Motives for Mergers and Acquisitions in the Banking Sector of Kazakhstan

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This paper aims to analyze domestic and foreign M&A deals in the second tier banks of Kazakhstan over the last two decades and to examine the factors that motivate merger and acquisition activities in the banking sector. By thoroughly scrutinizing the history of 38 second tier banks operating in Kazakhstan the study evaluates their engagement in M&A deals. A resulting subsample of 14 banks ever engaged in M&D deals is further investigated by using secondary sources such as existent literature and statistical databases and by contacting representatives of the banks via e-mail and/or telephone. Empirical findings suggest that the banking sector of Kazakhstan has experienced two waves of mergers and acquisitions. The first wave in the mid of the 1990s was characterized by restructuring of the whole banking system through state reorganization programs, liquidation of weak insolvent banks and privatization of banks. The second wave took place in the late 2000s when many foreign banks attracted by the country's prosperity and stability tried to expand their operations into CIS market through Kazakhstan. To stabilize the economy after the global financial crisis, the government implemented a nationalization program by acquiring controlling stakes in insolvent banks. The results of the study support the proposed conceptualization of internal and external motives for M&A deals. Future research may concentrate on studying motives for acquisitions of foreign firms/banks by Kazakhstani banks. In addition, future research can be extended to studying similarities and differences between motives for mergers and motives for acquisitions in the banking sector as they tend to be unlike. The paper contributes to the lack of literature on mergers and acquisitions in the banking sector of Kazakhstan and provides a historical look on M&A deals. A new classification of motives (internal and external) was utilized to explore the inducements underlying M&A transactions in Kazakhstani banking sector.

Introduction

In recent years, mergers and acquisitions have become very common not only between business entities but also between financial institutions. Such factors as globalization, liberalization, internationalization of competition and technological developments have just intensified this tendency. A deeper understanding of motives for mergers and acquisitions allows us to recognize what forces (economic, financial, technological, etc.) drive companies and other establishments towards the creation of such alliances. Moreover, comparison of motives with the results enables us to judge about the effectiveness of M&A deals and make future forecasts.

The global financial crisis of 2007-2008 undermined the economies of many countries and expedited consolidation of financial institutions. Kazakhstan witnessed a number of mergers and acquisitions during that period as well. Studying motives for mergers and acquisitions in the banking sector will allow us to understand whether they were just driven by intentions of banks to improve their financial positions or whether M&A deals were forced under the pressures of macro factors such as economics, legal and political systems, government or technology. The study puts the issue even deeper by trying to investigate M&A deals and their motives since the declaration of the country's independence in 1991.

The combination of concepts 'mergers and acquisitions' is relatively new in Kazakhstan and still has no clear definition (Grata, 2010). Nevertheless, the meaning of these concepts is quite familiar to many people. Merger occurs when two or more companies combine to become one by forming a new business entity, whereas acquisition involves the purchase of a participatory interest (shares) or assets of a company-target (Kumarov, 2009) in which the latter is completely taken over and ceases to exist (Grata, 2010).

Mergers and acquisitions are an integral part of the development and growth of any industry. 'Two companies together are more valuable than two separate companies – at least, that's the reasoning behind mergers and acquisitions (McClure, 2009). In addition, the resulting organizations become more powerful relative to competitors (Pfeffer & Salancik, 1978).

M&A activity intensified in the last years all over the world. The share of mergers and acquisitions in emerging markets in the first nine months of 2010 was 32% as compared to 22% during the same period in 2009 (Thomson Reuters, 2010). Around 20% of mergers and acquisitions occurred in power and energy sector and 16% were registered in financial sector.

A lot of attempts have been made to understand the motives for mergers and acquisitions in the banking sector (Humphrey and Vale, 2003; Sufian, 2011; Focarelli et al., 2002; Morris, 2004; and Altunbas & Ibáñez, 2004). Other studies explored the causes and the process of mergers and acquisitions in different countries such as Korea (Sufian, 2011), Malaysia (Shanmugam, 2003), Greece (Pasiouras & Zopounidis, 2008), Italy (Focarelli et al., 2002), and the United States (Morris, 2004). Moreover, much research has been conducted on mergers and acquisitions in the banking industry of Kazakhstan (Amanzholov, 2008; Aston & Karamanova, 2009; Botashev, 2008; Feller, 2008; Frangulidi, 2008; and Kurmanov, 2009). These studies focus on describing the current situation and making future forecasts of M&A deals in the banking sector but none of them addresses the motives for mergers and acquisitions.

This paper traces domestic and foreign M&A deals in the second tier banks of Kazakhstan over twenty years since the country's independence in 1991 till 2011 and identifies the factors that motivated merger and acquisition activities in the banking sector by distinguishing between internal and external motives.

Literature Review

Theoretical Background of Mergers and Acquisitions

The terms merger and acquisition are often confused or used interchangeably (Sherman & Hart, 2006). For example, Miller (2008) views merger as a type of the acquisition structure of a company rather than as a separate strategy. Others perceive merger as a takeover (Coyle, 2000; Focarelli et al., 2002). The term merger can be defined in broad and narrow contexts (Coyle, 2000). The broad definition of merger characterizes it as a takeover in which two or more companies are brought together as one (Coyle, 2000) to form a new corporation (Gole & Morris, 2007). In a narrow sense, the companies of approximately equal size become one business by combining their resources. Fontaine (2007) defines merger as a transaction in which parties equally share all risks and potential rewards. Sherman and Hart (2006) refer merger to 'a combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm'. One firm legally stops its existence and the 'new organization' continues its operations under the name of the survived company (DePamphilis, 2010).

