OFFSITE SURVEILLANCE FOR THE PHILIPPINE BANKING SYSTEM: A MULTIVARIATE CAMELS APPROACH

By

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A thesis submitted in partial fulfillment Of the requirements for the degree of

Master of Statistics

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July 2015
Abstract

The study used 74 unique financial ratios in predicting the performance of 616 Philippine domestic banks. Principal components analysis was employed to determine the salient financial indicators that relate to the banks’ six (6) component and one (1) composite scores for capital adequacy, asset quality, management, earning, liquidity and sensitivity to market risk (i.e., CAMELS). Using the resulting principal components (PC), the scores are used in ordinal logistic models. The predictive abilities of the models are evaluated. PC interpretation facilitated the identification of salient characteristics of bank groups by CAMELS component. Ordinal logistic regression results put forward the need for specific models for identified bank groups. Moreover, component scores for management and sensitivity to market risk appear to have tampered predictive ability.