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THE IMPACT OF FINANCIAL POSITION ON RISK ASSET RATIOS: EMPIRICAL STUDY OF BANKING SECTOR LISTED IN MUSCAT SECURITY MARKET

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ABSTRACT. This study aims to analysis the impact of financial position based on four groups of risk asset ratios as capital adequacy based on three variables in the banking sector listed in Muscat Security Market (MSM) of Oman. The population of this study is six banks from the period 2009 to 2013. The multiple regression results indicate there is an impact of asset quality and total regulatory capital ratio and between asset quality, profitably and tier 1 capital ratio and finally, debt, liquidity ratios and risk of default ratio. The results of person correlations matrix shows there is a relationship between asset quality, profitability, debt and liquidity in different variables and asset risk. The researcher recommends for banks do not focus on a specific sector lending, which may increase the risk and must search constantly for alternative plans of financing to maintain growth.

JEL Classification: G32, D22, G21

Keywords: Financial Position, Risk Asset, Empirical Analysis MSM, Banking Sector.

Introduction

The investment process is one of the pillars of growth in the economy of any country so the firms trying to search for investments that operate efficiently and high productivity at the lowest possible risk and so it was necessary to focus on the risks and try to find equilibrium between return and risk in the light of available resources equation. The financial system in the economy of any country consists of financial and economic institutions, fiscal and monetary markets, restrictions and regulations. The important financial institutions in the Sultanate of Oman and engaged in a prominent role is the banking sector. Banks is explain the relationship between money providers and requesters, so start saving deposits and then re-lends it to others to retain the profit margin and the banks are an important source of growth in the economy of any country. The good financial position reflect a good profitability owned by the bank and the result of a liquidity was employed optimally in safe investments where the bank stay in the market and rival strongly depends on the extent of being aware of the risks surrounding it . So if a strong financial performance has been positively reflected on the hide various risks and thus banks must keep a balance between liquidity and investment ratios

for the purposes of profitability and at the same time the banks that you make alignment between current liabilities and assets traded in order to exit a net positive working capital (Naser Ali, 2013).

The process of creating a market value or increase shareholder wealth does not come easy way and to achieve this the banks keeps the percentage of reasonable and appropriate risk in its operations as if the financial performance of the bank is in the defect as a result of operations may be adversely reflected on the performance in the long term and thus increase of the potential risks of the company was threatening the capital or funds deposited in the accounts of depositors. Banks currently maintains a variety of ways to measure risk, especially with regard to self-risk assessment system. If find that weak financial performance on the general level of the bank may be due to the presence of risk in operations which requires correction within a specific and clear path (Rompho, 2011). The continuity, success and further improvement of its performance in the market depend on the company's ability to surrounding risk management and its dependence on plans that are consistent with its goals (Al-Tamimi and Al-Mazrooei, 2007). The efficiency of liquidity management exercise a role in the survival of the institutions and gain a competitive advantage Sardakis *et al.* (2007), also liquidity management in the success of small businesses is the ability of the administration to deal with the risks, especially cash flows and daily commitments factor (Collis and Jarvis, 2000). That risk management of companies as an efficiently lead to the achievement of value for the company and is working to maximize shareholder wealth (Calandro and Lane, 2006).

The banking system has an important role in the financial system so that is part of the financial markets and working with each other to provide services where that bank failures extends to the financial and economic system of the state failure (Kumbirai & Webb, 2010). The banking system must keep up with technology constantly so that can compete banks in the market and reduce the risk, especially when the entry of foreign banks into the domestic market, or as noted recently after a period of global financial crisis entry Islamic banks, which had a clearly, the positive effect on performance, which became necessarily adopt the ideas or the Islamic methodology in the granting of credit as a safe way of thinking by many foreign banks. Banks also always tried to think of how to exploit the technology as a way to reduce the risk in terms of the introduction of electronic cards and the internet as a quick service to customers, which achieves satisfactory of customers, which is reflected in the financial performance and thus reflected the risks (DeYoung, 2001). Owojori *et. al.* (2011) found the nature of the work of banks which falls many risks, especially on the credit portfolio of loans and so-called risk of default. Crouhy *et. al.* (2006) found is another risk rating of banks, which include market risk, credit, liquidity, operational risk, business risk, strategic risk and reputational risk in the sense that there are internal and external risks affecting the banking sector. This purpose of this study to demonstrate the impact of the financial position on the risky assets based on capital adequacy through total regulatory capital, tier 1 capital and risk of default ratio.