Mirvis and Marks (1992) divide mergers into six categories: horizontal, vertical, market extension, product extension, conglomeration and strategic mergers. DePamphilis (2010) classifies mergers based on legal and economic perspectives. Legal structures of mergers may take any of the five forms: short form merger, statutory merger, subsidiary merger, statutory consolidation and merger of equals. From the economic perspective mergers can be vertical, horizontal or conglomerate depending on whether firms operate in the same industry or different and on their positions in the value chain.

Acquisitions are only slightly different from mergers because both pursue similar goals (McClure, 2009). However, many authors put a clear parallel between the two concepts. An acquisition is the 'takeover of the ownership and management control of one company by another' (Coyle, 2000) in which the buyer purchases an asset such as 'plant, a division or even an entire company' (Sherman & Hart, 2006). More precisely acquisition can be described as a purchase of a corporation by another one (Capron, 1999) when the entire business with all its assets or a controlling interest in the company stocks may be purchased (Coyle, 2000; Miller, 2008). In addition, acquisition usually occurs when a stronger company purchases a weaker one (Coyle, 2000).

Why do businesses engage in mergers and acquisitions? Coyle (2000) asserts that companies merge in order to pursue financial and strategic opportunities. Bower (2002) explains that companies are merged or acquired for the following reasons: to expand into new markets (Walter & Barney, 1990), to add new products and/or services, to acquire R&D capability, and exploit emerging convergence of industries. Other authors point out the reasons such as corporate growth and diversification (Stahl & Mendenhall, 2005; Coyle, 2000; Walter & Barney, 1990; Paulter, 2001), revenue growth (Huang & Kleiner, 2004); changing economic conditions (Croson et al., 2004; Bruner, 2004; Coyle, 2000), enhancing learning or obtaining new knowledge (Ghoshal, 1987; Blonigen & Taylor, 2000), gaining access to improved resources (Barney, 1991), achieving cost efficiencies through economies of scale (Walter and Barney, 1990; Coyle, 2000; Paulter, 2001) or increasing their market power (Trautwein, 1990).

Sherman and Hart (2006) argue that motivators are different for mergers and acquisitions. Mergers are considered to be the easiest way for expansion such as entering new markets or developing new products (Gaughan, 1999; Sherman & Hart, 2006; McClure, 2009). Other reasons for merging include greater efficiency through achieving economies of scale (Gaughan, 1999; McClure, 2009; Fontaine, 2007), improving technical competency and increasing efficiency of management (Gaughan, 1999), obtaining tax benefits (Paulter, 2001), investing excess capital into complementary uses (Sherman & Hart, 2006), synergies (Gaughan, 1999; Cigola & Modesti, 2008), and responding to changing economic conditions (Coyle, 2000).

The main motivators for acquisitions are achieving economies of scale (William, 2009; Sherman & Hart, 2006; Miller, 2008), gaining market power (Miller, 2008; Paulter, 2001), integrating knowledge and combining superior technology (William, 2009), access to greater resources, expansion into new markets and products (Coyle, 2000; Miller, 2008), and the desire to reduce the number of competitors (Sherman & Hart, 2006; Fontaine, 2007).

Motives for Mergers and Acquisitions in the Banking Sector

Focarelli et al. (2002) assert that mergers and acquisitions in the banking sector are driven by different factors. Banks merge in order to get higher income by selling more services to a greater set of customers whereas acquisitions are made for the purpose of 'improving the quality of portfolio of acquired banks' (Focarelli et al., 2002).

Major motives for mergers and acquisitions in the banking sector include the desire of CEO to gain more power, growth opportunities (Kingston University, 2007), and improvements in efficiency (Humphrey & Vale, 2003) through economies of scale (Sufian, 2011). However, at the same time Sufian (2011) asserts that the main benefit that merging may bring to banks, especially to larger ones, is the economies of scope rather than economies of scale. Larger banks tend to acquire less efficient smaller ones (Focarelli et al., 2002) with more diversified sources of income (Altunbas & Ibáñez, 2004) what contributes to their economies of scope. Economies of scale are usually achieved by mergers among small- and/or medium-sized banks. Morris (2004) applies resource dependence theory to explain the motives for mergers in the banking sector. As the theory states, there are some economic conditions in a bank's environment such as health and competitiveness of the economy and interest rates that lead to uncertainty and may serve as an engine for the merging process.

A lot of research has been conducted on bank mergers and acquisitions in different countries. For example, Sufian (2011) focused on measurement of the efficiency of banks operating in Korea. Shanmugam (2003) explored the causes and the process of mergers and acquisitions in Malaysian banking system. It was found that the attainment of higher efficiency and competitiveness were the main determinants for M&A deals between Malaysian banks. Pasiouras and Zopounidis (2008) studied M&As in the Greek banking industry. Many banks in Greece engaged in mergers and acquisitions in order to grow, strengthen their position and increase efficiency through economies of scale. Larger banks used to acquire smaller ones to increase their size and get easier access to international money and capital markets. Focarelli et al (2002) tried to analyze the major goals that Italian banks pursue while engaging in mergers and acquisitions. Banks merge in order to increase non-interest income, sell more services and increase efficient use of capital. Acquisitions typically occur to increase the quality of loan portfolio of acquired banks. But the main purpose of mergers and acquisitions is higher profitability. Morris (2004) explored banking sector in the United States. Over the past 30 years, banks in the United States were increasingly involved in mergers with other banks and different types of financial institutions. At that time the US banking industry was dominated by many small independent unit banks many of which were relatively weak due to their size. This served as the main reason for increasing number of mergers.

Literature review identified a set of possible causes underlying mergers and acquisitions which were summarized in general (Table 1) and for the banking sector in particular (Table 2). Although some authors separate the motives for mergers from those for acquisitions, Tables 1 and 2 include a generalized list of M&A motives (without a particular regard either to mergers or acquisitions) in order to escape their duplication.

