



*Analysis of the Reality and Possible Integration  
of Private Banks in Iraq*  
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**Abstract**

Globalization has affected all sectors of the economy, including the banking sector, which has been affected by financial globalization through its tools of financial liberalization, i.e. deregulation of laws and legislation that are facing the expansion of banking activities. The banking sector witnessed many developments, Bank privatization, banking maturity. As for the banking sector in Iraq adopted the role of banking reform after 2003 there was an expansion in the number of private banks, but this was caused by a number of problems, including lack of ownership of the banking sector of technical and technical capabilities and infrastructure because of the absence of strategic plans require reconsideration of the legislative environment, In spite of this, the Central Bank prepared an analytical study in 2015 to review the reality of private banks and to take decisions to merge banks that suffer from problems except small or weak banking activity in them with large banks. During our research, which touched on the concept of merger and the types and mechanisms used to reach. The reasons and results of the merger process, so the practical side was to analyze the synergies and cost analysis of the merger, which is owned by cash or stocks, and determines the merger options for the private banks.

**Keywords**

Integration, Private Banks, Iraq

**1. Introduction**

The banking sector is one of the economic sectors that contributes to the crystallization of economic development through the positive effect it has on financing economic development by directing national savings towards development or directing domestic and foreign investments towards economic sectors that have a significant impact on national income.

In addition, there are challenges facing the banking sector, and each country has its own challenges. The challenges and crises faced by the Iraqi banking sector are (liquidity crisis, banking prosecutions, bad debts,



and lack of legal environment not keeping pace with modern banking systems). Similarly, reforming the banking sector requires restructuring the government sector by privatizing or encouraging mergers between banks to provide diversified, integrated and competitive services, or expanding the ownership base of banks to make them more manageable to wider segments of shareholders and reduce the influence of the public sector.

It should be noted that the phenomenon of banking integration is very important in raising the return of banks and increase the efficiency of banking performance, through the benefits and benefits achieved in order to reduce the degree of risk. As well as through the distribution of investment activities and the strengthening and support of the capital base of the bank and achieve good growth levels to benefit from large-scale savings and profitability, as the integration of integrated banking institutions that they need to find alternative to the existing bank (especially if weak), in addition to being a substitute for financial failure.

## 2. Research Methodology

### *Research Problem*

Referring to the Iraqi context, the need for banking integration has become urgent to bridge the gap between financial globalization and the challenges and crises facing the Iraqi banking sector. The research problem is whether banking integration increases the cash value, profits and present value of integrated banks and reduces costs.

### *Research Importance*

1. Identify through the integration of banking, how to increase the competitiveness with local and global banks in the provision of banking services.
2. Knowing the extent of the possibility of raising the profitability of integrated banks through the integration of banking, and what are the positive effects of integration.
3. Banking integration leads the banking sector to become comprehensive banks with advanced services.

### *Research Objectives*

1. To recognize the reality of the Iraqi banking sector in terms of the structure of banks and capital.
2. To address the concept of integration in terms of content and economic and legal definition and identify the types of integration and determinants and negative and positive effects on the banking sector.



3. Identification of the current value of cash before and after the merger as well as the costs of integration in the form of cash or shares.

### ***Research hypothesis***

Banking integration reduces the risks to the two banks after the integration, while increasing the value of the compound banks and the realization of large-scale inflows.

### ***Research Limits***

- The time limit was 2015.
- The place of application were the Iraqi commercial banks, specifically (Sumer Commercial Bank, Gulf Commercial Bank, and Bank of Baghdad).

### ***Research approaches***

The researcher relied on the following approaches:

- a. Descriptive approach: to address the concepts definition of negative and positive effects and types of integration.
- b. Inductive approach: to raising the determinants of integration in Iraq and its requirements.
- c. Mathematical approach: to analysis the synergy, and cost in cash and by stocks.

## **3. Banking Integration**

### ***Concept of Banking Integration***

There are a lot of definitions of integration vary according to the researchers both depending on the competence and according to its content or composition or the implications of it as it comes.

(A) **The law** defines integration as the court of one or more companies or of a new company to which the receivables of the companies that have been transferred are transferred (Saleh, 2012: 19). The concept of integration is a process that occurs when two or more banks merge into one bank by forming a new business entity (Smirnova, 2014: 80). integration involves the joining of two or more legal companies in one company, after obtaining the approval of the joint company that the two companies are united in the matter and then form an economic unit after the integration. The integration results in the demise of the existing companies or at least one of them (Al Mashhadani, 2010: 130-129). integration also known that a company joins another company or more and is often at one level of importance and size (Shabb, 2012: 33).