1. Theoretical Framework

1.1. Literature Review

Dechow and Dichev (2002) shows study shows that changes in the revenue exercised an important role in financial decision-making and affect the investment portfolio at a certain percentage risk. Malhotra and Singh (2004), shows that the modern financial products is online transactions where the study showed that many banks keep pace with technology in the provision of financial services in order to increase performance and profitability in spite of

high costs and causing relative risk borne by the banks so as to maintain and stay on the degree of competition in the market. Drzik (2005) shows the portfolio is under risk and a high percentage change and that in the event of a recession in the state. Beekes and Brown (2006) found that the need for the adoption of the audit on the basis of risk and interest distasteful regimes of internal control so as to impact on the financial performance and reduces the risk of failure of the institution.

Nocco and Stulz (2006) found that risk management in projects, whether in banks or companies effectively lead to gain a competitive advantage in the marketplace. Khan and Bhatti (2008) found that Islamic banks face different challenges and risks for commercial banks, because Islamic banks operate in the light of Islamic Sharia laws for it to be of the Islamic banks that are building their strategies accordingly. Hansen (2009) found there is a relationship between the operational and financial processes, these processes included which should be taken Strategy is to hedge the risk of potential risks.

Kumbirai & Webb (2010), found that one bank failed to continuity in the market as a result of the failure of operations or financial system but does not mean the failure of the banking system at the level of the economy as a whole. Maiteka (2010) found that transparency and disclosure have a positive impact on reducing the risk and increasing the concept of governance institutional. Owojori *et al.* (2011), found that the banks are in a risk phase if the borrowing rate has a high in the business sector, compared to banks that are mimics of low borrowing.

Peni and Vahamaa (2012) found that the banks, which owns institutional governance rules is directly relationship to performance and enhance profitability, which could lead to reflections on the positive stock returns and give credibility to the ongoing purchase of shares in these banks. Halahleh and Matarneh (2012) found there is impact of the financial performance of the capital adequacy in accordance with the requirements of the Basel and increasingly important hedge capital adequacy in financial crises. Naser Ali (2013) explained the balance between profitability and reduce liquidity risk in financial assets so that the increase in the liquidity of the larger investment which promotes a reduction in profits while increasing investment larger liquidity has a positive role on the size of the profits.

1.2. Compare Between Banking Sector of Oman and Europe

The Muscat Security Market guide (2014) show the banking sector is a leading status in the Muscat Securities Market of Finance. Where the six listed banks weights acquires more than 45% in the general index of the Muscat Securities Market of Finance. Central bank of Oman took control and precautionary measures during the last period and in line with international standards and best practices, and these measures have helped to improve the efficiency of the financial system in the Sultanate and the banking sector in particular, so have begun to implement the Basel 3 standards. This led to more support and sobriety to the process of banking supervision, which all the stress tests carried out by the Central Bank of Oman on the banks conducted through methodologies sensitive to risk. In order to strengthen evaluation procedures were the Central Bank of Oman (CBO) to issue instructions to the banks for the application of the internal evaluation of the adequacy of the capital, which has been working out by all licensed banks in the Sultanate from the end of 2012. Moreover, with the transformation of financial stability is a global issue was the establishment of the financial stability department within the central bank and this department is currently preparing reports on financial stability and it is reassuring that the pressure that has been made finally tests reports indicate that the banking system in the Sultanate in general it seems very flexible and able to withstand various shocks.

The CBO tells the banks to formulate lending support to small and medium enterprises policy and the need for the allocation of five per cent of the total credit portfolio have for this sector is being accessed ratio with the end of December 2014. It was also minimize of regulatory requirements of banks when lending to small and medium enterprises in terms of the requirements of general provisions and risk weights of the bank operational and also reduction the interest rate ceiling. Due to the growing of social needs and the needs of the business sector in the country is expected for Islamic banking to develop position in the financial sector of the Sultanate that the Islamic banks strengthened through the provision of more in front of customers options to choose between conventional and Islamic banking products, as open Islamic banking the door to new sectors and shareholders in both inside banks or by overseas and thus provide opportunities for foreign investment and new promotion of financial inclusion in the Sultanate during 2013. The total budget for commercial banks witnessed further expansion as a result of significant growth in the volume of deposits and credit, in terms of total assets of commercial banks increased by 7.0 per cent to RO 22 billion riyals in 2013 from 21 billion RO at the end of 2012. The gross credit and total deposits expanded by 6.0 per cent and ten per cent respectively during 2013.