However, in spite of the extensive work on M&A motives, further theoretical framework may be developed based on the summary of literature review. A new classification of motives for mergers and acquisitions in the banking sector may be offered by distinguishing between internal and external ones. The idea for a new concept takes its roots from the notion of ‘motivation’. Individuals are motivated to perform actions by two factors: internal and external. Internal motivators include personal desire for self-improvement, self-actualization, wish to achieve success, to be the best, etc. External motivators are the factors or forces by which individuals are influenced to behave in a certain way such as monetary and nonmonetary rewards or even a threat of being condemned or punished. The same approach may be applied to developing M&A motives for companies and other establishments in general and for banks in particular. A new categorization of motives for banks is represented in Table 3. Banks may be motivated to engage in M&A deals either by internal or external forces or both. Internal motives usually comprise a desire to grow, increase revenue, develop new products/services, achieve higher efficiency, improve technical competency, etc. External motives arise from bank’s environment and may further be divided into four categories: economic, legal-political, technological and competitive.

Table 1: Summary of Literature Review: Generalization of M&A Motives*

M&A Motives	*Corresponding Author(s)*
- to expand into new markets, to develop new products and/or services	Walter and Barney (1990); Gaughan (1999); Bower (2002); Sherman and Hart (2006); McClure (2009)
- to exploit strategic opportunities through synergies and convergence of industries	Gaugham (1999); Coyle (2000); Bower (2002); Miller (2008); Cigola and Modesti (2008)
- to reduce the number of competitors	Sherman and Hart (2006); Fontaine (2007)
- to ensure corporate growth and diversification	Walter and Barney (1990); Coyle (2000); Paulter (2001); Stahl and Mendenhall (2005)
- to guarantee revenue growth	Coyle (2000); Huang and Kleiner (2004)
- to improve technical competency and increase efficiency of management	Gaughan (1999)
- to acquire R&D capability	Bower (2002)
- to enhance learning, obtain new knowledge, combine superior technology	Ghoshal (1987); Blonigen and Taylor (2000); William (2009)
- to gain access to better and greater resources	Barney (1991); Coyle (2000); Miller (2008)
- to achieve greater efficiency through economies of scale	Walter and Barney (1990); Gaughan (1999); Coyle (2000); Paulter (2001); Sherman and Hart (2006); Fontaine (2007); Miller (2008); William (2009); McClure (2009)
- to obtain tax benefits	Paulter (2001)
- to increase market power	Trautwein (1990); Paulter (2001); Miller (2008)
- to respond to changing economic conditions	Coyle (2000); Croson et al (2004); Bruner (2004)

Table 2: Summary of Literature Review: M&A Motives in the Banking Sector*

M&A Motives	*Corresponding Author(s)*
- to achieve efficiency through economies of scale	Focarelli et al (2002); Humphrey and Vale (2003); Pasiouras and Zopounidis (2008); Sufian (2011)
- to grow, increase size and strengthen position	Morris (2004); Pasiouras and Zopounidis (2008); Kingston University (2007)
- to get higher income by selling more services to a greater set of customers	Focarelli et al (2002)
- to improve the quality and diversify portfolio	Focarelli et al (2002)
- to get easier access to international money and capital markets	Pasiouras and Zopounidis (2008)
- to respond to the changing economic conditions in a bank's environment	Morris (2004)

Next, the study explores the motives for mergers and acquisitions in the banking sector of Kazakhstan and tries to identify which forces (internal or external) influence banks' engagement in M&A deals in a greater extent.

Table 3: Internal and External M&A Motives in the Banking Sector*

Internal Motives
- to expand into new markets to achieve corporate growth and increase the number of clients
- to increase the number of clients
- to increase capital/shareholders' equity
- to increase revenue and strengthen financial/market position
- to increase revenue by selling more services
- to develop new products and/or services
- to increase size and strengthen market position
- to achieve efficiency through economies of scale
- to gain access to better and greater resources
- to acquire R&D capability
- to improve technical competency
- to increase efficiency of management
External Motives
Economic
- to respond to the changing economic/market conditions in a bank's environment
Legal & political
- to obtain tax benefits
- to gain government support
- forced by the government
Technological
- to enhance learning and obtain new knowledge
- to combine superior technology
Competitive
- to exploit strategic opportunities through synergies and convergence of industries
- to improve the quality and quantity of products/services
- to become more competitive

**drafted by the author*

Methodology

The Republic of Kazakhstan has a two-tier banking system. According to the law on banks and banking activities in the Republic of Kazakhstan, National Bank is the central bank of the state and represents the upper (first) tier of the banking system. The National Bank carries out regulatory and supervisory functions aimed at maintaining stability of the monetary system of the state and protection of the interests of banks' creditors, depositors and clients. All other banks are referred to lower (second) tier of the banking system with the exception of the Kazakhstan Development Bank, which has a special legal status.