The merger occurs according to the legal aspect in two ways:

- *Fusion Pas Absorption our Nixing:*



This is done by merging one or more organizations into another organization (the umbrella organization), where the organization or other organizations that have been merged with them will end up permanently with the survival of the merging organization and the enjoyment of moral personality (Janekis-Beck, 2005: 70).

• *Merger by Combination:*

On the basis of this method, two or more organizations merge to form a new organization and thus their legal personality disappears, as the new moral personality becomes responsible for all the debts and obligations of all the combined organizations (Al-Saffar, 2009: 73).

(B) **Finance** is defined as the union or joining of two or more companies to form a single company with the acquisition of the assets and liabilities of the target company (Saleh, 2012: 4).

(C) **Accounting** is defined in accordance with IFRS 3 (2004) Business Combinations, which is the process of collecting business entities separately in a single entity for financial reporting (Al Mamouri, 2007: 59).

(D) **Economy** defines it as an agreement that leads to the union of two or more banks and their solubility in one banking entity so that the new entity has a higher and more effective ability to achieve objectives that could not have been achieved before the completion of the process of forming the new banking entity (Abdel Hamid, 2005: 155).

***Types of Banking Integration***

1. *Banking integration in terms of the nature of the activity of the merged units:*

According to this standard, banking integration is classified into the following types:

a) **Horizontal Banking Integration:**

Which occurs between two or more banks operating in the same type of activity. As a result of this type of merger, the huge banking monopolies in the market are increasing and governments can regulate the processes of this type of merger because it negatively affects competition and allows for monopolistic profits, Government organizations to prevent and combat monopolies (Shaar, 2002: 242).

b) **Vertical Integration:**

Integration between small banks in different regions and the main bank in major cities, and thus small banks and branches become extensions of the big bank (Mohammad, 2008: 5).



### c) Diversified Integration:

It is defined as being between two or more banks engaged in non-interrelated activities, for example, between a commercial bank or a specialized bank and an investment and business bank.

- Integration for expansion of products by expanding production lines, mergers are related to each other (Saffar, 2009: 49).
- Integration with the aim of geographical spread of the market to two companies to carry out operations in non-overlapping geographical areas (Dabbas, 2012: 524).
- Integration for diversification of research, involving different and unrelated business activities, and cannot be adapted as a market extension (Hammad, 2011: 7).

### 2. *Banking integration in terms of the relationship between the parties to the integration*

According to this standard, banking integration is classified into the following types:

#### a) Voluntary Integration:

The voluntary Integration is defined as a friendly merger with the approval of the management of the merged bank and the merged bank. The bank offers to buy the integrated bank management board. The management of the two banks will then submit a letter to the shareholders of the bank, In the case of completion of the approval, and with no opposition from the Government, the acquiring bank will purchase the merged bank shares (Talib et al., 2013: 328).

#### b) Compulsory integration:

This type of integration spreads in most countries with a central approach, as decisions are issued by the state by merging a number of banks in new banks to achieve political, economic and social goals that serve the public sector or through a broad process that is not usually the structure of the banking sector, which is used by the monetary authorities in a country as one solution to liquidate the banking system from banks experiencing financial and non-financial difficulties leading to bankruptcy, and often through the enactment of laws and legislation that encourage banks to integrate in exchange for incentives and tax exemptions or Through the supply of the bank C loans to meet its pledge to assume all the obligations of the merged bank (al-Moussawi, 2011: 154).



c) Hostile Integration:

Involuntary integration occurs against the will of the target bank and usually when weak management controls the capabilities of a company with good potential. Therefore, the strong and successful companies in the market put their direction in the direction of these companies to seize them and change the weak management with a strong management that can best exploit the capabilities of this company (Erewa, 2010: 10).

3. *Integration in Terms of Form*

This type of integration is divided into two types: (Al-Zobaie, 2010: 78; Muhammad, 2014: 143).

a) The Integration with Market:

Means the merger that takes place between two banks, which leads to the disappearance of them completely and the emergence of a new bank independent legal, legal and administrative instead.

b) The Integration Without Market

Means the dissolution of the merged bank in the syndicated bank, while the syndicate shall maintain its structure, management and independent legal personality, but shall enhance its activity and services.

