



Liquidity Risk Management by Malawian Commercial Banks in the Wake of a Financial Crisis.

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ABSTRACT-

Liquidity is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. Liquidity risk is when a bank is unable to meet such obligations as they become due, without adversely affecting the bank's financial condition. Effective liquidity risk management helps ensure a bank's ability to meet its obligations as they fall due and reduces the probability of an adverse situation developing.

The research sought to present a comprehensive analysis of Malawian commercial banks' liquidity risk management practices in challenging operating environments. Explanatory and survey research designs were used. The study applied econometric modeling analysis to identify the major determinants of liquidity risk for 7 commercial banks in Malawi. The investigations revealed that an increase in capital adequacy reduced liquidity risk and that there was a positive relationship between size and bank illiquidity. To complement the analysis, a survey was conducted using questionnaires for the 7 commercial banks. Empirical analysis in this research showed that liquidity risk management guidelines issued by the Reserve Bank of Malawi were consistent with those of commercial banks. Furthermore, Banks relied on internal efforts in managing liquidity risk, Liquidity was managed on a daily period or a month by largely the risk division and the operating environment was challenging with high inflation rates, which leads to high demand for cash withdrawals by depositor.

Keywords: Liquidity risk, liquidity risk management, Asset/liability committee, Basel committee.

INTRODUCTION.

As financial intermediaries, banks try to cover and solve for problems that come about as a result of direct trading. According to (Frank R. & M Krausz, 2007; Koch W.T. & S.M. Scott, 2009) banks create a new financial security from its public deposits, thus banks issue a liability to the surplus that wish to hold them as assets and hold as assets the liability the deficit sector wishes to issue.

Banks issue short term liabilities and hold long term assets, so as to make the liabilities side on the balance sheet more liquid than the asset side, the imbalance of which if not properly managed results in a liquidity crisis. (G.A Lockett, 1984); (Goacher D. , 2002); (Bessi J., 2009). Liquidity risk essentially looks at all risk that are associated with the bank's failure to timely meet its financial obligations. (Fielitz B. & T. Loeffler, 1979) Defined liquidity risk as the bank's failure to obtain funds at a reasonable price to in effect offset its financial commitments timely.

Liquidity risk has two broad categories, thus; Funding Liquidity risk and Market Liquidity risk. Funding liquidity risk is the possibility of the bank's failure to meet both expected and unexpected, current and future cash flow and collateral needs without adversely affecting its daily operations and financial condition. ((Aspachs O. E. Nier & M. Tasset, n.d.; BIS, 2008; Valla and Saes Escorbian, 2006).

According to (Machiraju, 2008; Freixas X. & J.C Rochet, 1999) Market Liquidity risk is the probability of the bank's failure to offset or eliminate a position at the market price because of inadequate market depth or market disruptions leading to cut-rate prices.

Most banking activities depend on the bank's ability to provide for liquidity. It is therefore very imperative that the liquidity needs of the bank are carefully managed. (Voldova, 2011; Moore, 2010). A bank can be solvent but once the lenders lose confidence in the bank's ability to provide funds on request, a liquidity crisis is very likely to occur. It is very common that such crises lead to the downfall of a performing financial institution in a very short time period. (Gabbi G., n.d.; Ismal R. , 20190)

Although the global financial crisis of 2008-2009 caused a global financial turmoil, it accentuated the need for liquidity crisis management policies amongst the financial institutions. Most African nations including Malawi did not experience a direct impact of the crisis due to Africa's low level of integration in the global economy (African Development Bank (ADB), 2009). The development and adoption of sound liquidity risk management policies by both the Commercial Banks in Malawi and the Reserve Bank of Malawi (RBM) is the first and important step in the curbing and prevention of a full blown liquidity risk crisis. (Bank for Internatioal settlement (BIS), 2000; Bank for international Settlement, 2008) Sound liquidity management policies

enables banks to reach cash flow obligations without adversely affecting its daily operations and financial position when the whole banking operations came under heavy liquidity stress. (Agenor P. J., Aizemann & A. Hoffmaister, 2004)

Through the period of the 1980s Malawi experienced a perpetual and vigorous financial sector reforms that were adjustment programs sponsored by the International Monetary Fund (IMF) and the World Bank (IBRD) (Ephraim W. Chirwa, 1999). The Malawi government took a serious stand and embraced the initiatives on financial liberalization in the formal financial sector to address problems of financial repression, evidently through heavy government intervention in the banking sector through credit and interest rate control on a highly oligopolistic market structure. (Ephraim W. Chirwa, 1999).