The transformation of Kazakhstani banking system from a pure state model to a mixed one (two-tier) prevailing today started in 1991 after the adoption of country's independence. A two-tier banking system was formed: upper level was represented by the State Bank of Kazakh SSR (later National Bank of RK) and the lower level included both already existing state specialized banks (Promstroibank, Agroprombank, Zhilsotsbank, VEB) and newly established private banks. Later all state banks were transformed into joint-stock banks. Some banks changed their names in the process of compulsory state re-registration. The acceptance of the laws 'On National Bank of the Republic of Kazakhstan' and 'On Banks in the Republic of Kazakhstan' in 1993 strengthened the two-tier banking system in the country. In addition, this led to the creation of a great number of second-tier banks (around two hundred) in Kazakhstan. However, the adoption of a set of regulations, laws and legislative acts in 1995-1996 indicated of the government's intention to strengthen control over the banking sector which led to the reduction in the number of banks from 178 in 1995 to 102 in 1996. Tens of banks were liquidated and reorganized in subsequent years. The reasons for liquidation of banks were different in each case but among the most common were (1) inability to follow the standards set by the National Bank, (2) mergers between banks and (3) acquisitions of some banks by the other ones (Kuchukova, 1994). In order to overcome crisis, the government and the National Bank of Kazakhstan intervened the banking sector by liquidating a large bank OJSC 'Kramds Bank' in 1996 and merging OJSC 'Turanbank' with OJSC 'Alem Bank Kazakhstan' in 1997. All of the above mentioned banks were in difficult situations and had billions of negative equity in tenge. All these measures, according to the State, should have lead to the retention of the most stable and large second-tier banks in Kazakhstan and stabilization of country's monetary system.

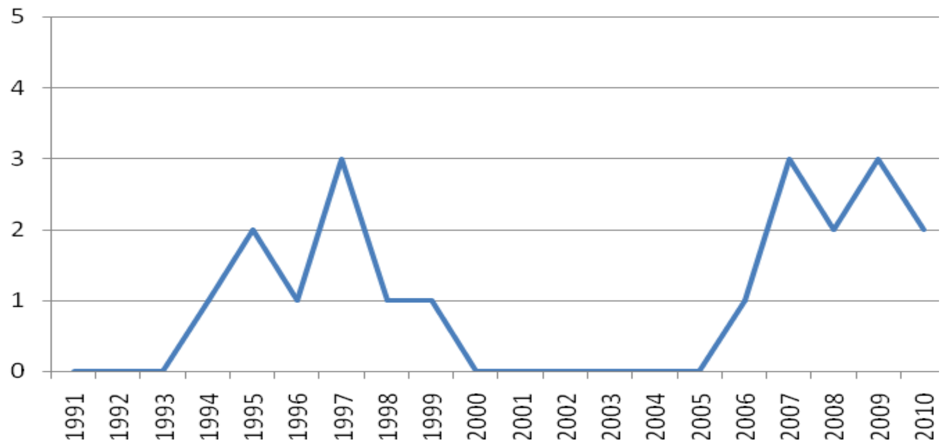
As of the 1st December 2011, there were 38 registered second tier banks in the country (FSA, 2011a). Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organizations (FSA) reports that fourteen of these banks have representative offices in foreign countries such Great Britain, Russian Federation, China, UAE, Uzbekistan, Kirgizstan, and Ukraine (FSA, 2011b), and 29 foreign banks have representative offices in Kazakhstan (FSA, 2011c). As there is only one first-tier bank in Kazakhstan which acts as a central regulatory body, mergers and acquisitions are likely to occur between second-tier banks. Therefore, the population of this study consists of all Kazakhstani second tier banks operating in 2011.

The data for this study were gathered from several sources. Firstly, a complete list of second-tier banks operating in Kazakhstan was collected from the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organizations (FSA) available online. Next, the websites of all 38 second-tier banks (banks' history sections) were examined to learn which banks ever were engaged in mergers and/or acquisitions in the country's territory. This investigation decreased the sample just to fourteen banks. Further, some public sources such as newspapers, journals, reports and statistical databases of KASE (Kazakhstan Stock Exchange) and National Bank of RK were screened for the details of the deals. To clarify the information found on M&A deals, e-mail letters were sent to the representatives of the banks, viz. PR departments, asking to specify the motives for mergers and/or acquisitions that had occurred in their banks (qualitative information). The response rate was 57% as only eight banks out of fourteen replied to the e-mail letters. The rest banks were interviewed by the telephone. The interview was semistructured with one prepared question (What were the motives for the merger /acquisition?) and the rest were based on the answers of the respondents. The analysis of the information collected was conducted by means of structuring the motives for M&A deals in compliance with the proposed theoretical framework. The results of the research are provided in Section 4 of this paper.

Analysis of Mergers and Acquisitions in Kazakhstan

Kazakhstan is a young country that acquired its independence in 1991 after collapse of the Soviet Union. Since that time the country has undergone enormous changes. A large portion of public industry was privatized and many private establishments were created. By the end of the first decade in the second millennium the number of banks in Kazakhstan has decreased substantially. During the last 20 years around 180 banks were liquidated or merged. Among 38 banks existing today in Kazakhstan, 24 second tier banks have never merged even though half of them were established in 1990s (see Table 1A), the period characterized by high M&A activity. When times were bad, these banks were able to raise or borrow the needed capital. Five banks out of 24 changed their names without being merged or acquired as part of the state reorganization program or rebranding strategy (Table 2A). The rest 14 banks out of 39 were somehow engaged in M&A deals. Based on the frequency, M&A activity in the banking sector of Kazakhstan may be split into two periods (Figure 1).

Figure 1: M&A Activity in the Banking Sector of Kazakhstan*



The first wave of mergers and acquisitions was in the middle-end of 1990s – transition period for the country when banks and their managers had to adapt to a new market economy, however, not all of them managed to do that. The state tried to stabilize the banking sector by liquidating or merging weak insolvent banks. The second wave of M&A deals in the banking sector of Kazakhstan occurred in the late 2000s. On the one hand, such intensification of M&A activity might have been a result of the government's attempts to overcome the consequences of the crisis through the nationalization program. On the other hand, this might be due to the interest of foreign investors in the country's stability and prosperity; foreign banks started acquiring shares in Kazakhstani banks to use them as a platform for further expansion into CIS market. Table 4 provides a list of mergers and acquisitions that have occurred in the banking sector of Kazakhstan during the last 20 years.