The Omani economy in general and the banking sector is particularly positive in the next few years remain due to high oil prices expansionary fiscal policy and the pace of economic diversification process, in addition to the role of the private sector in the development process with the survival of the appropriate monetary policy and increased savings and investment of gross domestic product ratio GDP significantly during the past few years. The government also paid much attention to public investment programs and large infrastructure projects, where the government has continued to work to stimulate growth through the allocation of huge sums to complete the infrastructure such as airports, ports and roads projects and the development of industrial areas as well as water and sanitation projects.

With the participation of commercial and Islamic banks in the development process, which the government and the private sector-led, it is expected that the banks' balance sheets remain in a healthy position with continued economic growth momentum in the country. Also, based funding on deposits is a Gulf banks growth keys, under the representation of customer deposits ratio ranging between 60-90 per cent of the total GCC banking sector assets as most GCC banks maintain high levels of liquidity, with the attainment of the liquid assets ratio between 25-30 per cent of the total assets of sector and continued drop in oil prices below expectations would cast a negative shadow on the Gulf banking environment. This would fall fiscal surpluses for the Gulf States. Central Bank of Oman (2014) shows the banking system of Oman, like any other system realized the importance of risk and increased interest after the global financial crisis, which demonstrated the need to strengthen financial control and audit and risk rules as the negative economic aspects such as inflation are considered prior phenomenon before any financial crises to the banking system and therefore should be mitigated minimum limits to maintain the stability of monetary policy. The Central Bank of Oman played an important role in determining the credit ceilings, bank supervision, and control and on the degree of liquidity so as to maintain the stability of the system. This can be a period of recovery of the costs of banking crises in the long-term average, it takes about eight years. Omani banks are able to avoid the financial crises more than before. Past events indicate that the capital is not sufficient may result in the failure of banks to achieve and losses are also taking a risk cannot be controlled. These risks arise from the banks through the implementation of ill-conceived strategies. The best guarantee for banks is a policy of caution because of the risk of changes and characteristics of the various institutions and renewable products and markets, with an attempt to develop strategies to weaknesses in the response to the new types of crises. It was a mechanism in crisis management, including early warning system to avoid the risk that these results are due to financial stability and the

remarkable evolution of the Omani banking system. The CPI is on 1.1 percent in 2013 from 2.9 percent in 2012 and positive for GDP. Also there are good indicators of banking system in Oman during 2013. But when compare the Omani banking system with European banking system they can shows that European banking risks related to market dramatically. European Banking Authority report, (2014) shows that European market is trying to boost confidence, especially with signs of economic recovery in 2014, where he continued the case of confidence and especially with regard to debt and equity investors, but the growth is still modest Bray Union by European banking system perspective. The retail financial still standing where it still risks to the banking sector's the EU a source of concern for local markets as a result of the accumulation of debt in the public and private sectors with an attempt to restructure the company's high debt sectors and hedge the risk of deterioration in the quality of fixed assets that reflect of low profitability, which increased from challenges to continue to reform budgets and asset restructuring in the medium term.

European banks have to raise capital ahead of the 2014, the weighted average tier 1 capital ratio increased to 13.1%. The euro area banks increased at EUR 80 billion in capital in 2013 but in 2014, increased at EUR 60 billion. European banks are able to exercise justice and equality in assessing the quality of assets to avoid financial risks. Some banks' loan portfolios decline in 2013 and they search to improve the mangling of asset quality. The short loans to total loans increased from 6.7% in June 2013 to 6.8% in December 2013. Indicators showed that the balance sheets of European banks continues in increase transparency and disclosure to mitigate the risk premium and reduce risky assets

2. Methodology of Study

The empirical methodology used in this study in the banking sector of Muscat Securities Market, where data were collected from the annual financial statements of banks .

