policies. The following particular goals served as the study's guiding principles: To ascertain the impact of Liquid Assets Holdings on the financial performance of commercial banks in Kenya; to evaluate the impact of cash management policy; to establish the impact of credit management policy; and finally to evaluate the impact of investment management policy on the financial performance of commercial banks in Kenya. Agency Theory, Liquidity Preference Model, Miller-Orr Model, and Shift Ability Theory all provided support for the research. A causal research design was adopted. The study's target population comprised 43 commercial banks, and therefore a census technique of sampling was adopted. Panel data for five years, between 2015 and 2019 were collected using the data review guide. All ethical considerations from the respective institutions and authorities regarding this study were adhered to, in the letter. A multiple-panel regression model was adopted to analyze the study data. Results of the study showed that liquidity management policy had a big impact on how well Kenyan commercial banks were doing financially. Cash management policy, Credit management policy, Investment management policy, and Liquid assets Holdings all had a positive and significant influence on the banks' ROE. All the study null hypotheses were therefore rejected. Consequently, the study concluded that the financial performance of commercial banks was significantly impacted favorably by the holdings of liquid assets, cash management practices, credit management practices, and investment management practices. This study, therefore, recommends a careful estimation of the most suitable amount of liquid assets holdings to be maintained by the bank at any given time to bring the required profit levels. In addition, banks are recommended to maintain moderate amounts of liquid cash of up to twenty percent to allow them to execute their day-to-day events. More attention should also be paid to the type of assets banks invest their funds in, as an increase in investment in suitable assets increases the banks' financial performance. Furthermore, the banks' management should carefully balance the proportion of their deposits that they invest in other securities. Furthermore, based on the study findings, the Credit management policy was found to cause the most substantial impact on the banks' ROE. Consequently, this study recommends more attention and caution on this policy by both the regulatory authority and the financial institutions themselves to achieve the required levels of profit margins at the same time.