Since the liberalization of Malawi's economy, liquidity has been determined by the level of money supply in the economy measured by Broad Money (M3) made up of money circulating plus demand, savings and time deposits with the money banks (Malawi Min. Of Finance, 2021). The Quantity of money in circulation in the economy is an important determinant of transactions in the economy.

According to the financial sector assessment report on Malawi (2008) the Malawian banking systems shows a high degree of profitability rates in the foreign exchange markets. Malawi's Return on Assets (ROA) is one of the highest in the world. The management of liquidity money by banks determines the level at which a commercial bank can operate efficiently without going short on its liquid assets. (Tran et. al., 2019). In essence, the management of liquidity demonstrates the ability of the bank to finance its assets and liabilities without risking a liquidity crisis and threaten the bank's sustainability, making liquidity management one of the core functions among commercial banks (Alali, 2019).

However, in spite of the significance of liquidity risk management most commercial banks are still struggling to stay afloat which in turn threatens their very existence, though this is yet to be proven in the Malawian Commercial Banks context (Ephraim W. Chirwa, 2003).

Commercial Banks in Malawi.

Malawi's banking sector is overseen and regulated by the Reserve Bank of Malawi (RBM). There are 11 full commercial banks in Malawi with Standard Bank and National Bank controlling 51% of all banking deposits. It was estimated that in December of 2017 Malawian banks had a total assets aggregate of Mwk 1.572 Trillion an equivalent of \$2.51 Billion (Privacy shield U.S Department of commerce, 2012). The Reserve Bank of Malawi is the parent bank with mandate to formulate and implement fiscal policies in Malawi as well as the regulation of the operations of Malawian Commercial Banks.

(Reserve Bank of Malawi, 2020) each commercial bank in Malawi has the objective of holding a certain satisfactory amount of liquid assets by balancing total liquid assets and total short term liabilities. According to (African Markets, 2020) Malawi's central bank had cut its Liquidity Reserve Ratio (LRR) and its Lombard rate to boost liquidity in the banking system due to the COVID-19 pandemic. The Liquidity Reserve Ratio (LRR) was cut on domestic currency deposits by 125 basis to 3.75% and the Lombard rate was cut from 50% to 20% basis points above policy rate to ease cost of access to funds from the central bank by the Commercial Banks.

According to the report by Computer and Enterprise Investigations conference (CEIC data, 2021), in December 2021 Malawi's Liquidity Assets Ratio (LAR) was registered at 33.9% compared to 29.7% of September 2021.

At the top of the bank there is the supervisory committee made up of the Board of Directors (BoD) on risk management which oversees the risk management function of the whole bank. The second level is comprised of the Asset and Liabilities committee (ALCO), Market and credit risk management committee and operations risk management committee for the operating risk of the bank (M. Kumar & G. Chand yaday, 2013).

Regular meetings are held by these committees with the aim of supervising and monitoring the risk in several areas in the on ongoing basis. Some banks appoint advisors and experts to assist management to implement risk management systems and making the Basel bank compliant.

The macroeconomic, financial market developments and regulatory developments in Malawi since the dawn of the new millennia have significantly contributed to the banking system's overall exposure to liquidity risk. The Reserve Bank of Malawi enhanced its supervisory process when it issued the liquidity risk management guidelines adopted from the Basel I guidelines in line with the international banking standards (IBS) in 2008 which was a requirement for banks.

Despite all these efforts there still are vulnerabilities in the financial sector system with most banks still liquidity strained. The 2007-2008 financial crisis emphasized the importance of having sound liquidity risk management policies and guidelines (Voldova, 2013). Liquidity risk is as the result of the bank's failure to hold the right amount for effective and efficient operations, it arises when banks fails to balance its cash inflows and cash outflows. This can outright put a bank out of business. It is very imperative to closely monitor the liquidity conditions of commercial banks through liquidity risk monitoring techniques.

Declining profitability of a commercial bank is a serious threat to the economy of the country. The underperformance prompts investors to pull out their money before losing it. Saleh (2014) argues that there should be a periodical estimate by banks into the money projected in the future flows instead of solely concentrating on written policies and guidelines on liquidity risk management. Analysis of whether a bank is liquid depends on the conduct of cash flows under several circumstances

It is therefore very important to establish how Malawian Commercial Banks manage their current assets and liabilities in view of liquidity risk management practices especially in a case of a financial crisis.