Another M&A deal in which BTA was engaged occurred in 2009 in the form of the acquisition of 75,1% of bank's shares by National Welfare Fund Samruk-Kazyna. The buy-out of shares of BTA Bank was proposed by AFN (Agency for regulation of financial market and financial organizations) as part of the anticrisis nationalization program to improve the bank's situation and stabilize the economy. The buy-out was completed through additional issue of shares which resulted in additional capital. After the nationalization, BTA Bank holds 22.26% of the bank's voting shares, i.e. less than the blocking interest.

Centercredit. Bank Centercredit was founded in September, 1988 as Almaty Central Cooperative Bank, which was re-registered to the Central Kazakhstan Joint Stock Bank 'Tsentrbank' in 1991, and to JSC Bank 'CenterCredit' in 1996. In 1995, the bank acquired 100% of shares of Kazakhstan International Bank (established in 1993) which belonged both to the government of the Republic of Kazakhstan and Chase Manhattan Bank. This deal opened up new opportunities in terms of capital, learning, and diversification of services and allowed Bank CenterCredit to implement contemporary Western practices in Kazakhstan such as Western Union money transfer (1996) and new system of service format 'front and back office' (1997).

On August 12, 1997, the Government of the Republic of Kazakhstan issued a decree № 1713 'On the reorganization and privatization of the closed joint stock company Zhilstroibank and invited tenders for a contract among second-tier banks. OJSC Bank CenterCredit put a bid and won the tender to reorganize by merging with Zhilstroibank.

On 29 August, 2008, Korean Kookmin Bank acquired 23% of shares in Bank Center Credit and became the second largest shareholder of the bank. Kookmin bank plans to further increase its participation in the BCC up to 50.1% before long. Successful completion of the transaction will allow Kookmin Bank to grow via expansion to overseas markets, strengthen risk management and internal control capabilities, enhance sales capacity, and diversify income sources. Bank CenterCredit will be able to strengthen its position in Kazakhstan with further expansion opportunities to CIS market and China, enhance risk management infrastructure and policies, achieve operating efficiency, and to sustain strong profitability by focusing on higher margin segments.

Table 4: List of Banks Engaged in Mergers and Acquisitions (1991-2011)*

#	*Bank Name (Date of Establishment)*	*Initial Bank Name*	*M&A Deals*	*Name After Merger/ Acquisition*
1	BTA Bank JSC (1925)	1925, Prombank; 1991, CB Turanbank; 1997, BankTuranAlem; 2008, BTA Bank	1997, Turanbank JSC merged with Alem Bank Kazakhstan JSC; 2009, acquisition of 75,1% of shares by national welfare fund Samruk-Kazyna	1997, BankTuran Alem
2	Bank CenterCredit (BCC) JSC (1988)	Almaty Central Cooperative Bank	1995, acquisition of 100% of shares of Kazakhstan International Bank; 1998, merged with Zhilstroisberbank JSC 2008, Kookmin Bank purchased 23% of BCC shares with the intention to increase participation in the BCC up to 50%	No change
3	Kazkommertsbank JSC (1990)	Medeu Bank	1994, merged with commercial bank Astana Holding;	No change
4	Kaspi Bank JSC (1991)	International Bank Al Baraka Kazakhstan	1997, merged with Kazdorbank	No change
5	BankPositiv JSC (1992)	AzamatBank, renamed to AlcomBank	1997, Turkish Demirbank T.A.S. acquired 98.89% of the shares of Alcombank; 2007, Turkish BankPositiv acquires 65% shares of Demir Kazakhstan Bank	1998, Demir Kazakhstan Bank; 2008, BankPositiv Kazakhstan
6	Temirbank JSC (1992)	Temirbank	2009, acquisition of 75,10% of shares by the National Welfare Fund Samruk-Kazyna	No change
7	AllianceBank JSC (1993)	Irtyshbusinessbank	1999, merged with Semipalatinsk City Bank; 2009, Samruk Kazyna purchased 100% of common & preferred stock	No change
8	Eximbank Kazakhstan JSC (1994)	State Export and Import Bank of the Republic of Kazakhstan (Eksimbank)	1995, merged with State Kazakhstan Development Bank	No change
9	SB RBS (Kazakhstan) JSC (1994)	SB ABN AMRO Bank Kazakhstan	2007, the greatest part of common shares was acquired by RFS Holding B.V.; 2010, SB HSBC Kazakhstan purchased retail services of the bank	2008, RBS (Kazakhstan)
10	ATF Bank JSC (1995)	Almatinsky Torgovo-Finansovyi Bank	2007, acquisition of 91,8% of share by Bank Austria Creditanstalt (BA-CA), a subdivision of UniCredit Group	No change
11	PNB Kazakhstan, JSC (1992)	SB Punjab National Bank - Kazakhstan, JSC	2010, acquisition of a controlling stake in Danabank	2011, PNB Kazakhstan

12	Bank RBK, JSC (1996)	1992, Meken Bank 1996, Alash-Bank 2005, KazInComBank 2011, Bank RBK	1996, establishment of a new bank on the basis of the acquisition of Meken Bank	1996, Alash-Bank
13	SB SberBank of Russia, JSC (2006)	TexakaBank	2006, SberBank of Russia purchased 100% of shares of Texakabank	2006, SberBank of Russia
14	Home Credit Bank, JSC (2008)	International Bank Alma-Ata	2008, established on the basis of acquisition of International Bank Alma-Ata	2008, Home Credit Bank

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Kazkommertsbank. Kazkommertsbank was incorporated on July 12, 1990, and registered as a Youth Commercial Bank under the name Medeu Bank which was engaged in various banking activities. At the initiative of the founders of the Youth Commercial Bank, on October 21, 1990, Medeu Bank was transformed into joint stock commercial bank Kazkommertsbank. In April 1994, Kazkommertsbank merged with Astana Holding Bank. This merger was initiated by the government of the Republic of Kazakhstan as part of the state reorganization program of the banking sector.

