ABSTRACT

ABDUSSALAM KONSTITUANTO. *Banks Default Probability in Term of Management and Financial Aspect*. Supervised by BUNASOR SANIM, DEDI BUDIMAN HAKIM, and ADLER H. MANURUNG.

Default risk is a threat to the Bank at any time can happen when the owner of the funds to withdraw their funds at once that in this case begins with an indication of maturity gap on the financial structure of banks. Therefore the failure of a bank must realistically be a measurable risk and rational, so that from the beginning to realize that the chances of failure of a bank must be taken into account the slightest chance. The objective of this study is to estimate the probability of bank failure of banks listed on the Indonesia Stock Exchange and analyze the relationship between the bank's financial ratios and management quality of the Merton default probability models. The method of this study replicate the development model of Merton with the formula KMV Black-Scholes model and regression analysis to determine the effect of independent variables on the dependent variable using eviews program. From the results showed the probability of bank failure rate in Indonesia is relatively high compared with other types of industrial companies mainly influenced by the variable BOPO financial ratios as an indicator of management efficiency and ROIC as a proxy variable of the quality of bank management. The high rate of bank failures in the study is also encouraged by the high volatility of bank assets are the source of its funding comes from third party funds (DPK). The results of this study will have implications on market psychology which should receive attention at all times and maintained by the Monetary of Authority (BI), while for the academics need to deepen this study in order to obtain a more suitable model for predicting the probability of bank failures in Indonesia as a means of early warning system.

Keyword: Merton model, default probability, the bank's financial ratios and management quality.