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Strategies for Developing The Capital Potential of Commercial Banks

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Abstract: The development of capital potential is a fundamental prerequisite for strengthening the financial stability, lending capacity, and long-term competitiveness of commercial banks. This study examines strategic mechanisms for increasing regulatory capital, optimizing its structure, and maintaining an appropriate relationship between capital growth and risk-weighted assets. The research focuses on the practical implementation of four scientific contributions at Mikrokreditbank in Uzbekistan. These include increasing charter capital through ordinary share issuance, expanding subordinated debt issuance to strengthen Tier 2 capital, increasing the share of regulatory capital in liabilities through improved investment attractiveness and internal capital accumulation, and aligning regulatory capital growth with the growth of risk-weighted assets. The reported results indicate that charter capital increased by 39.6% in 2025 compared with 2024, subordinated debt issuance increased by 2.1%, and the share of regulatory capital in liabilities rose by 3.6 percentage points. Furthermore, regulatory capital grew by 61.7%, while risk-weighted assets increased by 27.5%. The study proposes an integrated capital-development framework combining external equity mobilization, internal capital accumulation, capital structure optimization, and risk-sensitive planning.

Keywords: commercial banks, capital potential, regulatory capital, ordinary shares, subordinated debt, retained earnings, capital adequacy, risk-weighted assets, financial stability, Mikrokreditbank

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1. Introduction

Bank capital plays a central role in maintaining financial stability, protecting depositors, absorbing unexpected losses, and supporting sustainable lending. In a changing economic environment, commercial banks must develop sufficient capital resources to finance business expansion, introduce technological innovations, comply with prudential requirements, and respond to changes in credit and market risks [1].

The strategic development of capital potential is particularly important in emerging economies, where commercial banks are expected to support private-sector development, investment activity, and economic diversification. In Uzbekistan, the modernization of the banking system and the expansion of financial intermediation increase the importance of maintaining an appropriate relationship between capital resources and the risks associated with banking operations [2], [3].

Capital development cannot be evaluated solely by the nominal growth of charter or regulatory capital. A bank may increase its capital while simultaneously experiencing a deterioration in capital adequacy if risk-weighted assets expand more rapidly. Similarly, excessive dependence on subordinated borrowing may increase financing costs and create

additional contractual obligations. Therefore, effective capital management requires a balanced combination of equity mobilization, internal profit accumulation, regulatory capital diversification, and risk-based planning [4].

The Central Bank of Uzbekistan's statistics demonstrate the relevance of this issue. Total regulatory capital in the banking sector increased from UZS 139.442 trillion on 1 July 2025 to UZS 167.392 trillion on 1 July 2026. Over the same period, the capital adequacy ratio rose from 17.4% to 18.5%. These indicators underline the importance of examining not only capital growth but also the quality and structure of bank capital [5], [6].

The purpose of this study is to substantiate strategic directions for developing the capital potential of commercial banks through the analysis of capital mobilization, internal capital accumulation, regulatory capital structure, and the relationship between capital growth and risk-weighted assets.

The study addresses four research objectives:

1. To evaluate the role of ordinary share issuance in strengthening charter capital.
2. To assess the contribution of subordinated debt to Tier 2 capital.
3. To analyze the importance of reserve capital and retained earnings in increasing the relative role of regulatory capital.
4. To examine the relationship between regulatory capital growth and risk-weighted asset expansion.

The scientific contribution of the study is the integration of these four mechanisms into a coordinated capital-development framework based on the practical experience of Mikrokreditbank.

1.1 Literature Review

The theoretical foundations of bank capital management are associated with financial stability, risk absorption, funding structure, and regulatory supervision. Modigliani and Miller [7] established fundamental principles concerning capital structure and financing decisions. Although their original framework was developed for firms operating under idealized market conditions, subsequent banking research has demonstrated that financial institutions require additional analysis because of deposit-taking activities, regulatory requirements, information asymmetry, and systemic risk.

Diamond and Rajan [8] examined the relationship between bank capital, liquidity creation, and financial fragility. Their work demonstrates that capital structure decisions influence not only loss absorption but also the capacity of banks to provide financial intermediation. Berger and Bouwman [9] further examined the relationship between bank capital and performance during financial crises, highlighting the importance of capital buffers under adverse conditions.

Gropp and Heider [10] investigated the determinants of bank capital structure and showed that bank-specific and market-related factors influence financing decisions. Myers [11], through the capital structure puzzle, emphasized that financing choices cannot always be explained by a single theoretical model. These contributions suggest that capital-development strategies must reflect the institutional characteristics and operating conditions of individual banks.

