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Some of the issues of mergers and acquisitions in the banking system of the Republic of Kazakhstan

Annotation

The article considered some theoretical aspects of mergers and absorption and communication of the theory with modern development of processes of mergers and absorption in the Kazakhstan banking system. Research of incentive motives of transactions of bank mergers and absorption is conducted. For Kazakhstan processes of consolidation of a banking capital gain huge value in connection with reduction of client base, decline in yield of operations in the credit and financial markets and toughening of requirements for sufficiency of the capital. The design of the transaction of M&A in the bank sphere is presented with allocation of main objectives, types and stages of the organization. Current trends in development of processes of mergers and absorption in the banking sector of Kazakhstan are investigated; indicators of development of a banking system of Kazakhstan are analyzed taking into account the taken place transactions of mergers and absorption with identification of the main problems of increase of competitiveness and efficiency of bank activity.

Keywords

banks, reorganization, merges, absorption, accession, transactions of M&A

1 Introduction

Active development of the international and national banking markets in the conditions of economic globalization is accompanied by expansion of mergers and acquisitions transactions. Depending on the interests and positions of participants in mergers and acquisitions aimed at expanding and diversifying their activities, development of new technologies, market segments and territories, strengthening competitive position, minimizing risks, reducing costs, fulfillment of obligations, the involvement of highly qualified specialists. In the banking sector M & A deals are one of the main forms of manifestation of the process of centralization of bank capital.

2 Overview of the study area

For Kazakhstan, the banking capital consolidation processes are also becoming increasingly important. This is facilitated by factors such as a reduction in the customer base, decline of profitability of operations in the credit and financial markets and the tightening of the requirements of the National Bank of Kazakhstan, including

those relating to capital adequacy. However, in Kazakhstan's economic literature, theoretical and methodological aspects of the process of mergers and acquisitions in the banking sector are considered deeply enough, although they have their own specificity. In these circumstances, a study of bank mergers and acquisitions in Kazakhstan true. In foreign studies, mergers and acquisitions processes (M&A) are paid great attention. However, in many cases, between the terms "merger" and "acquisitions" has no clear boundaries, both terms are used to refer to transactions «mergers and acquisitions», implying all kinds of integration processes, such as a merger, acquisition, acquisition of companies, alliances, redemption with the use of borrowed funds, and other operations on the transfer of corporate governance.

In the studies of Patrick A. Gohan there are considered forms of reorganization of enterprises, as a merger, consolidation, acquisition. Merge he defines as "the union of two corporations, which survives only one of them, the other ceases to exist." Consolidation determines the formula $A + B = C$, where C - a brand new company. The term "absorption" he believes it is more uncertain, and sometimes referring only to hostile transactions,

and in other cases both friendly and unfriendly mergers. However, he believes that all of these terms are interchangeable and can be used depending on the size of the merging companies (if the company equal in size, it is consolidation, and if different in size, it is merger) [1].

Economists Reed, Lajoux determine the merger as a transaction in which a corporation is legally absorbed by another, resulting in the company-absorber receives on its balance sheet all assets and liabilities of the absorbed corporation [2]. A similar opinion is shared by the authors Graeme Deans, Fritz Kroeger, Stephan Zayzel who use the word fusion (mergers) as a synonym for mergers and acquisitions, based on the fact that the merger in the true sense of the word is very small. In almost all cases, a single legal entity absorbs the other [3].

In his turn, Li Yong Gang believes that the acquisitions - is "the union of several companies, which resulted in one of them survives, the rest lose independence and cease to exist with the transfer of all their rights and obligations to the enterprises" [4].

The main objectives of mergers and acquisitions is an increase in investor ownership, profit growth, return on invested capital increase. At the same time the attainment of these objectives is not achieved through the development and use of the company's own capabilities. The mechanism of mergers and acquisitions is used when the acquisition of competitive advantage possible to get a lower cost is due to external sources through the acquisition of other companies' assets [5].