2.1. Population & Period of the Study

The population of banking sector that listed in MSM in Oman includes eight banks from the period 2009 – 2013. This study is taken only 6 banks because 2 banks not have cover data for the period of study because a new established. The population of banks selected as the following: Ahli Bank, Bank Dhofar, Bank Muscat, Bank Sohar, HSBC Bank Oman and National Bank of Oman.

2.2. Hypotheses of the Study

Through literature review the researcher designed the model of study as suggested by Naser Ali (2013), Hansen (2009), Halahleh and Matarneh (2012) to test the following hypotheses' statement:

H0-1: No statistical significant impact of each independent group's variables (asset quality, profitability, debt and liquidity) of financial position on each risk asset variables (Total regulatory capital ratio, Tier 1 capital ratio and Risk of Default ratio) in banking sector of Oman.

HO-2: No statistical significant relationship between each group (asset quality, profitability, debt and liquidity) and all risk asset variables in banking sector of Oman.

2.3. Variables & Model Selection

2.3.1. Independent & Dependent Variables

Risk asset (RA) is the dependent variable and refers to capital adequacy in both three measures by total regulatory capital ratio (TRCR), tier 1 capital ratio (T1CR) and risk of default ratio (RODR) for every bank from 6 banks in banking sector. Capital adequacy refers to the measure of financial strength of the bank and the central bank to distribute risk to coins ratios which takes the low rates and the credit that gets the high-risk ratios. The independent variables classified to four groups and each group include many variables such as: **First group** is Asset Quality (AQ) include four variables (book value / net asset per share (BA/NAPS), Log of loans (LOL), Log of deposits (LOD) and loans, advances/ total assets (LA/TA). **Second group** is Profitability (P) include four variables (net profit ratio (NPR), earning per share (EPS), return on equity (ROE) and return on assets (ROA). **Third group** is Debt (D) include two variables (total liabilities / total assets (TL/TA) and total liabilities / total equity (TL/TE). **Fourth group** is liquidity (L) include five variables (loans , Advances / deposits and borrowings (LA/ DB), cash / deposits (C / D), loans and cash / deposits and borrowing (L+C / D+B), loans / borrowing (L/B) and cash / borrowing (C/ B). All of these ratios calculated by the Muscat Security Market guide (2014).

2.3.2. Model Selection

$$RA_{it} = \alpha_0 + b_1 AQ_{it} + b_2 P_{it+} b_3 D_{it+} b_4 L_{it} + \varepsilon_{it}$$

Where dependent variable is RA_{it} = Risk asset and measured by (TRCR), (T1CR) and (RODR). But the four independent groups are (AQ + P + D + L) and the researcher classified this general model to test three hypotheses of the study as the following:

$$TRCR_{it} = \alpha_0 + b_1 AQ_{it} + b_2 P_{it+} b_3 D_{it+} b_4 L_{it} + \varepsilon_{it} \quad (1)$$

$$T1CR_{it} = \alpha_0 + b_1 AQ_{it} + b_2 P_{it+} b_3 D_{it+} b_4 L_{it} + \varepsilon_{it} \quad (2)$$

$$RODR_{it} = \alpha_0 + b_1 AQ_{it} + b_2 P_{it+} b_3 D_{it+} b_4 L_{it} + \varepsilon_{it} \quad (3)$$

3. Empirical Test of Hypotheses and Discussion

3.1. Descriptive Statistics

Table 1 shows the financial descriptive of independent variables from the period 2009 to 2013. The results show four groups asset quality, profitability, debt and liquidity and each group test many variables. The asset quality note that the LOD is high mean 0.7902 and second low standard deviation 0.02083 but low mean BA/NAPS 0.2551 and high standard deviation 0.16126. The high mean of profitability group NPR 0.3473 and high SD 0.05402 and low mean ROA 0.0145 and low SD 0.00263. The high mean of debt group TL /TQ 7.1333 and high SD 1.33480 and low mean TL/ TA 0.8363 and low SD 0.02877. The high mean of liquidity group L/B 11.7970 and high SD 4.33465 and low mean C/D 0.2318 and second low of SD 0.07762. Banking Sector in Oman has a strong performance because the bank supported by appropriate monetary situation and increased government spending and future investments. The results can be explained that Omani banks are trying to increase their investment through good governance enjoyed by banks and regulated by the Central Bank of

Oman on them and this was appear in revenue from non-interest with follow a balanced policy to maintain liquidity where the banks to exploit their assets and using them optimally, which reflected positively on the granting of loans to customers and increase profits as results decline in lending from other banks due to increased deposits.