II. LITERATURE REVIEW.

Ismael 2010 & Moore, 2010) defined bank liquidity as the ability of the bank to fund increasing assets and meet financial obligations when due without incurring huge losses. The failure to manage liquidity results to liquidity risk. Liquidity risk is the risk of a bank being unable to obtain funds at a reasonable price within a reasonable time period to make its financial commitments (Bank for International settlements, 2008).

Liquidity risk covers other two types of risk, namely funding liquidity risk and Market Liquidity risk. Where funding liquidity risk is the risk that a bank will fail to meet both its expected and unexpected and current and future cash flow collateral needs without adversely affecting the financial position and operational efficiency of the bank (Aspachs et al., 2005). Market Liquidity risk is the risk that a bank cannot offset or eliminate a position in the market price because of inadequate market depth or market disruption(Machiraju, 2008). The relationship that exists between funding liquidity risk and Market Liquidity risk is inverse; when market Liquidity risk is lower it leads to higher margins which in turn increase funding liquidity risk (Brunner Meir, 2009) further more funding liquidity risk is at the behest of market perceptions on the credit stand and reputation of the bank (Machiraju, 2008). (Voldova, 2011) explains that shocks to liquidity can lead to asset sale and inevitably sale at low prices it is in such a case that the bank is unable to offset or eliminate its position in the market (market Liquidity risk).

A liquidity crisis is signaled commonly by the rise in funding costs, credit rating downgrade, concentration on either assets or liabilities, rapid asset growth funded by volatile large deposits, large off balance sheet exposure and reductions in the availability of long term loans. (Goacher, 2002; Berger & Bowman, 2009; Chikoko & Leroux, 2011).

Funding liquidity risk will be considered as liquidity risk entirety for the purposes of this research. Bank managers should ensure the availability of sufficient funds to meet demand.

Causes of Liquidity Risk.

Internal Factors	External Factors
Asset/Liability mismatch	Reputation risk
Concentration of loans to a particular sector	Unplanned government policies
High reliance on short-term deposits to fund long term investments.	Bank's sensitivity to movement of interest rates in the money market
Asset/Liability maturity gap.	Sudden large customer withdrawals

This model provides an economic analysis of the causes of liquidity risk. Besides, we divide the causes of liquidity risk into internal and external factors. In order to examine the relationship between liquidity risk and the bank-specific, supervisory and macroeconomic variables, the panel fixed effect regression model has been developed:

$$L_{it} = c_i + \sum_{k=1}^K \lambda_k \Pi_{it}^k + \sum_{l=1}^L \delta_l \Pi_{it}^{*l} + \sum_{m=1}^M \gamma_m \Pi_{it}^{**m} + \epsilon_{it} \tag{1}$$

where L_{it} is liquidity risk of i th bank at time t , with $i = 1, \dots, N$, $t = 1, \dots, T$. In our study, it is the financing gap ratio (FGAPR) and the ratio of net loans to customer and short term funding (NLCS). λ, δ, γ are bank-specific, supervisory and macroeconomic variables with $b = 1, \dots, B$, $s = 1, \dots, S$, $m = 1, \dots, M$, respectively. j refers to the country in which bank i operates; c is a constant term; ϵ_{it} is the error term.

Extending the equation reflect tge variables the model is designed as follows;

$$L_{it} = c_i + \lambda_1 SIZE_{it} + \lambda_2 SIZE_{it}^2 + \lambda_3 LRLA_{it} + \lambda_4 RLA_{it} + \lambda_5 EFD_{it} + \delta_1 GDPC_{it} * OSP_{it} + \delta_2 GDPC_{it} * PMI_{it} + \delta_3 GDPC_{it} * BAR_{it} + \gamma_1 GDPC_{it} + \gamma_2 GDPC_{it-1} + \gamma_3 INF_{it} + \gamma_4 INF_{it-1} + \epsilon_{it} \tag{2}$$

Bank-specific variables include size (SIZE), square of size (SIZE2), less risky liquid assets (LRLA), risky liquid assets (RLA) and external funding dependence (EFD). Supervisory and regulatory variables include the interactions between change of GDP and official supervisory power index (GDPC×OSP), interactions between change of GDP and private monitoring index (GDPC×PMI), interactions between change of GDP and overall bank activities and ownership restrictiveness (GDPC×BAR). Macroeconomic variables include change of GDP (GDPC), GDP change of last year (GDPCt-1), change of inflation (INF) and inflation change of last year (INFt-1).