The study of different approaches can be summarized as the following definitions:

- The merger is a transaction to combine two or more companies into one, accompanied by a conversion of shares, combining the assets and liabilities of companies participating in the transaction on the basis of one of the companies or the newly formed;
- Acquisition - is a company's buying, carried out by another company, accompanied by the transfer of ownership of the company and, often, the replacement of the acquired company's management and a change in its financial and operating policies. In this case the target company may remain formally a separate legal entity, the merger of organizational structures cannot occur.

Considering the mergers and acquisitions in the banking sector, it should be noted that they make half of all M & A transactions that take place in the modern world. During the trades the high concentration of capital is achieved M & A, which ensures the stability of credit institutions and the banking system as a whole [6].

Bank mergers and acquisitions are the result of a specific development of the banking system.

Using mergers and acquisitions by banks due to increasing competition between credit institutions, the need to increase the capitalization of banks, their access to new geographic and product markets.

Banks in mergers and acquisitions act as external structures that initiate these processes, customers, organizers and agencies that fund mergers and acquisitions.

In the banking sector the most commonly used merger and acquisition of two banks. Can merge two commercial banks, which have different positions on the market. Situation of merging of two equal on the basic parameters of commercial banks arise in a common target setting, implementation of governmental or social priorities. They are supported by close partnership between banks. With unequal positions united by commercial banks in the market, the merger initiative can come from both attached, and from the merged bank. Both banks at the same time realize their interests to be reconciled. For banking mergers and acquisitions also include the establishment of banks, financial and industrial groups, when the Bank acquires a controlling stake in industrial corporations or, on the contrary, the corporation is buying a controlling stake in the bank, creating the banking segment in the corporate structure.

Exploring the theoretical aspects of bank mergers and acquisitions, it can be noted that the acquisition of one bank by another bank or accession absorbed by the absorbent reflects the economic substance of "absorption" of the concept. Absorption (joining) occurs, as a rule, if you want a stronger Bank use possibility (clients, staff, premises, equipment, etc.) Of other bank, for one reason or another caught in a difficult financial situation or just want to strengthen their position in the market and realize the potential of economic growth.

The merger as one of the forms of consolidation takes place at the positive attitude of the two (rarely more than two) of credit organizations to unite to occupy a higher niche in the economy, and consequently, in the ranking of credit institutions. The merger is carried out by means of a mutual exchange of shares issued into circulation and / or the issuance of new shares. The term «acquisition» refers to the process of acquisition of bank assets on certain conditions. Upon accession, it can be purchased part of the assets, but usually banking company acquired as a whole [7].

Thus, under the influence, in our view, it refers to the process of combining two or more banks, which occurs through the exchange or issue of shares, resulting in the formation a new bank. Absorption occurs when one bank acquires a controlling stake in the other, which, after absorption has ceased to exist.

The following reasons for mergers and acquisitions in the banking sector are covered in

the research:

- ensuring the benefits of the capital market, due to which it will be possible optimal use of capital within the bank. As a rule, the big banks are the guarantor of stability, which allows to obtain a higher credit rating and attract large customers;
- market expansion or preservation of market share;
- business diversification - reducing the overall riskiness of operations and ensures the average amount of revenue. Bank risks formed by a merger or acquisition, significantly reduced [8]. Also, some banks are not limited to the provision of banking services, and expand its scope of activities by the universalization of services;
- gains in the customer base, followed by increasing customer loyalty to the brand of the bank, which

in general will increase market share;

- achievement of financial performance in sales growth, profit incentives, increase return on invested capital.

Mergers and acquisitions may be represented by the following structure (Figure 1):

Motives for merger and acquisition transactions may be:

- 1) External factors - changes in general economic and political situation, state regulation, the state of the particular industry and the competitive environment of the bank.
- 2) Internal factors - all that is directly related to the bank's operations, its results, cost reduction, increased sales volumes and an increase in production capacity [9].