International regulatory standards provide an additional foundation for capital management. The Basel Committee on Banking Supervision emphasizes the importance of high-quality capital, capital adequacy, and risk-sensitive measurement of exposures [12], [13]. Under the Basel III framework, Common Equity Tier 1 capital plays a particularly important role because of its capacity to absorb losses while a bank remains a going concern [14].

Ordinary share issuance is therefore an important mechanism for strengthening the equity base. Its effectiveness depends on investor confidence, expected profitability, dividend policy, corporate governance, and financial transparency. Investment attractiveness should be considered an integral component of capital formation rather than merely a market-related objective.

Subordinated debt offers a complementary mechanism. Depending on its contractual terms and compliance with regulatory eligibility requirements, it may contribute to Tier

2 capital. However, it cannot be treated as equivalent to ordinary equity because it entails contractual payment obligations and may generate refinancing risks.

Internal capital accumulation through retained earnings and reserve capital provides another source of long-term financial resilience. The effectiveness of this mechanism depends on profitability, asset quality, operating efficiency, and dividend decisions. Retaining a portion of earnings can strengthen capital without requiring the same type of external financing as a new share issue.

Despite these established theoretical approaches, the practical challenge is to coordinate capital instruments with the bank's growth strategy and risk profile. This study addresses that challenge by examining four interconnected mechanisms implemented at Mikrokreditbank [15].

2. Materials and Methods

The study applies comparative, structural, and descriptive analytical methods, together with a case-study approach. The empirical analysis draws on two information groups: the implementation results for Mikrokreditbank during 2024–2025 supplied for this research and official banking-sector statistics published by the Central Bank of the Republic of Uzbekistan [5].

Comparative analysis is used to identify changes between 2024 and 2025. Structural analysis examines the contribution of different capital instruments to regulatory capital. Growth-rate comparison is applied to assess the relationship between regulatory capital expansion and the growth of risk-weighted assets. The case-study approach connects the proposed strategic mechanisms with their reported implementation outcomes.

The analytical framework includes four dimensions:

1. External equity mobilization, measured through changes in charter capital associated with ordinary share issuance.
2. Regulatory capital diversification, assessed through changes in subordinated debt issuance and its potential contribution to eligible Tier 2 capital.
3. Internal capital accumulation, examined through reserve capital, retained earnings, and the relative share of regulatory capital in liabilities.
4. Risk-sensitive capital planning, evaluated through the relationship between regulatory capital growth and risk-weighted asset growth.

The study distinguishes between percentage changes and percentage-point changes. For example, a 39.6% increase in charter capital represents a relative growth rate, whereas a 3.6-percentage-point increase in the share of regulatory capital in liabilities represents a change in a ratio.

The study is descriptive and case-based rather than a causal econometric investigation. The reported changes demonstrate the outcomes observed following implementation of the proposed measures, but the available data do not isolate the independent effect of each measure from other influences, such as profitability, asset composition, capital adjustments, and changes in banking operations.

3. Results

The first scientific contribution proposes increasing the share of charter capital in regulatory capital by improving the investment attractiveness of ordinary shares and expanding their issuance. This proposal was implemented in Mikrokreditbank's operations.

According to the reported implementation results, the bank's charter capital increased by 39.6% in 2025 compared with 2024.

This result highlights the importance of combining capital-raising decisions with measures designed to attract investors. Ordinary share issuance can strengthen the permanent equity base and increase the resources available to absorb losses. Unlike debt financing, ordinary shares do not normally create a contractual obligation to repay principal at a predetermined maturity.

However, the effectiveness of this mechanism depends on investor confidence in the bank's financial performance, governance, transparency, and future profitability. An increase in charter capital is strategically valuable when it strengthens eligible regulatory capital and supports sustainable banking operations.

The second scientific contribution proposes increasing the share of Tier 2 capital in regulatory capital by expanding the issuance of subordinated debt. This proposal was also implemented at Mikrokreditbank.

The reported results indicate that the issuance volume of subordinated debt increased by 2.1% in 2025 compared with 2024.

Subordinated debt can diversify a bank's regulatory capital structure when the relevant instruments satisfy applicable eligibility criteria. It can complement the equity base and contribute to the maintenance of capital buffers [12].

Nevertheless, subordinated debt should not be interpreted as a substitute for high-quality equity. Interest expenses, maturity structure, refinancing conditions, and regulatory eligibility must be considered when evaluating its contribution to financial resilience [13].