III. METHODOLOGY.

Model Specification

Return on equity (ROE) was selected as the main

proxy for bank financial performance. ROE reflects how effectively a bank manages the shareholders' equity. It shows how much the bank earns from the shareholders' equity (Berrani & Hacini, 2021).

ROE is an important measure of banking returns because it indicates whether a bank can do well relying on its resources (Farhi & Hacini, 2021). ROE is the net income divided by average equity (Noraini, 2012). Cash to total deposit ratio (CTD) and loan to deposit ratio (LTD) measure the liquidity management risk. CTD shows how much a bank lend according to the deposits that were mobilized. It also measures the banking main activity (Suman & Raj, 2016). LTD is commonly used as a statistic for assessing the bank's liquidity. It is calculated by dividing the bank's total loans by the total deposits. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements. If the ratio is too low, the bank profitability may be deteriorated (Saleh, 2014).

Equity to Assets Ratio (ETA) is a financial indicator that is used to measure the owner's motivation to continue for holding the bank. This ratio examines the ability of bank's equity to finance the bank assets (Fahrul & Buyung, 2018). The functional relationship among ROE, liquidity risk and the other factors can be expressed as follows:

$$ROE_{it} = \beta_0it + \beta_1(CTD_{it}) + \beta_2(LTD_{it}) + \beta_3(ETA_{it}) + \epsilon_{it}$$

Table shows that LTD has the highest mean value (0.765) and CTD has the lowest mean value (0.126). Average CTD and LTD indicate that Malawian banks are lowly liquidated to pay off their creditors and their loans are more than their deposits. The standard deviation indicates that the values were widely dispersed from their mean values. This means that as the mean

value increases, the value of standard deviation will also increase and vice versa. The low standard deviation of ETA implies that it does not deviate more than its mean.

Variable	Mean	Std dev	Min	Max
ROE	0.167	0.067	0.017	0.341
CTD	0.127	0.056	0.005	0.301
LTD	0.765	0.103	0.532	0.946
ETA	0.135	0.028	0.076	0.212

The researcher identified respondents by considering age, gender, qualification. The other responses were significant in making general observations but were not used in this research in order to be clear with target information for analysis. The researcher considered the qualification of the respondents, the ownership of the bank, the people responsible for liquidity management in the banking institutions, the existence of the bank as well as the frequency of the management of liquidity.

TABLE 1. Identification of respondents by gender.

Gender.	Frequency	Percentage (%)
Male	5	71.41
Female	2	28.57
Total	7	100

From TABLE 1 above out of 7 questionnaires, 2 were female respondents and 5 were male respondents

TABLE 2. Level of education qualifications of the respondents.

From TABLE 2 above, out of 7 respondents, 1 holds a diploma, 4 are undergraduates and 2 hold a post graduate qualification.

TABLE 3. The bank's exposure to liquidity risk.

<i>Exposed</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Yes	3	42.85
No	4	57.14
Total	7	100

From TABLE 3 above the 3 respondents claim to have exposed to liquidity risk and 4

<i>Qualification</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Diploma	1	14.28
Undergraduate.	4	57.14
Post graduate.	2	28.57
Total	7	100

Claiming to have not been exposed to liquidity risk. Each taking 42.85% and 57.14% respectively.

TABLE 4. Department responsible for liquidity risk management.

<i>Dept. responsible for liquidity risk.</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Asset Liability Committee (ALCO)	2	28.57
Risk Division.	3	42.85
Corporate Banking	2	28.57
Total	7	100

TABLE 4 above. The asset liability committee had 2 respondents, risk division had 3 respondents and corporate banking had 2 respondents respectively

TABLE 5. Centralized of liquidity decisions at head office.

<i>Central decision</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Yes	7	100
Total	7	100

From TABLE 5. Above the all the banks have a centralized system of management where all the banks' decisions on liquidity management are centralized at the Head office.

TABLE 6. Frequency of liquidity management.

