ABSTRACT

3 – are essential in circulating currency and wealth of the society and they :;:imize their liquidity risk by assuming externalities posed by their choices. Kenya's
cing sector has experienced liquidity challenges ranging from funding to market ri 's. This research focused on the effects of liquidity risk management on performance of commercial banks in Kenya. The specific objectives were; to establish the effects of cash reserves, customer deposits, non-performing loans and asset base on performance of commercial banks in Kenya. Information asymmetry, Shiftability and Modern portfolio theories were used. Correlational research design with a comparative analysis approach was adopted. The target population was two commercial banks and document analysis guide was used to gather quantitative data from the banks financial statements through 2007 to 2016 and interview schedule was used to gather primary data from Operations Directors, Chief Finance Officers, Credit Directors and Treasury Directors of the banks. Descriptive statistics showed the trend of the bank's performance and exposure to liquidity risk. Pearson correlation was used to show the strength and association among the study variables. The study found that cash reserves had a strong negative correlation with ROE (r= -0.672) giving a significant negative relationship with performance of Equity bank as shown by the regression coefficient of -0.203. For NBK, cash reserves (r=-0.777) with NIM. Deposits had a strong positive and significant coefficient (r = 0.861) ith ROE and a significant negative relationship with performance as shown by the regression coefficient of -0.077 for Equity bank. For NBK, deposits had a significant negative coefficient with performance and a significant a significant negative relationship with performance as shown by the regression coefficient of -0.318. For PLs, (r= -0.194) and a significant negative regression coefficient of -0.473 for Equity bank while for NBK, r= -0.338 with NIM and a significant relationship with performance as shown by the regression coefficient of - 0.031. Asset base had av eak, negative coefficient with ROA (r = -0.041) and a positive but not significant relationship with performance with a regression coefficient of 0.123. For NBK, asset base had a ery strong negative coefficient with ROA of - 0.901 and a significant relationship ith performance as shown by the regression coefficient of 0.271.The study concluded the existence of a significant relationship between liquidity risk management and bank performance since cash reserves, deposits, NPLs and asset base affect bank performance. Banks should therefore minimize cash reserves and invest this money in productive investments, diversify their funding sources and investments hence di ersifying their revenue sources to minimize reliance on customer deposits, encourage ider information sharing to minimize exposure to credit risk and management of commercial banks should expand their asset base and improve efficiency of their assets as they improve income generation ability. Further research can be undertaken on the relationship between asset base and bank performance by introducing new variables, longer period and different method of analysis (GEE, GMM, Dynamic panel analysis) among others.