Table 1. Financial Descriptive Independent Variables in banking Sector

Groups	Variables	Minimum	Maximum	Mean	Standard Deviation
Asset Quality	BA/NAPS	0.13	0.56	0.2551	0.16126
	LOL	0.77	0.82	0.7880	0.02077
	LO D	0.77	0.83	0.7902	0.02083
	LA /TA	0.53	0.81	0.7105	0.10207
Profitability	NPR	0.25	0.40	0.3473	0.05402
	EPS	0.01	0.07	0.0292	0.02098
	ROE	0.08	0.14	0.1218	0.02367
	ROA	0.01	0.02	0.0145	0.00263
Debt	TL/ TA	0.80	0.88	0.8363	0.02877
	TL /TQ	6.12	9.75	7.1333	1.33480
Liquidity	LA/DB	0.66	0.97	0.8493	0.11156
	C/D	0.12	0.33	0.2318	0.07762
	L+C/D+B	0.97	1.10	1.0595	0.05401
	L/B	6.73	18.87	11.7970	4.33465
	C / B	1.10	8.22	3.3074	2.66863

Table 2 shows the financial descriptive of dependent variables from the period 2009 to 2013. The results show that the high mean is in total regulatory capital ratio and low SD 0.01248. But the low mean is in tier 1 capital ratio 0.1131 and high SD 0.03773. Note that banks keep regulatory capital for banks to protect depositors' money where the banks increase capital to face the risks surrounding the banks, but in addition to meet Basel Committee requirements allowing capital increase to meet the various forms of loans and expand the credit portfolio.

Table 2. Financial Descriptive Dependent Variables in banking Sector

	Minimum	Maximum	Mean	Standard Deviation
Total Regulatory Capital Ratio	0.14	0.17	0.1560	0.01248
Tier 1 Capital Ratio	0.05	0.16	0.1131	0.03773
Risk of Default Ratio	0.09	0.14	0.1262	0.01713

3.2. Multiple Regression Statistics

Table 3 shows the multiple regression analysis for financial position groups and asset risk based on total regulatory capital ratio in six banks listed on MSM. The conclusion of results explain the significant in asset quality and total regulatory capital ratio at the sig. level 10%, where the F-value = 56.636 as was the R = 0.998 while the R^2 was 0.996.

Table 3. Multiple Regression Analysis for Financial Position on Asset risk (Total regulatory capital ratio (TRCR))

$TRCR_{it} = \alpha_0 + b_1 AQ_{it} + b_2 P_{it+} b_3 D_{it+} b_4 L_{it} + \varepsilon_{it}$				
Groups	F- Value	Sig	R	R^2
Asset Quality (AQ)	56.636	0.099*	0.998	0.996
Profitability (P)	0.632	0.723	0.847	0.717
Debt (D)	2.540	0.226	0.793	0.629
Liquidity (L)	0.902	0.648	0.885	0.783

*Denote Sig at (p <0.10) **Denote Sig at (p< 0.0)5 ***Denote Sig at (p< 0.01)

Table 4 shows the multiple regression analysis for financial position groups and asset risk based on Tier 1 capital ratio in six banks listed on MSM. The conclusion of results explain the significant in asset quality and profitability and Tier 1 capital ratio at the sig. level 10%, where the F-value = 77.631, 63.814 respectively as was the R= 0.998, 0.998 respectively, while the R^2 was 0.997 , 0.996 respectively.