KaspiBank. On January 1, 1991, the President of the Republic of Kazakhstan Nursultan Nazarbayev signed a decree on the establishment of the International Bank Al Baraka Kazakhstan, the legal successor of which later became Bank Caspian. At the end of 2008 Caspian Bank changed its name to KaspiBank. That rebranding was conducted for the purpose of implementation of a new format of customer service and work standards by the bank. The International Bank Al Baraka Kazakhstan was assigned a leading role in the implementation of international settlements and attracting and maintaining foreign direct investment in the Republic of Kazakhstan. Six years later, on January 12, 1997, the International Bank Al Baraka Kazakhstan was renamed to closed JSC Bank Caspian as a result of the compulsory state re-registration. In April 1997, Bank Caspian and Kazdorbank (established and registered on January 13, 1989) concluded an Agreement on Partnership and Cooperation. The constructive style of business relationships, mutual understanding, open exchange of information and plans, and cross training of staff identified competitive strengths and weaknesses of the banks. This allowed the partners to understand the mutual benefits of deeper integration and the need for reorganization of the banks which consequently led to a merger. On the other hand, the situation in the financial markets and the trend towards consolidation of capital and reduction of the number of banks in the banking system of Kazakhstan created reasonable conditions for a merger between the partners.

BankPositiv. BankPositiv was established in 1992 by the citizens of the Republic of Kazakhstan as a private bank AzamatBank. Later, the bank was bought out by one of the founders and renamed to Alcombank. In 1997, Turkish bank Demirbank T.A.S. acquired 98.89 % of shares in Alcombank to implement its expansion strategy into CIS market. On 21 November 2007, Turkish BankPozitif Kredi ve Kalkınma Bankası A.Ş. has finalized its first banking investment abroad by acquiring a new subsidiary through purchase of all stakes in JSC Demir Kazakhstan Bank. After this deal the share capital of the bank was increased by $15 million. In May 2008, Demir Kazakhstan Bank was renamed to Bank Positiv. Joining the international financial group BHI Global banking allowed BankPozitiv to rise to a higher quality level, to strengthen long-term cooperation with partners and provide customers with services that meet international standards.

Temirbank. Temirbank was founded in 1992 as a specialized railway bank. By early 1995, the state share in charter capital of Temirbank was 18%. In March 1995, a resolution on the sale of the state-owned shares was adopted by the government. As a result, the bank became completely privately-owned. At the beginning of 2009 Temirbank was in a quandary due to the global financial crisis of 2007-2008. In accordance with the law on financial obligations, the FSA made an offer to the government to buy back a controlling stake in the bank. In the deal, the government was represented by JSC National Welfare Fund SamrukKazyna which acquired 75.10% stake in Temirbank.

Alliance Bank. Alliance Bank dates back to 1993, when one of the first regional banks in Kazakhstan – Irtyshbusinessbank was founded in the city of Pavlodar. On July 13, 1999 Irtyshbusinessbank merged with Semipalatinsk City Bank. The merger enabled to integrate the banking experience gained by these institutions since 1993 and transform them into an interregional bank focused on work with the industrial enterprises of East Kazakhstan and Pavlodar regions. In summer 2001, Irtyshbusinessbank changed its shareholder structure. The new owners – a consortium of Kazakh companies – engaged a number of top managers from the largest Kazakh banks to run the Bank. On March 13, 2002 Irtyshbusinessbank was re-registered as Alliance Bank. In February 2009, with regard to the global financial crisis and related liquidity problems, the major shareholder of Alliance Bank, Seimar Alliance Financial Corporation, started negotiations to sell a controlling stake of the Bank to National Welfare Fund Samruk-Kazyna. On 31 December, National Welfare Fund Samruk-Kazyna redeemed 100% of common and preference shares of the bank. The bank started taking steps for the debt restructuring and recapitalization to increase its financial stability.

Eximbank. EximBank was established in July 1994, on the basis of the Presidential Decree 'On establishment of State Export and Import Bank of the Republic of Kazakhstan'. The purpose of the bank was to expand export-import relations of Kazakhstan and strengthen government control over the process of attraction and effective utilization of foreign loans. In August 1995, State Export and Import Bank of the Republic of Kazakhstan (Eximbank) merged with State Kazakhstan Development Bank. The main purpose of the merged bank was to increase efficiency of public investment.

RBS (Kazakhstan). ABN AMRO Bank Kazakhstan, a subsidiary of ABN AMRO Holding N.V. (Holland), was established in Kazakhstan in 1994. It was the first bank with foreign participation to be licensed to operate in Kazakhstan, as well as the first among foreign banks to offer banking services in the retail business. In the mid-2000s, the parent company of the bank ABN AMRO Holding N.V. started to experience some difficulties. Stagnating stock prices of ABN AMRO and its financial results in 2006 induced the holding to consider the proposals for merger from Barclays and acquisition from RFS Holding B.V. Though, ABN AMRO was to select Barclays as a merger partner, in the summer of 2007 it became obvious that RFS Holding B.V. was very likely to succeed in its bid. Thus, acquiring a controlling share in ABN AMRO Bank N.V. in 2008, the Royal Bank of Scotland Group Plc (RBS) becomes the parent company of JSC SB ABN AMRO Bank Kazakhstan. Thereafter, ABN AMRO Bank Kazakhstan was renamed to RBS (Kazakhstan).