<i>Frequency of liquidity management</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Daily	3	42.85
Weekly	1	14.28
Monthly	3	42.85
Total	7	100

V. RESULTS.

TABLE 3 indicates whether the Malawian commercial banks have experienced a liquidity crisis and the majority shows that many commercial banks have not really experienced a liquidity crisis before. The majority of respondents to the questionnaire indicate that they have not experienced the crisis representing 57.14% response rate. A few banks have had an experience with liquidity, this should be noted that these banks are those that have existed for a good number of years compared to those that are new to the industry, and those that have had an experience with liquidity crisis have a response rate of 42.86%.

TABLE 4 shows the several departments and or committees in the respective banks that are responsible for the management and overseeing the liquidity of the bank. There were 2 dominant departments that were selected and 1 committee that solely handles liquidity risk in the several banks. However from the data analysis it is evident that most banks' liquidity management in done by the Risk division with a response rate of 42.86% followed by Asset/Liability committee (ALCO) and corporate banking all sharing a 28.57% of responses rate. It can be concluded that most Malawian use the risk department in their respective institutions to handle liquidity problems.

From TABLE 5 it can be concluded that all Malawian commercial banks' liquidity management decisions are centralized at their Head Offices. There was a 100% response rate to the questionnaire on whether the liquidity management decisions are centralized at the Head Offices or not and all the respondents agreed that all decisions are centralized.

TABLE 6 shows the frequency with which Malawian commercial banks manage their liquidity. The results show that many banks manage their liquidity in between a day and a month. According to the analysis most Malawian banks either manage their liquidity on a daily basis or at least a lapse of a month's period before the liquidity can be looked at again or show an equal response rate of 42.86%. Banks that manage their liquidity on a weekly basis had a response rate of 14.28%

The majority of the respondents to the questionnaire had strongly agreed that liquidity risk affects both their financial performance and operational efficiency of their respective banks. It can only generally concluded that liquidity risk affects both the operational efficiency and financial performance of banks, this in turn reduces profits and share dividends of shareholders.

Further data analysis shows 71.43% of respondents from all banks agree that credit risk is the major cause of liquidity risk while the concentration of loans to a particular sector contributes to liquidity risk with 42.85% of total response rate. Asset/Liability mismatch ranks as second least as the cause of liquidity risk with a 28.57% with reputational risk being the least causes of liquidity risk. It can therefore be concluded that from the data collected that concentration of loans to a particular sector is one of the major causes of liquidity risk in banks followed by credit risk as per the correspondent's responses. This concurs with (Bibow, 2005) theory which proposes that concentration of loans in one particular sector is one of the major reasons of the causes of liquidity risk in commercial banks and that banks should diversify their risk.

Malawian commercial banks use the stored liquidity risk management techniques to manage liquidity problems with a response rate of 57.14% followed by purchased liquidity with a response rate of 42.85% and borrowed liquidity and contingency funding plan (CFP) ranking the same all having a response rate of 28.57%. it is therefore conclusive that most Malawian commercial banks use the stored liquidity management technique to curb problems of liquidity followed by purchase liquidity method. It seems most banks plan ahead of liquidity or much more anticipate the problems of liquidity and therefore plan ahead. Most banks do not use the borrowed liquidity method mostly because they do not want to fall in debt to cover another debt.

Furthermore analysis indicates that banks use the peer group ration comparison method largely in order to estimate or measure the extent of liquidity risk by the banks which registered a response rate of 71.53%. The net liquidity position is the next to be used mostly by Malawian banks in measuring the liquidity risk with a response rate of 42.86%. The least ranking is the contingency funding plan which seems to be the last resort by the commercial banks. It is therefore conclusive that the Malawian commercial banks adopt or follow the liquidity planning method as a number one measure of liquidity risk followed by peer group ratio comparison as per the responses.

From the findings, the respondents in the several banks, many Malawian commercial banks concentrate the majority of their loans largely to both the business and the agricultural sectors with both equally indicating a high response rate of 42.86% each respectively. However most banks agree to a larger extent that they concentrate the larger portion of their investments in the business sector more than they do in the agricultural sector and other sectors like the industrial and personnel. Banks have shown that they do not like giving out personal loans this is mainly contributed to larger default levels of loans to on personal loans than do businesses or agricultural loans. This concludes that banks lend their money to income generating activities than they do to personal loans and sectors of the economy such as manufacturing and industry that would require time to payback.

Suggestions and Recommendations.