Table 4. Multiple Regression Analysis for Financial Position on Asset risk (Tier 1 capital ratio (T1CR))

$T1CR_{it} = \alpha_0 + b_1 AQ_{it} + b_2 P_{it+} b_3 D_{it+} b_4 L_{it} + \varepsilon_{it}$				
Groups	F- Value	Sig	R	R^2
Asset Quality (AQ)	77.631	0.085*	0.998	0.997
Profitability (P)	63.814	0.094*	0.998	0.996
Debt (D)	0.909	0.491	0.614	0.377
Liquidity (L)	7.841	0.261	0.984	0.969

*Denote Sig at (p <0.10) **Denote Sig at (p< 0.0)5 ***Denote Sig at (p< 0.01)

Table 5 shows the multiple regression analysis for financial position groups and asset risk based on risk of default ratio in six banks listed on MSM. The conclusion of results explain the significant in debt and liquidity and Risk of Default Ratio at the sig. level 1%, 5% where the F-value = 117.584, 641.990 as was the R= 0.994, 1.000 respectively, while the R^2 was 0.987, 1.00 respectively.

Table 5. Multiple Regression Analysis for Financial Position on Asset risk (Risk of Default Ratio (RODR))

$RODR_{it} = \alpha_0 + b_1 AQ_{it} + b_2 P_{it+} b_3 D_{it+} b_4 L_{it} + \varepsilon_{it}$				
Groups	F- Value	Sig	R	R^2
Asset Quality (AQ)	1.122	0.602	0.904	0.818
Profitability (P)	34.520	0.127	0.996	0.993
Debt (D)	117.584	0.001***	0.994	0.987
Liquidity (L)	641.990	0.030**	1.00	1.00

*Denote Sig at (p <0.10) **Denote Sig at (p< 0.0)5 ***Denote Sig at (p< 0.01)

Note through *Table 3* and *4* that banks operate on the growth of its assets, which increased deposits and decrease external lending and certificates of deposit for banks and increased the proportion of lending to private firms such as Raysut Cement and Oman Cement and for the purposes of capital spending also that individuals sector increased in obtaining loans due to increased income levels in the last period where banks have seen significant competition to retain deposits and credit granting so by following the consistent policy of deposits at low cost, which is reflected in the increase in profits. The *Table 5* show the

increase liabilities at banks have an impact on the default risk of also retained by unbalanced liquidity risk is reflected on the profits of the banks where necessary for banks from entering the short-term and long-term investments and to diversify their investments and to increase the growth of assets.

3.3. Person Correlations Matrix Statistics

Table 6 shows the Person Correlations Matrix between dependent variable is RA_{it} = Risk asset and measured by (TRCR), (T1CR) and (RODR) and independent variables of asset quality group are (BA/NAPS, LOL, LOD and LA/TA) The results of the study shows there is statistically significant relationship between LO L and BA/NAPS at sig 1% and between LOD and BA/NAPS, LOL at sig 1%, and between RODR and TRCR at sig 5%. Notes that there is a correlation between the increase in deposits, loans and the book value of the banks where considered deposits and loans two important sources for banks to increase their revenues and disparity rely on them proportions in recent times where if increased deposits reflected positively on the increase to customers loans at the level of individuals and firms.

Table 6. Person Correlations Matrix between Asset Quality Variables and Dependent Variables

		$RA_{it} = \alpha_0 + b_1 BA/NAPS_{it} + b_2 LOL_{it+} b_3 LOD_{it+} b_4 LA/TA_{it} + \varepsilon_{it}$						
		BA/NAPS	LO L	LO D	LA /TA	TRCR	T1CR	RODR
BA/NAPS	P C	1						
	Sig2-tailed	--						
LO L	P C	0.968**	1					
	Sig2-tailed	0.002	--					
LO D	P C	0.959**	0.968**	1				
	Sig2-tailed	0.003	0.002	---		.		
LA /TA	P C	-0.006	0101	-0.149	1			
	Sig2-tailed	0.991	0849	0.778	---			
TRCR	P C	-0.055	-0.287	-0.251	-0.240	1		
	Sig2-tailed	0.917	0.581	0.631	0.647	---		
T1CR	P C	-0.104	-0.304	-0.185	-0.437	0.540	1	
	Sig2-tailed	0.845	0.558	0.726	0.386	0.269	---	
RODR	P C	0119	-0.078	-0.067	-0.154	-0.846*	0.367	1
	Sig2-tailed	0.822	0.883	0.899	0.771	0.034	0.474	---

*Correlation is sig at the 0.05 level and **Correlation is sig at the 0.01 level (2-tailed).