In March 2009, the Royal Bank of Scotland Group Plc (RBS) announced that it would seek for new owners for its subsidiary bank in Kazakhstan – RBS (Kazakhstan). RBS believes that in comparison with other countries where the group exists at the present time, Kazakhstan is not very promising. RBS came to Kazakhstan not as a result of conscious decision – the Kazakhstani subsidiary was inherited after the acquisition of ABN AMRO. In September 2010, JSC SB The Royal Bank of Scotland (Kazakhstan) sold its retail services to JSC SB HSBC Kazakhstan, concentrating its activities on corporate clients and investment in Kazakhstan. For HSBC this deal was an opportunity to expand its network and increase customer base in Kazakhstan (HSBC Economics, 2010).

ATF Bank. ATF Bank was established in 1995 under the name Almatinsky Torgovo-Finansovyi Bank (Almaty Trade and Finance Bank). Later, it was renamed to ATF bank which is the abbreviation of the initial bank's name. Since 2007, ATF Bank becomes a member of the Italian financial group Unicredit which acquires 91.8% of the bank's shares. That was one of the biggest M&A deals ever made in the financial sector of Kazakhstan which accounted for 81% of the volume of all deals. The agreement with UniCredit Group gave ATF Bank an opportunity to join the international banking system and learn from European experience. This union serves as a guarantee of reliability and stability for ATF Bank and allows the bank to improve the quality of service, diversify its products, implement new technologies, and train employees according to the international standards and experience. The entrance of Unicredit and other foreign banks into Kazakhstan market has favorable impact on the country as increasing competition among financial institutions leads to the improvement in quality of service (Amanzholov, 2008).

PNB Kazakhstan. JSC SB Punjab National Bank – Kazakhstan began its operations in October 1992. In December 2010, the Indian subsidiary acquired a controlling stake in Danabank, JSC (1992) and the bank was renamed to PNB Kazakhstan. The bank focuses on financing small and medium-sized businesses in Kazakhstan, particularly in the agricultural sector. Moreover, the Indian partner is planning to use Kazakhstani bank as the basis for expansion into CIS market and strengthening the relationships between India and Kazakhstan.

Bank RBK. Bank RBK takes its roots from 1992 when one of the first private banks in Kazakhstan Meken Bank was established. In 1996, in connection with the state program of reorganization of banks Meken Bank was acquired by a new shareholder and the bank's name was changed to Alash-Bank. In 2005, Alash-Bank was renamed to KazInComBank (Kazakhstan Innovation Commercial Bank). On 23 September 2011, KazInComBank was re-registered to Bank RBK. The change of the bank's name is related primarily to the adoption of a new development strategy which involves the creation of a universal financial institution to serve a limited number of business and private customers.

SberBank of Russia. SB SberBank of Russia, JSC was established on the basis of the acquisition of Texakabank. The joint Kazakh-American bank Texacabank was founded in Dallas, Texas (USA) on 19 March 1993, and started its operations in Kazakhstan in October of the same year. According to the opinion of independent experts, TexakaBank was called 'the most promising and best customer service bank' of 2005. Such success of the bank attracted a number of foreign investors and at the beginning of 2006 SberBank of Russia acquired 100% of shares. This was an excellent opportunity to enter Kazakhstan market through the purchase of a prospering bank with good reputation.

Home Credit Bank. Home Credit Bank has been established on the basis of the acquisition of International Bank Alma-Ata which existed since 1993. In September 2008, the Dutch company Home Credit BV acquired a minority stake in a small Kazakhstani International Bank Alma-Ata (IBA). The main holding of shares belongs to Czech investor Richard Benishek (90.1%). In November 2008, International Bank

Alma-Ata was renamed to Home Credit Bank. This deal for Home Credit BV was an opportunity to expand to Kazakhstan market and increase the number of clients.

The analysis of the motives for mergers and acquisitions in the banking sector of Kazakhstan showed the consistence of the research results with the proposed theoretical framework for M&A motives in Table 3. M&A deals were prompted by either internal or external motives or both of them simultaneously (Table 5). One of the most abundant internal motives for foreign banks to enter Kazakhstani market was an implementation of growth strategy – an opportunity to expand into CIS market. The motive of expansion into new markets is supported by the works of Walter and Barney (1990), Gaughan (1999), Bower (2002), Sherman and Hart (2006) and McClure (2009). Other widespread internal motives for mergers and acquisitions in the banking sector of Kazakhstan were to increase revenue and/or capital/shareholders' equity, strengthen financial/market position, diversify the products and services, and increase the number of clients.

Table 5: M&A Motives in the Banking Sector of Kazakhstan*

Internal Motives	*Name of the Bank*
Opportunity to enter Kazakhstan market and/or implement expansion strategy into CIS countries	BankPositiv, 1997; SberBank of Russia, 2006; ATF Bank, 2007; Home Credit Bank, 2008; CenterCredit, 2008; PNB Kazakhstan, 2010; RBS (Kazakhstan), 2010
To increase the number of clients	Home Credit Bank, 2008; CenterCredit, 2008; RBS (Kazakhstan), 2010
To increase capital/shareholders' equity	CenterCredit, 1995; BankPositiv, 1997; BTA Bank, 2009
To increase revenue and strengthen financial/market position	RBS (Kazakhstan), 2007; CenterCredit, 2008; AllianceBank, 2009
To diversify the products and services	CenterCredit, 1995; ATF Bank, 2007; CenterCredit, 2008
External Motives	*Name of the Bank*
State reorganization and/or privatization program	Kazkommertsbank, 1994; Eximbank Kazakhstan, 1995; Bank RBK, 1996; BTA Bank, 1997; Kaspi Bank, 1997; CenterCredit, 1998; AllianceBank, 1999
Nationalization program	BTA Bank, 2009; Temirbank, 2009; AllianceBank, 2009
To integrate experience and enhance learning	CenterCredit, 1995; AllianceBank, 1999; SberBank of Russia, 2006; ATF Bank, 2007; CenterCredit, 2008
To implement new technologies	CenterCredit, 1995; ATF Bank, 2007
To become more competitive	AllianceBank, 1999; ATF Bank, 2007
To improve the quality of service provision	ATF Bank, 2007; BankPozitiv, 2007
Economic conditions	Kaspi Bank, 1997; CenterCredit, 2008; BTA Bank, 2009