It should also be noted that in the modern economic science knows three main theories to

M & A deals in the banking sector				
merger	absorption	accession	consolidation	acquisition
The goals (motives)				
strengthening market position and winning new		decrease costs and increase profits	increase in capitalization	diversification of the banking business
an increase in the customer base		improving the sustainability and stability		reduction of risks
Prospects				
friendly and hostile (hard)	national and transnational		corporate alliances and corporations	parity and no parity
horizontal, vertical and conglomerate				
Main stages				
determining the acquirer bank strategy	target selection	negotiation and decision-making on mergers and acquisitions		integration

Figure 1 Mergers and acquisitions in the banking sector. Note: compiled by the authors

explain the mergers and acquisitions. This synergetic theory, the theory of agency costs of free cash flow and the "theory of pride."

The main provisions of the synergetic theory were formulated by Bradley, Desai and Kim in 1983 [10]. The essence of this theory is that it occurs when the merger the new company can use a wide range of benefits (synergies), which arise as a result of the business combination. Full or partial confirmations were received in the works Berkovich and Narayana [11] Bradley, Desai and Kim [12], as well as other researchers.

In 1986 the theory of agency costs of free cash flow was finally formed. The author of this theory

is the professor of the University Gardvardskogo Michael Jensen [13]. The theory of agency costs of free cash flow provides an explanation for the fact that the rigid absorption and repayments debt financing, funded by 90-100% through the issuance of debt, can create value for shareholders. In addition, this theory allows us to understand that the merger may reflect a conflict of interest between managers and business owners in the case of attempts to carry out a merger without a proper feasibility study; On the other hand, the merger is a method of resolving such conflicts.

The author of the theory of pride (hubris theory) is Richard Roll [14]. In accordance with the

theory of fusion of pride - is the result of individual decisions of management of the purchasing corporation. And if there are no merger synergies, the decision to merge may be due only irrational pride Corporation buyer about the fact that it can only identify these non-existent synergies.

Russian economist Ignatishin Y.V. [15] in the framework of synergetic theory has proposed structured classification of motives M & A transactions, which are divided on their operational, financial, and strategic investment. Operating motives are directed mainly on the analysis of the enterprise activity, production and sales. Financial motives imply sources of financing, the use of surplus resources, diversification, economies of scale and activity of tax incentives, reduction of financing costs (for each company individually to raise capital is usually more expensive). Investment reasons include the acquisition of fixed assets, intangible assets and shares of the companies to receive dividends. Finally, strategic motives include interaction with partners, competitors and customers, analysis of ways to improve the efficiency of the enterprise, business process coordination, professional development of employees, savings in research and development, political motives and expansion into new geographic markets.

Kazakhstan does not remain aloof from global brands on consolidation of financial institutions and increasing monopolization and concentration of the banking sector. The major Kazakh banks consolidation methods are: the acquisition of Kazakh banks 'subsidiaries' banks of foreign

financial corporations, buying Kazakhstani banks directly head structure of a foreign banking group, the absorption of large banks, small banks, the merger of small banks. When making M & A transactions in the banking sector participants seeking higher returns due to economies of scale of operations, and with the help of an extensive branch network in order to reach the final retail customer services.

Significant impact on the banking system and the processes of mergers and acquisitions in the crisis has had a major entry into the capital of banks of Kazakhstan "Samruk-Kazyna". In February 2009, the Russian government in the face of "Samruk-Kazyna" has acquired the shares of JSC "BTABank", JSC "Alliance Bank" JSC and "Temirbank" for their financial recovery (Table 1). Subsequently, these banks have undergone the procedure of debt restructuring. In the spring of 2009 as part of the Republic of Kazakhstan Government program aimed at the maintenance of large banks during the crisis, "Samruk-Kazyna" has acquired a stake in the capital of JSC "Halyk Bank of Kazakhstan" and JSC "Kazkommertsbank". In 2011-2012 JSC "Halyk Bank of Kazakhstan" has carried out several transactions to buy back its shares from "Samruk-Kazyna", and fully fund subsequently came out of the bank's capital. The share of "Samruk-Kazyna" in the capital of JSC "Kazkommertsbank" in recent years significantly decreased (Table 1).