***Banking Integration: Mechanism and Implications***

*Ways to implement the Integration:*

Some writers and researchers in the field of financial management have presented a number of ways in which enterprises can resort to mergers and try to briefly review some of these methods: (Al-Ardi, Al-Shammari, 2012: 102-101).

1. *Stock exchange*: This is one of the most common methods of merger operations at present. In the case of merger by annexation, the price of the purchase of the shares of the target entity and the exchange rate with the shares of the merged entity may be determined, for example, If the shareholder in the target entity receives (one share) in the new establishment in exchange for waiving (2 shares) of its old facilities.

2. *Buy Shares*: Under this method, the merger can be affected by purchasing the acquirer of the target company's shares through the stock exchange market, paying in cash or issuing bonds. In certain cases, the merger may remain partial, some shareholders sell their shares to the merging entity.

3. *Purchase of assets of the acquire*: To avoid partial control of the target entity through the exchange or purchase of its shares that prevent its being fully incorporated into the acquire, the assets of the target entity are



often acquired in its management (not directly from its shareholders) The same is automatically paid to the shareholders.

4. *Formation of the merged entity can be a holding company and issue new shares to replace the merged enterprises.* Thus, all the shareholders in the enterprises before the merger become shareholders in the new holding company.

5. *The Integration can also be carried out through a combination of methods,* such as the purchase of some shares on the basis of the swap and the purchase of other shares in cash, depending on the needs of the target entity and the desire to carry the shares.

### ***Objectives of banking integration***

The objectives of the integration can be classified into three main sections: (Suad, 2012: 35).

1. *Long term or strategic objectives:* The achievement of the highest strategy of the bank to reach the top of the market and be the leader and the guide, which is the goals of hegemony and control, and therefore the merger is based on the main ingestion of other banks and the acquisition of more power and capacity, Size, energy and efficiency.

2. *Medium Term Objectives:* which is linked to the Bank's interim policies. The administrative and structural structure of the syndicate is achieved and is linked to the market share and the capacity, scope and size considerations.

3. *Short range or tactical objectives:* which deal with the conditions and operational conditions of the merger, and with the conditions and conditions of the market, and with the changes and developments of the life of the banking market.

Correspondingly, the banks aim to achieve the basic objectives of the integration process: (Abdel Hamid, 2005: 153).

1. More confidence, safety and security among the customers and customers, and this is achieved by providing banking services at the lowest possible cost and the highest quality, and the marketing of banking services better.

2. Creating a better competitive position for the new banking entity in which the new bank's competitiveness will be increased, and creating more profitable and less risky investment opportunities.

3. Replacement of a new management more experienced functions of the bank to a higher degree of efficiency, and thus earn the new bank more mature personality and more effective by employees after the integration of competencies existing in previous banks.



4. Production and mixing between institutions will lead to the provision of large capital, the ability to bear the risks resulting from deposits and loans provided, the improvement of the level of labor as a result of the availability of experience and good training, the ability to communicate with the existence of information related to various communication systems, including the Internet.

5. Appropriate treatment to address the problem of excessive bank through the regulation of the banking sector and refinement in addition to avoiding financial difficulties or liquidation that may be exposed to some banks by reducing the number of banking institutions.

***The positive and negative effects of banking integration***

(A) Positive effects:

1. Financial Transfer: The integration of the banking transfer of the financial institution of the merged banking institution to the banking institution that replaces them in all their rights are transferred without the need to liquidate the merged banking institution and the payment of their obligations, which means that the merger avoids troubled banking units or facing difficulties and financial problems liquidation risks and this has negative effects on the banking sector and the result on the national economy (Bank of Egypt, 1999: 70).

2. The rise of the classification: The merger between two banks put the new bank resulting from this merger in a better credit arrangement by correspondents and international credit rating institutions, but results in this situation of a better level than before the merger with respect to the composition of assets and liabilities and the capital base Profits and interest rates and return on investment. This means increasing the ability of integrated banking institutions to acquire the confidence of local and foreign financial institutions (Al-Zadbali, 1997: 10).