The researcher's assessment is that the strategic objective should be to establish a balanced capital structure in which eligible Tier 2 instruments supplement a sufficiently strong Tier 1 capital base. The bank should evaluate the cost of subordinated financing against its expected contribution to capital adequacy and its capacity to support sustainable lending.

The third scientific contribution proposes increasing the share of regulatory capital in the bank's liabilities through three coordinated measures: improving the investment attractiveness of shares, increasing reserve capital, and strengthening retained earnings.

According to the reported implementation results, the share of regulatory capital in Mikrokreditbank's liabilities increased by 3.6 percentage points in 2025 compared with 2024.

This finding shifts the analysis from the absolute amount of capital to the relationship between capital and the bank's overall funding structure. A larger capital base relative to liabilities can strengthen the bank's capacity to absorb losses and reduce its relative dependence on borrowed funding. However, the overall effect also depends on the composition and maturity of liabilities and the risk profile of assets.

Reserve capital and retained earnings provide an internal mechanism for gradual capital accumulation. Unlike external share issuance, retained earnings can strengthen equity through the reinvestment of profits. Their contribution depends on sustainable profitability, asset quality, operating expenses, dividend distributions, and the bank's capacity to generate earnings.

In the researcher's view, internal capital formation should be treated as a continuing strategic process rather than a one-off financial measure. Banks should establish targets for retained earnings, assess the sustainability of dividends, and connect capital accumulation plans with forecasts of lending growth and expected losses.

The main implication is that sustainable capital development requires a combination of external investment and internal financial accumulation. Reliance on only one source may expose a bank to market constraints or fluctuations in profitability.

The fourth scientific contribution proposes increasing the share of core Tier 1 capital in regulatory capital to maintain a balanced relationship between regulatory capital growth and the growth of risk-weighted assets.

The reported implementation results for Mikrokreditbank show that in 2025:

1. Regulatory capital grew by 61.7% compared with 2024.
2. Risk-weighted assets grew by 27.5% over the same period.

The difference between these growth rates was 34.2 percentage points. This indicates that regulatory capital grew considerably faster than risk-weighted assets during the reported period.

From a capital-planning perspective, this relationship is important because capital adequacy depends on both eligible capital and the risk-weighted exposures against which capital must be maintained. When capital grows faster than risk-weighted assets, the bank may strengthen its capacity to absorb losses and support future growth, all else being equal [4].

However, the difference between growth rates alone does not establish the exact change in the capital adequacy ratio. A precise calculation requires the opening and closing values of regulatory capital and risk-weighted assets, together with information about regulatory adjustments and changes in risk composition.

The researcher's position is that banks should adopt an integrated capital-planning system in which capital growth targets are evaluated alongside projected credit expansion, changes in risk weights, stress-test results, and the composition of Tier 1 capital.

Such an approach can reduce the likelihood that rapid asset expansion outpaces the bank's capacity to absorb potential losses. It also enables management to distinguish between growth supported by strong capital buffers and growth that increases financial vulnerability.

The four proposals address different but complementary dimensions of capital development. The first strengthens the equity base through ordinary shares; the second diversifies eligible regulatory capital through subordinated debt; the third increases the role of internal accumulation and the capital-to-liabilities relationship; and the fourth connects capital formation with risk-adjusted asset growth.

Table 1. Implementation results of the proposed capital-development mechanisms at Mikrokreditbank

No.	Scientific contribution	Reported result in 2025 compared with 2024	Strategic significance
1	Increasing ordinary share issuance and charter capital	Charter capital increased by 39.6%	Strengthening the permanent equity base
2	Expanding subordinated debt issuance	Issuance volume increased by 2.1%	Diversifying eligible regulatory capital
3	Increasing the share of regulatory capital in liabilities	Increase of 3.6 percentage points	Strengthening the capital position relative to liabilities
4	Aligning capital growth with risk-weighted assets	Capital grew by 61.7%; risk-weighted assets by 27.5%	Supporting risk-adjusted capital planning

Compiled by the author based on the reported results of implementing the proposed scientific contributions at Mikrokreditbank. The figures have not been independently audited for this study.

The consolidated results suggest that capital development should be managed as a coordinated process rather than through isolated financial transactions. Share issuance and subordinated debt can mobilize additional resources, while retained earnings and reserve capital can support ongoing accumulation. Risk-based planning then determines whether the resulting capital structure remains adequate as banking operations expand.

The four mechanisms are complementary, but their contributions should not be treated as interchangeable. Ordinary shares and retained earnings generally strengthen equity capital, whereas subordinated debt contributes to regulatory capital only to the

extent that it satisfies the applicable eligibility criteria. In addition, the capital-to-liabilities ratio and the capital adequacy ratio measure different aspects of financial resilience and should be monitored separately.

