ABSTRACT

Assessment of the condition of an entity had been done by Altman which in turn known as the Altman Z Score formula. The formula was found by comparing two groups of entities in the manufacturing industry between the bankrupt and not bankrupt by using variables derived from financial ratios of the entity. During its development, this formula in 1984 experienced a slight modification and the entity that is used as the object of research is the banking industry. Based on the above description then formulated research problem is "How do the financial ratios in the models of Altman Z Score influence the soundness of banks listed on the IDX in 2008-2010?"

Examination of the research model was conducted by using the data banking companies listed on the IDX in the years of 2008-2010. The data obtained were then analyzed with regression test.

The results show that Net Working Capital to Total Assets (X1), Retained Earnings to Total Assets (X2), Earning Before Interest and Tax to Total Assets (X3), Market Value of Equity to Book Value of Debt (X4), and Sales to Total Assets (X5) found to have significant effect on the soundness of the bank as measured with the method of CAMEL.

Keywords : Net Working Capital to Total Assets, Retained Earnings to Total Assets, Earning Before Interest and Tax to Total Assets, Market Value of Equity to Book Value of Debt, and Sales to Total Assets, bank soundness.