3. Improving banking services: The integration of the new banking entity resulting from this merger to invest in human materials and attract the banking and organizational competencies and improve the efficiency of employment in the bank through training in risk assessment and forms of credit and banking operations and modern financial tools (Hindawi, 2000: 34).

4. Increasing competitiveness: The successful merger between two banks create wide areas to reduce costs and increase revenues and then increase the margin of profitability, the reduction of costs achieved, for example through the consolidation of major central departments of the two units merged and through the use of profits Or loss of one of them in achieving tax savings for the entity resulting from their merger together (Zayed, 2006: 47).



(B) Negative effects:

1. Banking integration is one of the manifestations of the monopoly or semi-monopoly market, which carries a monopoly of disadvantages even if some governments have legislation that prevents monopoly (Abdel Hamid, 171).
2. Lack of interest to customers due to large volume, which leads to a decrease in the number and thus reduce revenues for costs unless management manages to decentralize the management of the bank.
3. If the size of the target bank is large, it may be more likely to be exposed to loss of market share prices, especially in the absence of competition in the market.
4. The Bank shall bear high financial costs for the restructuring of the Bank if the latter suffers from default (Awadallah, 2003: 98).
5. Increase the risks resulting from the merger when hiding information and data, which leads to increased errors and not correct and correct them in a timely manner (Hanan, 2014: 73).

#### **4. The structure of the Iraqi banking system and the integration**

##### *The structure of the Iraqi banking system for the year 2015*

- Restructuring is defined as a set of measures aimed at reforming the financial, technical and administrative structures of the bank to enable it to continue successfully. This is achieved through changes and developments in the technical, administrative and financial fields, leading to increased productivity and rationalization of costs.
- The concept of restructuring is considered a comprehensive concept to accommodate the idea of privatization, as the process of restructuring extends to all companies, including state-owned or private sector to improve their chances of success and reach the goals in general. The restructuring of companies may be in the form of privatizing them in a way of privatization by allowing employees or the private sector to own part of their capital in order to develop them, rationalize their expenses and improve their production or services provided by them (Walid, 2014:2).

The number of banks operating in Iraq are 56 banks, including 6 government banks between specialized and commercial and 50 private banks, and the last is divided into 25 local commercial banks, 12 Islamic banks, 13 banks between foreign and Arab. The banking sector suffers from a number of problems, especially private banks. In spite of the activation of the economic reform law and the involvement of the private sector in the administration and supervision, the absence of plans and strategies to rebuild and structure the Iraqi banking sector and weak foundations and detailed policies adopted by banks Risk Management in



Situations and Emergency Situations In spite of the large number of private banks operating in Iraq, their size and activity are still very limited compared with government banks that manage about 90% of the total assets of the Iraqi banking sector in the district Iraqi banks run about 8% of them, and the branches of foreign and Arab banks manage about 2%.

Moreover, the banking sector suffers from its contribution to the credit granted to the gross domestic product (GDP), not more than 10%, while in the regional countries (Middle East and North Africa up to 55% Which is evidence of the weak contribution of the Iraqi banking sector in economic development, in addition to the lack of liquidity in banks, which increases the problem of cash credit to customers, and the lack of financial institutions to support the banking business as a guarantee company deposits and credit guarantee companies and the absence of specialized offices to study and analysis Identifying risks and crises.

Therefore, the activation of the law of banking reform in real and effective through one of its channels is the integration of banking as a necessity to reform and make it more efficient, especially that there is support to start the integration (Central Bank of Iraq report, 2015: 30).

1. The role of the Central Bank in clarifying and clarifying the necessary instructions for the banking integration in Iraq where it was mentioned in Chapter Nine of the Instructions of Implementing the Banks Law No. (3) issued in the Official Gazette No. 4172 on 30/1/2011 according to the provisions of Article (3) no. (94) for the year (2004) and this law was determined by its frameworks and means.

2. The Central Bank of Iraq issued a book 9 \ 3 \ 16724 on 29 \ 11 \ 2015 to the Association of Iraqi banks urging banks to review the conditions or foundations necessary to ensure the success of banking mergers in achieving their objectives were as follows: ([www.niiraq.com](http://www.niiraq.com))

– Create information and transparency in showing all the detailed data through which we can evaluate the integration process.

– The integration process is capable of creating competitive capacity by forming a banking unit without looking at size only, on the basis that large size creates competition.