Table 7 shows the Person Correlations Matrix between dependent variable is RA_{it} = Risk asset and measured by (TRCR), (T1CR) and (RODR) and independent variables of profitability group are (NPR, EPS, ROE and ROA). The results of the study shows there is statistically significant relationship between RODR and NPR and between RODR and TRCR at 5% significant level. It notes that the increased risk of non-cataract in loans granted to customers and businesses affects proportional to the need to increase capital to face the risks and this was confirmed by the Basel Committee.

Table 7. Person Correlations Matrix between Profitability Variables and Dependent Variables

		$RA_{it} = \alpha_0 + b_1 NPR_{it} + b_2 EPS_{it+} b_3 ROE_{it+} b_4 ROA_{it} + \varepsilon_{it}$						
		NPR	EPS	ROE	ROA	TRCR	T1CR	RODR
NPR	P C	1						
	Sig2-tailed	--						
EPS	P C	0.330	1					
	Sig2-tailed	0.523	--					
ROE	P C	0.237	0.420	1				
	Sig2-tailed	0.651	0.407	---		.		
ROA	P C	0.789	0.191	0.615	1			
	Sig2-tailed	0.062	0.717	0.193	---			
TRCR	P C	0.655	-0.147	-0.318	0.372	1		
	Sig2-tailed	0.158	0.781	0.539	0.468	---		
TICR	P C	0.460	-0.159	-0.277	-0.024	0.540	1	
	Sig2-tailed	0.358	0.764	0.596	0.964	0.269	---	
RODR	P C	0.820*	0.029	-0.272	0.556	0.846*	0.367	1
	Sig2-tailed	0.046	0.956	0.603	0.252	0.034	0.474	---

*Correlation is sig at the 0.05 level and **Correlation is sig at the 0.01 level (2-tailed).

Table 8 shows the Person Correlations Matrix between dependent variable is RA_{it} = Risk asset and measured by (TRCR), (T1CR) and (RODR) and independent variables of debt group are (TL/TA and TL/TE). The results of the study shows there is statistically significant relationship between TL /TQ and TL/TA at 5% significant level and between RODR and TL/TA, TL/TE with negative correlation value at sig 1%, and at positive sig 5% with TRCR.

Table 8. Person Correlations Matrix between Debt Variables and Dependent Variables

		$RA_{it} = \alpha_0 + b_1 TL/TA_{it} + b_2 TL/TE_{it} + \varepsilon_{it}$				
		TL/TA	TL/TE	TRCR	T1CR	RODR
TL/ TA	P C	1				
	Sig2-tailed	--				
TL /TQ	P C	0.873*	1			
	Sig2-tailed	0.023	--			
TRCR	P C	-0.714	-0.791	1		
	Sig2-tailed	0.111	0.061	---		.
TICR	P C	-0.529	-0.309	0.540	1	
	Sig2-tailed	0.280	0.551	0.269	---	
RODR	P C	-0.883*	-0.993**	0.846*	0.367	1
	Sig2-tailed	0.020	0.000	0.034	0.474	---

*Correlation is sig at the 0.05 level and **Correlation is sig at the 0.01 level (2-tailed).

It notes that the increase in liabilities as deposits for customers have an impact on banks' ability to expand in terms of assets is considered desirable for long-term deposits of banks and better exploit the optimal way as opposed to short-term deposits also increased obligations on banks have an impact on the risk of non-payment.

Table 9 shows the Person Correlations Matrix between dependent variable is RA_{it} = Risk asset and measured by (TRCR), (T1CR) and (RODR) and independent variables of liquidity group are (LA/ DB, C/D, L+C / D+B, L/B and C/ B). The results of the study shows there is statistically significant relationship between C/D and LA/DB at 5% significant level and between L+C/D+B and LA/DB at 5%, and between L/B and LA/DB with negative value at 5%, and between C / B and LA/DB with negative value 1%, with positive value of C/D at

sig 5%, and at sig1% with L/B. Finally, there is a relationship between RODR and TRCR with 5% significant level. It notes that the increase of cash of banks gives them an opportunity to give loans to various sectors where more items are considered cash liquidity and therefore the banks examining credit requests from the risks surrounding the facilities for the purposes of making the right decision to avoid the risk of non-payment in the future.

