ABSTRACT

Banking institutions play a substantial role, especially in a developing country like Malaysia, in mobilising savings and channelling these resources for economic development. The growth of the banking institutions over the past two decades was achieved through the rapid build-up of an extensive branch network, the widening of banking services and the acceleration of credit activities. The focus of this paper is to evaluate the relative performance of banking institutions in Malaysia during the 1990-1998 period, using the CAMEL rating framework. The banking institutions included in this study are the major groups of banking institutions operating in Malaysia, namely commercial banks, finance companies and merchant banks. The acronym "CAMEL", is taken from the key components of the safety and soundness banking examination process: **C**apital Adequacy, **A**sset Quality, **M**anagement Competency, **E**arnings Performance and **L**iquidity Position. The ultimate aim of using the CAMEL analysis is to evaluate the type and severity of problems that commercial banks, finance companies and merchant banks experience at a particular time, and to suggest the necessary supervisory response. Suggestions are made based on the findings.