– Create a kind of consensus between the views and different positions of the boards of directors and employees in the institutions integrated without obstacles or great resistance.

– The process of banking integration in itself is a means and not an end to raise the efficiency of banking performance, and this can occur administrative and control systems.



- Through a set of criteria governing the process of integration, the long-term objectives of the joint banking institutions can be defined by the process of integration, such as the extent to which future revenues will improve, banking intensity, technological development.
- Requires banks involved in the merger process is to liquidate all things related to them such as non-performing loans to be prepared for the merger.
- The philosophy of the integrated banking departments should converge, especially if they are from different banking schools.

### *Justification of the Iraqi banking integration*

1. ration and cooperation between them in line with the trend of the modern economy based on the focus in order to reach the best results.
2. The need for companies wishing to merge to reconsider their economic policy with the aim of achieving higher productivity or to compete with other enterprises that carry out similar activities in the market (Alsager, 1998: 13).

### **5. The applied side of the research:**

#### **Characterization of synergy analysis and cost analysis for banking integration:**

First: The concept of analysis of synergy

The analysis of synergies is that the new bank resulting from the merger will be worth more than the sum of the value of the merger (Saleh, 2012: 31). Thus, the synergies are achieved when the total returns resulting from the merger exceed the total returns of the two banks before their merger. This means that there is a value added as a result of the merger of the values of the two banks and this is shown in the following equation (Abu Hamad, Hamza, 2016: 15 ).

$$V = VAB - (VA + VB) \text{ as:}$$

V: net value achieved after the bank merger.

VAB: Value of banks A and B after merger.

VA: The value of the syndicated bank (A).

VB: The value of the merged bank (B).

The value added after the merger is attributed to the synergy, which is defined as the increase in the total value of the two banks after the merger on the forced sum of their value together before the merger, which in turn



will increase the efficiency of the bank in performance (Talib, Moussawi, Hassan, 2013: 322).

The second requirement: the phases of characterization of the analysis of synergy:

The analysis of synergy is one of the strategies of banking integration and goes through several stages, the most important are:

The first stage: Estimating the cash flow equations for both banks (A) and (B) before and after merger.

First: Estimating the cash flow before the merger of the two banks (A), (B):

$CF = NP + DEP \dots\dots (1)$  as:

CF: The value of the bank's cash flow before the merger.

NP: Net profit.

DEP: The value of the extras.

The cash flow equation of the inclusive bank (A):

$CFA = NPA + DEPA \dots\dots (2)$

Bank cash flow equation (B):

$CFB = NPB + DEPB \dots\dots (3)$

Second: Estimate the cash flow after the merger of banks A and B: -

$CFAB = CFA + CFB + [G \times CFAB] \dots\dots(4)$

As:

CFAB: The total cash flow of the two banks after their merger together.

CFA: The total cash flow of the Bank (A).

CFB: Total cash flow of the bank (B).

G: Average growth rate of the two banks.

(G) can be calculated by equation (5):

$G = (NP1 - NP0) / NP0 \dots\dots (5)$

As:

NP1: Net profit after tax for the year of comparison.

NP0: Net profit after tax for the base year.

The second stage: Estimating the value of banks A and B after the merger:

$VAB = CFAB / D \dots\dots (6)$

Where:

VAB: Value of the two banks (A, B) after their merger together.

CFAB: The total cash flow of banks (A) and (B) after the merger.



D: Discount rate (rate of return on investment).

The discount rate is the lowest rate of return that an investor expects to receive when investing money in ordinary shares rather than postponing its own consumption and carrying the risks attached to that investment (Shoman, 2005: 53). The discount rate (the rate of return required) depends on the quality of the investment, , The higher the investment risk, the higher the discount rate and vice versa if the investment risk decreases (Al-Ardi, 2013: 198). The discount rate is calculated according to the following formula (Abd Ali, 2008: 210).

$$D = RF + (RM - RF) B_i \dots\dots \dots (7)$$

As:

D: discount rate.

RF: risk-free rate of return.

RM: rate of return for the market portfolio.

RM-RF): Risk premium.

B<sub>i</sub>: Beta Factor.

The risk-free rate of return (RF) is measured on an average basis on government investments (treasury bonds) or interest rate on savings deposits (Shoman, 2005: 54). The interest rate paid by commercial banks on savings deposits (6.16%) for the availability of data (Central Bank of Iraq, Directorate General of Statistics and Research, 2014, table of interest rates).