In making recommendations the following points should be looked at; the determinants of liquidity, causes of liquidity, how Malawian commercial banks manage their liquidity, how efficient are the management policies that the Malawian commercial banks follow and their consistency to standard as set by the Reserve Bank of Malawi (RBM). As well the additional measures that could be incorporated by both the Reserve Bank and Commercial banks.

Recommendations.

- The Reserve Bank of Malawi may not need to be too strict or too relaxed but to be moderate in ensuring an enabling regulatory environment that would facilitate banks managing liquidity risk and at the same time protecting deposits in any challenging operating environment.
- The Reserve Bank of Malawi might consider tightening capital adequacy requirements which will render banking unattractive to unsound agents.
- There is the need to always have central bank guidelines in line with the international best banking practices
- Locally owned banks should seriously consider technical partnerships with regional or international banks. This would facilitate their access to external sources of funding.
- Banks might consider maintaining a well-managed positive gap over the interest rate cycle and develop alternative strategies that will enable them to dispose of their earning assets at optimal prices to boost liquidity. The positive gap would enable the banks to benefit from rising short-term rates.
- Monetary authorities should ensure that FIs follow strictly the prudential ratios as to avoid the occurrence of the liquidity risk. The researcher also recommended that rural investment credit should create a risk management department that will effectively manage the recruitment, selection, and training of liquidity risk managers in the institution.

Recommendations on loans.

- There is need to consider the operating environment when lending. The strong banks in Malawi are the ones that considered strongly the operating environment and do not lend aggressively
- Banks should only lend when it safe: It is better not to lend when the result is default by the client.
- There is need for the setting up of credible Credit Bureaus that would help in the dissemination of information.
- There is need for proper credit appraisal and monitoring by commercial banks. Credit analysts should be trained in credit intelligence and equipped with adequate skills in loan management and dispensation.

Recommendations on policy.

- Commercial banks diversify their investment in other lines of business so as to expand the income earned. Diversification to of business products may result to expanded income hence more profits for the firm.
- Commercial banks need to prudently allocate and utilize their resources in line with business needs and objectives. The asset quality negatively impacts bank's financial performance and therefore banks need to undertake critical assessment of borrowers on their ability to repay loans before awarding so as to minimize cases of high nonperforming loans.
- Bank management therefore need to set policies and procedures that encourage and promote a high level of operational efficiency. The banks can invest on financial technologies to improve operational efficiency.

Recommendations for practice.

- Holding of sufficient capital since it is an enhancer of firm profitability and liquidity cushioning. There should be a wide capital base in the banks to strengthen confidence of depositors. Capital adequacy act as a safety net of protecting depositors in case the bank collapses.
- The study recommends that that the commercial bank management should make investment in more assets to ensure that their institutions grow in terms of assets since large banks enjoy the economies of scale.
- Bank management may need to define credit policy frameworks to ensure that customers' deposits are awarded to worth business investments and customers who stand better position to repay the principle amount and interest accrued.
- Sustaining strong assets quality entails cautious processing of loans that must be assessed and compliant to banking loan award policies and regulations. As essential predictor profitability, poor assets quality impacts the financial performance and the soundness of the credit award system in the bank.

VI. CONCLUSION.

Based on the theoretical models and application of panel data techniques, the research has provided empirical evidence that in Malawian commercial banks, liquidity risk was determined by capital adequacy, the size of the bank, spreads, reserve requirement ratio and inflation. Several conclusions were drawn from the research results, the conclusion are based on the objectives of the study and the research findings. The first conclusion is that the major cause of liquidity is the concentration of loans to one particular sector. The second conclusion is that the liquidity management policies of Malawian commercial banks are consistent with those of the Reserve Bank of Malawi (RBM).

Another conclusion is the impact that liquidity risk has on the financial performance and the operating efficiency of the banks. Banks are heavily affected by liquidity risks. It was also concluded that capital adequacy positively affects commercial bank financial performance. Capital adequacy measures bank's ability to pay for its obligation and cushion itself against precedent losse.

The study further concludes that operational efficiency has a positive relationship on financial performance of commercial banks. Operational efficiency connotes the bank's ability to effectively mobilize resources to generate profits a bank operating effectively is able to channel its resources in the right manner increasing revenue generation. Efficient commercial banks are able to allocate and use their resources effectively in line with business needs. Operational efficiency determines the solvency state of a bank.

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