

Purpose – This thesis seeks to investigate the effect between capital structure and profitability of PT. Bank Mandiri Tbk from the perspective of conventional capital structure theory. The two main theories used are the pecking order- and trade-off theory. The fundamental of the pecking order theory is that manager's capital structure decisions are influenced by the market perceptions of managers' superior information. The trade-off theory provides evidence for that manager's trade off between costs and benefits of debt.

Methodology/Approach – Regression analysis is used in the estimation of function relating the return on equity (ROE) with measures of capital structure.

Findings – The result reveal a significantly positive effect between the ratio of long-term debt to total assets and ROE. With regard to the relation between total debt and return rates, the results show a significantly positive effect between the ratio of total debt to total assets and return on equity (ROE).

Originality/value – The research suggest that profitability of PT. Bank Mandiri Tbk depend more on debt as their main financing option.

Keyword – capital structure