The risk premium (RM-RF) reflects the systemic risks that the Bank faces and changes according to the nature of its activities and is commensurate with the increase in the Bank's risk (Al-Shabib, 2010: 86).

Stage 3: Estimation of Market Rate of Return (RM): -

The calculation of the realized rate of return of the market portfolio (RM) requires that the RJ of the sample banks be calculated according to the following equation:

$$R_j = (P_1 - P_0) / P_0 \dots\dots \dots (8) \text{ As:}$$

P<sub>1</sub>: The share price is the end of the period (closing price).

P<sub>0</sub>: The price of the stock is the beginning of the period (opening price).

After that, the realized yield of the market portfolio (RM) can be Zcalculated by dividing the total annual rates of return realized for all the shares of the market portfolio in that year by the number of banks sample of the study and as indicated in the equations :



$$RM = \{j / N$$

as:

{j: Total annual rates of return for all portfolio shares.

N: Number of banks involved in the merger process.

Stage 4: Estimation of the Bi coefficient:

The beta coefficient is a measure of the systemic risk that affects the returns of most types of stocks traded on the stock exchange. The systemic risk is caused by general economic conditions whose effects are subject to varying degrees in all productive and service sectors operating in the economy such as inflation, the risk of the situation in the economy or interest rate risk And other factors (Abu Hamad, 2002: 258). Thus, the beta coefficient reflects the degree of volatility of the yield achieved per share towards the return of the market portfolio, and the increase of the beta coefficient indicates the high risk level. -491), (Hindi, 2014: 305-302).

$$Bi = \text{COV} (Rj, RM) / \text{Var} (RM) \dots\dots\dots (10)$$

As:

COV (Rj, RM): The common variance between the returns to Rj stock and the returns to the market portfolio.

Var (RM): Differentiated returns to the market portfolio.

Description of Cost Analysis and Total Value of Integration:

The cost of the merger is the net value paid by the syndicated bank (A) to the shareholders of the merged bank (B), or the premium provided by the aggregate bank (A) to the merged bank (B), and more than its value as a separate economic unit, The premium paid to the merged bank (B) in cash or through the share swap (Saleh, 2012: 44). The cost of the merger can be divided into two parts:

First: The cost of the merger owned by cash: -

One of the options for bank integration is that the syndicate bank (A) owns the target bank (B) in cash, by buying all its shares in cash, and this option is in several stages, including: (Saleh, 2012: 47-45), (Ardi, Ershad: 16 14):

Stage 1: Estimate of net value achieved after the merger:

$$\Delta V = VAB - (VA + VB) \dots\dots\dots (1)$$

As:

V Δ: net value achieved after the bank merger.

VAB: Value of banks A and B after merger.



VA: The value of the syndicated bank (A).

VB: The value of the merged bank (B).

Stage 2: Estimation of the value of (B) after its merger with the bank (A):

$VB * = VB + \Delta V \dots\dots .. (2)$  Because:  
The value of the merged bank (B) after its merger with bank (A), which is achieved by adding the value of the bank (B) to the result of equation (1), which represents the value of bank A to bank B.

Stage 3: Estimate of Net Value Status of the merger:

$$NPV = VB * - COSTB \dots\dots\dots (3)$$

As:

NPV: Net present value achieved after the merger.

VB \*: The value of bank B after its merger with bank A.

COSTB: The cost of the purchase of the bank (B), which is equal to the amount paid by the aggregate bank (A) to purchase all the shares of Bank B in cash.

Equation (3) is achieved by subtracting the result of equation (2) from the cost of purchasing the bank (B).

Stage 4: Estimate the value of banks (A) and (B) after the merger: -

$$VAB * = VA + NPV \dots\dots\dots (4)$$

As:

VAB \*: Value of banks (A and B).

Equation (4) is achieved by adding the result of equation (3) to the value of the aggregate bank (A).

Second: the cost of the merger owned by shares:

This option is achieved by determining the purchase price of the target B share capital and the ratio of its share with the shares of the aggregate bank (A). For example, the shareholders of the target bank B receive one share in the new merger bank (A) ) In exchange for the assignment of two shares from the old bank (B), or through the purchase of shares of the target bank through the Iraqi market for securities against the issuance of certain loan bonds,(Saleh,2012:46),(mohammad,2014:155),(Casual,2010:24-25).