**drafted by the author*

External motives for M&A deals in Kazakhstan are represented by economic conditions, legal-political forces (state reorganization, privatization program, and nationalization program), technological motives (integration of experience, learning, and implementation of new technologies) and competitive forces (the desire to become more competitive and to improve the quality of service provision). Among the above-listed motives, legal-political forces may be marked out as the dominant external driver. For instance, the majority of M&A deals in between 1994 and 1999 were part of the state reorganization and/or privatization program, whereas in 2009, these deals were induced by a nationalization program to support the banking sector. Another external motive for mergers and/or acquisitions which was pursued by many banks is the technological one which includes integration of experience, enhancing of learning and implementation of new technologies. These motives were suggested in previous research by Ghoshal (1987), Blonigen and Taylor (2000), and William (2009).

Conclusion

In this paper, we examine a sample of fourteen Kazakhstani banks engaged in M&A deals between 1991 and 2011. The purpose of this study is to investigate the motives for mergers and acquisitions in the banking sector of Kazakhstan. Literature review identified some gaps in the theoretical framework and, as a result, a new categorization of motives was proposed by dividing them into internal and external ones.

Our findings reveal that Kazakhstani banking sector faced two waves of mergers and acquisitions. The first wave occurred in the mid of 1990s when Kazakhstan was in transition to a market based economy. This period was characterized by restructuring of the whole banking system through state reorganization programs, liquidation of weak insolvent banks and privatization of banks. Mergers and acquisitions were prompted by the state to make the banking sector stronger and more competitive by integrating banking experience and increasing efficiency of public investment.

The second wave of mergers and acquisitions in the banking sector of Kazakhstan took place in the late 2000s. The majority of the deals in those years (excluding 2009) were the attempts of foreign banks to enter Kazakhstani market. The primary motives for foreign banks were the economic and political stability of the country and the opportunity to use Kazakhstani banks as a reliable platform for further expansion into CIS market.

The motives for M&A deals in 2009 were different from the prior. For example, BTA Bank, Temirbank, and AllianceBank experienced serious liquidity problems as a result of the global financial crisis of 2007-2008. To stabilize the situation in the banking sector, the government of Kazakhstan along with the national welfare fund Samruk Kazyna implemented a nationalization program by acquiring controlling stakes in those banks.

The results of the study support the proposed conceptualization of internal and external motives for M&A deals. Some mergers and acquisitions in Kazakhstani banking sector were driven by internal impellents such as the desire to grow and expand into CIS countries, to raise capital/shareholders' equity, to increase revenue and strengthen financial/market position, to add to the number of clients, and to diversify the products and services; others were prompted by external economic, legal-political, technological, and competitive forces.

Limitations and Future Research

Although a thorough data collection on mergers and acquisitions had been made there is a possibility that not all M&A deals were recorded. Information collection process on M&A deals in the banking sector of Kazakhstan is time consuming accompanied by weak support from the banks. Limitations deriving from the information available indicate that the reports on early mergers and acquisitions of the mid of 1990s were not preserved in many banks what was explained by high turnover rate of employees.

As the paper looks only at mergers and acquisitions of Kazakhstani banks, future research may concentrate on studying motives for acquisitions of foreign firms/banks by Kazakhstani banks. There may be much to learn about how the acquisitions motives of privately versus publicly owned firms/banks likely to differ. In addition, motives for mergers and for acquisitions in the banking sector may be studied separately by investigating similarities and differences as they are driven by different impellents. Given the importance of banks to individuals, families, and communities, researchers should continue to study such topics for the valuable knowledge that such examination provides.

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APPENDIX A

Table 1A: List of Banks Never Engaged in M&A Deals and Never Changed the Names

#	Bank Name	Year of Establishment
1.	Nurbank, JSC	1992
2.	Tsesnabank, JSC	1992
3.	SENYM-BANK, JSC	1993
4.	Industrial and Commercial Bank of China in Almaty, JSC	1993
5.	SB Bank of China in Kazakhstan, JSC	1993
6.	SB KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK, JSC	1993
7.	Eurasian Bank, JSC	1994
8.	SB Alpha-Bank, JSC	1994
9.	SB TAIB Kazakhstan Bank, JSC	1997
10.	Citibank Kazakhstan, JSC	1998
11.	SB HSBC Bank Kazakhstan	1998
12.	House Construction Savings Bank of Kazakhstan, JSC	2003
13.	METROCOMBANK, JSC	2007
14.	SB National Bank of Pakistan in Kazakhstan, JSC	2007
15.	Astana-Finance Bank, JSC	2008
16.	Shinhan Bank Kazakhstan, JSC	2008
17.	Bank Kassa Nova, JSC	2009
18.	SB Bank VTB Kazakhstan, JSC	2009
19.	Al-Hilal Islamic Bank, JSC	2010

Table 2A: Banks Changed Their Names (Without M&A)

#	*Bank Name*	*Year of Establishment*	*Initial Bank Name*
1.	Halyk Savings Bank of Kazakhstan, JSC	1923	USSR Savings Bank
2.	Zaman-Bank, JSC	1991	Zaman
3.	AsiaCredit Bank, JSC	1992	Lariba Bank
4.	Delta Bank, JSC	1993	Neftebank
5.	Kazinvestbank, JSC	1993	Kazakhstan International Bank