Table 9. Person Correlations Matrix between Liquidity Variables and Dependent Variables

		$RA_{it} = \alpha_0 + b_1 LA/DB_{it} + b_2 C/D_{it+} b_3 L+C/D+B_{it+} b_4 L/B_{it} + b_4 C/B+ \varepsilon_{it}$							
		LA/DB	C/D	L+C/D+B	L/B	C / B	TRCR	T1ER	RODR
LA/DB	P C	1							
	Sig2-tailed	----							
C/D	P C	0.901*	1						
	Sig2-tailed	0.014	----						
L+C/D+B	P C	0.819*	-0.497	1					
	Sig2-tailed	0.046	0.315	---		.			
L/B	P C	-0.880*	0.702	-0.783	1				
	Sig2-tailed	0.021	0.120	0.066	---				
C / B	P C	-0.939**	0.823*	-0.756	0.943**	1			
	Sig2-tailed	0.005	0.044	0.082	0.005	---			
TRCR	P C	-0.085	-0.051	-0.189	0.156	0.300	1		
	Sig2-tailed	0.873	0.924	0.720	0.768	0.563	---		
TIER	P C	-0.351	0.035	-0.559	0.701	0.571	0.540	1	
	Sig2-tailed	0.495	0.948	0.249	0.121	0.236	0.269	---	
RODR	P C	0.047	-0.067	0.071	0.038	0.228	0.846*	0.367	1
	Sig2-tailed	0.929	0.900	0.894	0.944	0.664	0.034	0.474	---

*Correlation is sig at the 0.05 level and **Correlation is sig at the 0.01 level (2-tailed).

The results of the study, shows there is a impact of return on equity with total regulatory capital ratio which banks must maintain a liquidity ratio in banks and strengthened in such a way to improve the quality of services and maintain a capital adequacy ratio according to the requirements of the Basel and this is important for the banks to survival and competition in the market. The transparency and disclosure in interpretation of data, analysis is clear in the Muscat Securities Market and is reflected in the results also may the balance between liquidity and profitability lead to avoid capital adequacy risk.

The results shows the asset quality, provision coverage, adequacy of capital and profitability of commercial banks continued to enhance its performance, and despite the increase in the size of the budgets but continuous decline in the total non-performing loans. The capital adequacy ratio of risk-weighted assets amounted to about 16.0 per cent of which is the legal limit required 12 per cent set by the Central Bank of Oman. The annual data of banking system that is available at the end of December 2013 refer to the continuation of commercial banks in achieving high profits in 2013. These results consist with some of paper results (Hansen, 2009) and (Owojori *et al.*, 2011).

Summary of Results

This study attempts to analyze the impact of financial position and risk asset six banks listed in MSM of Oman from the period 2009 to 2013. This study used four groups as asset quality, profitability, debt and liquidity as independent variables and each group include many variables to test the financial position of banking sector and three dependent variables total regulatory capital ratio and tier 1 capital ratio and risk of default ratio. The multiple regression results indicate there is a statistical significant impact of asset quality and total regulatory

capital ratio at significant level 10% and asset quality, profitably and tier 1 capital ratio at significant level 10% and finally, debt and liquidity ratios and risk of default ratio at significant level 5%, 1%.The Person correlations matrix used between each group of financial position and asset risk, the results shows there is statistically significant relationship between LO L and BA/NAPS at sig 1% and between LOD and BA/NAPS, LOL at sig 1%, and between RODR and TRCR at sig 5% and there is statistically significant relationship between RODR and NPR and between RODR and TRCR at sig 5%. And there is statistically significant relationship between TL /TQ and TL/TA at 5% significant level and between RODR and TL/TA, TL/TE with negative correlation value at sig 1%, and at positive sig 5% with TRCR. Finally, there is statistically significant relationship between C/D and LA/DB at 5% significant level and between L+C/D+B and LA/DB at 5%, and between L/B and LA/DB with negative value at 5%, and between C / B and LA/DB with negative value 1%, with positive value of C/D at sig 5%, and at sig 1% with L/B.

The researcher recommends for banks do not focus on a specific sector lending without the other, which may increase the risk, especially that most of the banks have outstanding loans portfolio with the government sectors and real estate sector, which caused a major crisis in the past. Focus on the need to search for alternative of funding to maintain growth under falling oil prices, which would affect the levels of liquidity at banks under these banks retain a large proportion of government oil revenues.

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