This option is achievable through the following stages:

Stage 1: Determining the value of the merger:

$$VAB = VA + (VB + \Delta V) \dots\dots\dots (5)$$



As:

VAB: The total value of banks A and B after merger.

VA, VB: Bank A, Bank B.

$V \Delta$ : net value achieved after the merger.

Stage 2: Determination of the cost of cash for the bank A:

$$COSTA = VSA = P1A * NSA \dots\dots (6)$$

As:

COSTA: Cost of acquisition of cash for the merchant.

VSA: The total value of shares of Bank A.

SP1A: Bank A share price at closing.

NSA: Number of shares of Bank A.

Stage 3: Determining the number of shares issued by the bank A:

$$VNSA = COSTA / P1A + NSA \dots\dots\dots (7)$$

As:

VNSA: Total value of shares to be issued by Bank A.

Stage 4: Estimated cost of the target bank (B):

$$COSTB = VB / SP1A * VAB / VNSA \dots\dots\dots (8)$$

As:

COSTB: The cost of the target bank (B).

VB: Target Bank Value B.

VAB: The total value of banks A and B after the merger.

SP1A: A share value for bank A at closing.

VNSA: Total value of shares to be issued by Bank A. Equation (8) is achieved by dividing the output of equation (5) by the result of equation (6), then multiplying their output by dividing by dividing the value of bank (B) by the share price of bank A at the close.

Stage 5: Determination of the net present value of the target bank B:

$$NPV = VB * - COSTB \dots\dots\dots (9)$$

As:

NPV: The net present value of the target bank B, the amount of realized profits or losses resulting from the merger.



Equation (9) is produced by subtracting the value of equation (2) from the value of equation (8).

The options available for banking integration between banks were the same as research:

1. Gulf Commercial Bank with Sumer Commercial Bank
2. Gulf Commercial Bank with Bank of Baghdad.

The estimates of the analysis of the synergy of banking integration have emerged according to the following stages.

Table (1) Net profits, value of investments and cash flow value of banks before and after the merger (thousand dinars)

Directory of Companies Iraq Stock Exchange 2015

synergy integration	Net merger NPA	Extinction DEPA	Cash flow CFA	Net profit NPB	Extinction DEPB	Cash flow before merger CFB	Cash flow after merger CFAB	Average growth rate G
Gulf & Sumer	295867	463167 74	492686 41	280310 76	42087 82	32239 858	85583 923	0.05
Gulf & Baghdad	295867	463167 74	49268 641	28491 734	14029 911	4252 1645	9637 9800	0.05

It is clear from Table (1) that the value of cash flow after the merger between the two banks Gulf and Baghdad amounted to (96379800) thousand dinars, which is greater than the value of the cash flow of Gulf Commercial Bank and Sumer Commercial which amounted to (85583923) thousand dinars.

Table (2) The value of the banks (A) and (B) before the merger of the banks and after it according to the analysis of synergy (thousand dinars)

Inclusion cases	The value of the syndicated bank VA	Embedded Bank Value VB	Value of the two banks after the merger VAB	Net value achieved V Δ	Mergers arrangement
Gulf & Sumer	61542721	40272632	106905070	5090717	2
Gulf & Baghdad	61542721	53114875	120390476	5732880	1

Source / Iraq Stock Exchange data 2015 and the use of analysis of synergies



Table (2) shows that the net value achieved after the merger between the two banks, Gulf Business and Bank of Baghdad, amounted to (5732880) thousand dinars, the largest value of the second merger between the Gulf Business and Sumer Commercial Bank, which amounted to (5090717) thousand dinars, The table above shows the sequence of the two banks' mergers in achieving the highest value.

Table (3) Risk Free Rate of Return, Market Portfolio and Discount Rate for Banks Sample Study (thousand dinars)

Bank name	Rate of Return	Return Portfolio	Bonus	Beta coefficient	Discount rate
Gulf	0.06	0.13	0.07	0.38	0.08
Sumer	0.06	0.13	0.07	0.49	0.09
Baghdad	0.06	0.13	0.07	0.41	0.09

Source / Data of the Iraqi market for securities 2015.