The broader banking-sector context supports the relevance of these strategic directions. According to the Central Bank of Uzbekistan, total regulatory capital increased from UZS 139.442 trillion on 1 July 2025 to UZS 167.392 trillion on 1 July 2026. The sector's capital adequacy ratio increased from 17.4% to 18.5% over the same period [5], [6].

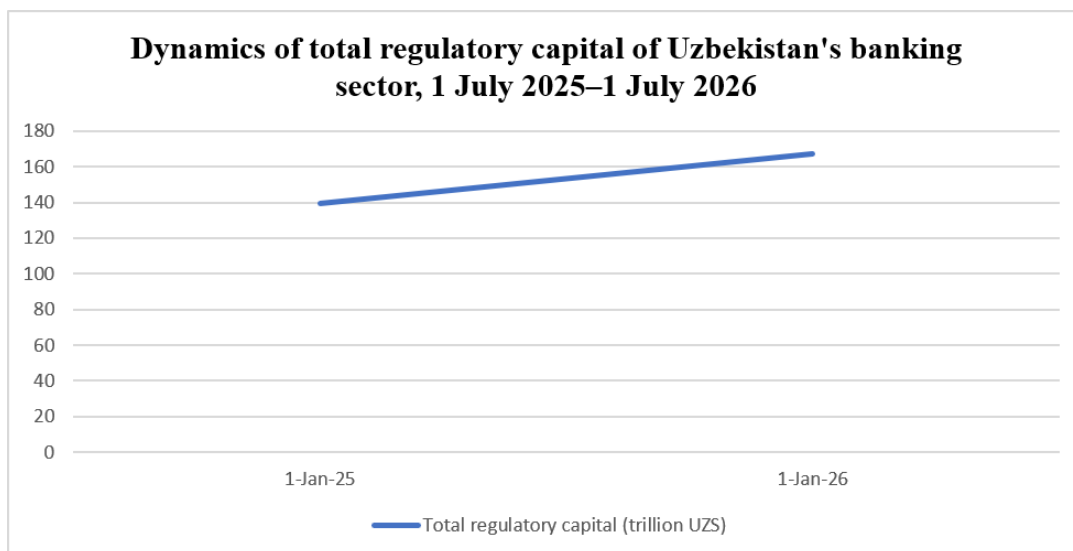


Figure 1. Dynamics of total regulatory capital of Uzbekistan's banking sector, 1 July 2025–1 July 2026

The data show an increase of approximately 20.0% in total regulatory capital over the period. This expansion underlines the importance of capital mobilization and accumulation in the banking sector. Nevertheless, aggregate banking-sector growth should not be interpreted as evidence that every bank experienced the same changes or that the four mechanisms examined in the Mikrokreditbank case explain the sector-wide increase.

The structure of regulatory capital provides further insight. As of 1 July 2026, Tier 1 capital accounted for 83.8% of total regulatory capital, while Tier 2 capital accounted for 16.2% [5].

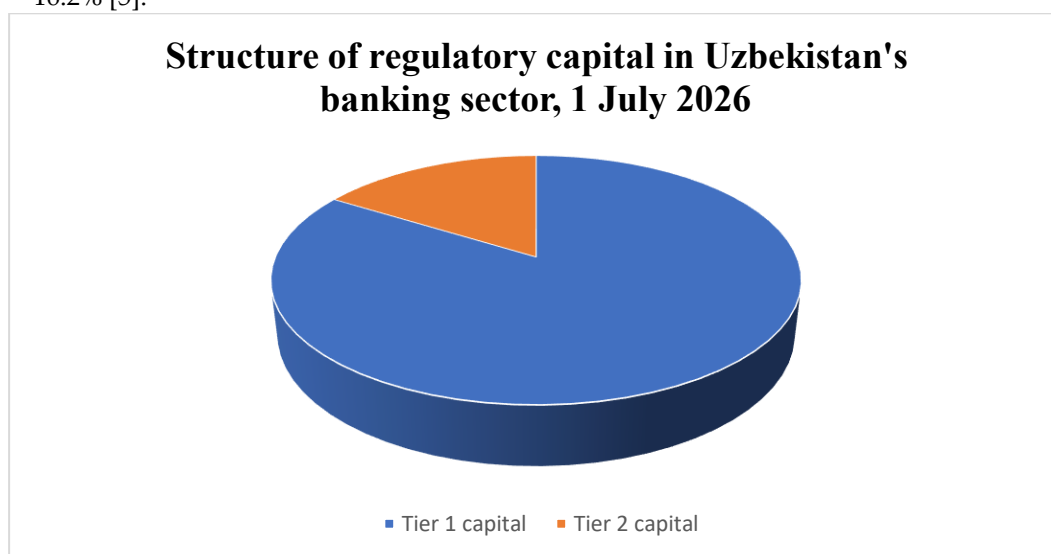


Figure 2. Structure of regulatory capital in Uzbekistan's banking sector, 1 July 2026