The most saturated by the number of M & A transactions in the banking sector of Kazakhstan

Table 1 The share of participation of "Samruk-Kazyna" in the capital of some banks in Kazakhstan, %

The banks of the second level	The share of participation of "Samruk-Kazyna" in the capital of some banks		
	February-May 2009	2013	changes (+,-)
JSC "Alliance Bank"	67,00	81	1
JSC "Temirbank"	79,88	180	7
JSC "BTA Bank"	75,00	6	-7
JSC "National Bank of Kazakhstan"	24,57	0	-24,57
JSC "Kazkommertsbank"	21,26	10,72 (2015)	-10,54

Source: compiled by the authors according to Bank of the second level

in recent years has become in 2014, when there was a merge of the following groups of banks: Alliance Bank - Temirbank - ForteBank, Halyk Bank - DB NSBC Bank of Kazakhstan, Kazkommertsbank - BTA (Table 2).

With the implementation of the considered M & A deals in 2014 in the banking sector of Kazakhstan formed three giant, whose share exceeds 45% of the branch network and 55% of ATMs. The share of assets of JSC "Kazkommertsbank", JSC "Halyk Bank of Kazakhstan" and JSC «ForteBank» as of 01/07/2015 totaled 40% of total assets of commercial banks of Kazakhstan.

According to the research the main motives of mergers of banks in Kazakhstan are entering the Kazakhstani market of foreign financial

institutions gain a competitive advantage, the pressure regulator [16, c. 47]. Moreover, increased competition is largely due to the negative dynamics of growth of the economy, reduction of international funding, a reduction of reserves of the banking market and the growth of others. In addition, activation of M & A transactions in the banking sector due to the stricter requirements of the National Bank of Kazakhstan on the amount of equity, lack of competitiveness of Kazakhstani banks outside the country, the need to diversify activities as a result of strengthening the role of credit institutions in the economy. The further development of the banking sector in order to enhance its competitiveness and efficiency in the near future inevitably will claim the processes of

TABLE 2 M & A deals in the banking sector of Kazakhstan in the years of 2014-2015

Members	Characteristics of the transaction
Alliance Bank – Temirbank – ForteBank	On November 19, 2014 bankruptcy creditors approved the plan for the restructuring and merger of the three banks. The legal merger was completed in late 2014. United Bank was renamed ForteBank.
National bank – SB NSBC Kazakhstan Bank	National Bank has acquired 100% stake in SB NSBC Bank Kazakhstan. The purchase price is estimated at \$ 176 million. Taking into account the net asset value (NAV) 160 million. US dollars. NSBC was renamed to JSC "Altyn Bank".
Kazkom – BTA	Kazkommertsbank purchased 304187299781 common share at the price of 0.24162 BTA tenge per share totaling 73,497,700,000 tenge. As a result, the share of Kazkom in BTA increased to 94.83%.
Capital Bank Kazakhstan and DB «RBS (Kazakhstan)»	In February 2015, the National Bank of Kazakhstan has given the owner of Capital Bank Kazakhstan an agreement to acquire the status of a major participant DB «RBS (Kazakhstan)»
Tsesnabank and JSC "Bank Plus" (Russia)	In April 2015 TSB increased its share in the authorized capital of JSC "Bank Plus" from 19.97% to 100% through the purchase of preferred and common shares in the amount of not more than \$ 17.4 million.
Eurasian bank and Positive Bank Kazakhstan	In October 2015 Eurasian Bank announced its plans to acquire Bank Positive Kazakhstan.

Source: compiled by the authors according to Bank of the second level

mergers and acquisitions as a tool, suitable and necessary in order to achieve the above objectives.

3 Conclusions

Thus, M & A processes in Kazakhstan have their own specific features due to the functioning of the banking conglomerates, the development of the banking business through the expansion of assets, non-transparency of the Kazakhstan market of mergers and acquisitions, the unpreparedness of many Kazakh banks to commit M & A transactions.

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