Table (3) shows that the return of the RM market portfolio for all the banks listed in the Iraqi market for securities in the research sample is equal to (0.07). The discount rate D was positive for all the sample banks and the highest discount rate was in the two banks (Sumer Commercial, Baghdad) (0.09) This indicates that the two banks tend to increase risk in the case of going into the policy of investment and borrowing, unlike the Gulf Arab Bank, the lowest tendency to risk. Beta Bi is a measure of systemic financial risk ranging from 0.38 to 0.49 to Sumer Commercial Bank and Commercial Bay, respectively. Bank of Baghdad was between the two ratios. This shows the correlation with the discount rate as the risk of Sumer Commercial Bank and its decline to Gulf Commercial Bank To invest in the merger for low risk.

Table (4) Results of analysis of the cost of the merger owned by cash (thousand dinars)

Case	The value of the syndicated bank VA	The value of the merged bank VB	Value of the two banks after the merger VAB	Cost of merger COSTB	The value of the merged bank after its merger VB	Net present value achieved after the merger NPV	The value of the two banks after the merger VAB
Gulf & Sumer	61542 721	40271 632	10690 5070	55.426	45362 349	45.362	61.542
Gulf & Baghdad	61542 721	53114 875	120390 476	8.232 94	58847 755	58874 746	67427 497

Source / Iraq Stock Exchange Data Corporate Directory for 2015.



Table (4) shows the value of Gulf Commercial Bank and Baghdad after the merger VAB is larger than the value of the Gulf Commercial and Sumer Commercial banks the value before the merger is less after the merger. As well as the NPV estimates of the NPV were positive for all mergers but the highest value was between the Gulf Bank and Baghdad.

Table (5) Net present value according to the analysis of the merger owned by shares (thousand dinars)

Case	The price of the bank's shares SPIA	Number of shares of the Bank NSA	COSTA	Total value of shares to be issued VNSA	Cost of the target bank COSTB	Net present value NPV
Gulf & Sumer	0.73	21.49 64	15.69 2372	42.9928	137176 21	9027116
Gulf & Baghdad	0.73 67	21.49 2372	15.69	42.9928	2.03746 2573	120390474

Table (5) shows that the highest net value achieved after the merger is owned by the shares of the two banks, Gulf Commercial Bank and the Bank of Baghdad, while the lowest value between the two Gulf Commercial Bank and Sumer Commercial.

Table (6)

Net present value after the bank merger according to the analysis of synergy and owned in cash and owned by shares

Case	Net present value after consolidation on a synergy analysis	Net present value after the merger on a cash basis NPV	Net present value on equity
Gulf & Sumer	5090717	45.362	3027116
Gulf & Baghdad	5732880	58847746	12039074

Table (6) shows that the analysis of the synergy and the analysis of the total cost of cash and shareholdings from the table above. The merger between the Gulf and Baghdad banks achieved net value after the merger of the Gulf and Sumer commercial banks, Baghdad is achieving the highest value.



### Conclusions:

- 1 - Despite the large number of studies on the integration and the phenomenon of banking integration in the world and the Arab countries, but Iraq has not been to implement the process of banking integration, but remained just studies and formations of teams to study the reality of banking.
- 2- The banking integration is a double-edged tool, one of which addresses the financial failure of the bank. The second limit increases the ability of banks to compete through a large volume after the merger process, as well as increasing its resources, reducing expenses and increasing banking spread.
- 3 - The structure of the Iraqi banks show the control of government banks in terms of possession of assets in comparison with private banks, and more than that control of the two banks are Rafidain and Rashid on the process of deposits and loans.
- 4 - The process of banking integration is one of the ways used by banks to increase their financial resources and the transfer of experience and skills between employees and improve the banking service.
- 5- The results of the research showed that the merger between the banks in the research sample is the best and the highest value after the merger between the two banks Commercial Gulf and Baghdad in all variables of net present value of the acquisition in cash or shares.

### Recommendations:

- 1- requires the monetary authorities in Iraq to issue laws governing the process of integration in government and private banks.
- 2- Apply the incentive system to employees in banks as well as stimulate banking departments to compete between banks to maximize their resources and reduce their costs.
- 3- Abolition of some laws that stand in the process of banking integration, for example tax exemptions, as well as encouraging individuals deposits in private banks and urged the latter to increase the capital banks, which prompts them to increase the turnout of the merger.



4 - Accelerate the process of banking integration, which has a return on the improvement of banking operations and the creation of a shopping market for banking services.

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