Explanation. The predominance of Tier 1 capital illustrates the importance of maintaining a strong core capital base. Tier 2 instruments can provide supplementary support, but their strategic value depends on regulatory eligibility and the overall quality of capital. The data support a strategy that prioritizes high-quality capital while using eligible subordinated instruments as a complementary source [12].

Table 3. Strategic framework for developing the capital potential of commercial banks

Strategic direction	Main instruments	Expected outcome
Equity mobilization	Ordinary share issuance, improved investor confidence	Stronger permanent equity base
Capital diversification	Eligible subordinated debt and Tier 2 instruments	More diversified regulatory capital
Internal accumulation	Retained earnings and reserve capital	Sustainable capital formation
Risk-based planning	Tier 1 capital monitoring, stress testing, risk-weighted asset control	Stronger capital adequacy and risk resilience

Source: Developed by the author based on the four scientific contributions and the research findings.

4. Discussion

The framework establishes a logical sequence: banks mobilize external equity, diversify eligible regulatory instruments, accumulate capital internally, and continuously assess the relationship between capital and risk-weighted assets. These processes should be supported by governance arrangements, capital forecasting, and regular stress testing [15].

The key analytical conclusion is that the effectiveness of capital development depends on the interaction between capital volume, capital quality, funding costs, and the risk profile of banking operations. The proposed framework can serve as a basis for medium-term capital planning and for monitoring whether capital growth remains consistent with the bank's strategic objectives.

5. Conclusion

The study demonstrates that developing the capital potential of commercial banks requires a coordinated strategy that combines external capital mobilization, internal accumulation, and risk-sensitive capital management. The practical experience of Mikrokreditbank provides evidence of the relevance of these mechanisms for strengthening the capital structure.

First, the reported 39.6% increase in charter capital in 2025 compared with 2024 supports the strategic importance of improving the investment attractiveness of ordinary shares. Banks should strengthen corporate governance, financial transparency, and investor communication to support sustainable equity mobilization.

Second, the 2.1% increase in subordinated debt issuance highlights the role of supplementary capital instruments. Their use should be based on regulatory eligibility, funding costs, maturity structure, and the bank's capacity to meet contractual obligations.

Third, the reported 3.6-percentage-point increase in the share of regulatory capital in liabilities indicates the importance of monitoring capital relative to the overall funding structure. Banks should strengthen retained earnings, maintain appropriate reserve levels, and align dividend policies with long-term capital requirements.

Fourth, the difference between the reported growth rates of regulatory capital (61.7%) and risk-weighted assets (27.5%) highlights the importance of integrating capital planning

with risk assessment. Banks should use forward-looking capital forecasts and stress tests to ensure that capital growth remains sufficient under alternative economic and credit-risk scenarios.

Based on these findings, the following recommendations are proposed:

1. Develop medium-term capital plans that integrate equity issuance, retained earnings, eligible subordinated debt, and projected asset growth.
2. Strengthen investment attractiveness through transparent reporting, sound corporate governance, and sustainable profitability.
3. Establish internal capital accumulation targets based on earnings forecasts, dividend commitments, and anticipated credit losses.
4. Improve risk-sensitive capital planning by monitoring capital adequacy, Tier 1 capital quality, and risk-weighted asset growth together.
5. Introduce regular stress testing to assess whether capital buffers remain adequate under adverse macroeconomic and credit-risk scenarios.
6. Evaluate capital-development outcomes through separate indicators, including capital growth, capital adequacy, the capital-to-liabilities ratio, and the composition of regulatory capital.

The principal scientific contribution of the study is the integration of four practical capital-development mechanisms into a unified strategic framework. The proposed approach emphasizes that capital potential should be evaluated not only by its nominal size but also by its quality, sustainability, and capacity to support risk-adjusted banking growth.

The study is limited by its reliance on reported implementation results for a single bank and the absence of a full bank-level time series for all relevant indicators. Future research could apply panel-data analysis across commercial banks to examine the relationship between capital structure, profitability, asset quality, and financial stability.

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