

Foreword

Corporate Evaluation in the German Banking sector is becoming more and more important. In times of hostile takeovers, missing success in the retail market and an unpleasant cost income ratio, especially small cooperative banks and savings banks are facing a changed situation they have never expected. The changing speed has increased dramatically in the German banking sector. While selling of a savings bank was not possible even 5 years ago, this hard frontier is broken up now. Banks have to manage this changed situation – in order to prevent to be taken over or to increase the own value and the own independency accordingly. In both cases, the quantification of the own value is an essential aspect.

The presented Master Dissertation of Svend Reuse solves theoretical and practical problems according to this topic. It combines actual value oriented management tools with the classical methods of corporate evaluation and the results of the actual status quo in the German banking sector. The essentials can be summed up as follows:

First, the theoretical status quo of corporate evaluation in the German banking sector was defined. The result is that only the earnings value method, equity approach and multiplier method are useful for banks. All entity models must be rejected, as they do not consider the fact that a bank generates value with the liability side. Discussing several bank-individual evaluation models led to open questions. The discounting rate, the implementation of value corrections and the value of treasury are subject to discussion. Further, it was clearly investigated, why maturity transformation does not generate value, why the CAPM can only be used in some models and in which models the value corrections for lost loans have to be deducted. The theory-based demands on a new model are simplicity and the usage of secure cash flows in order to use other discounting rates than the CAPM.

An additional interesting aspect in this work is the connection to actual banking practice. Svend Reuse presents a representative empirical study. In total, 51 out of 750 banks took part in the study. The responses nearly always show a high quality. The main results can be summarized as follows: Shareholder value is not implemented in practice by many banks. Periodic variables are favoured to manage a bank. Intangible values as human resources or the own brand are not considered in the whole sector. The author developed a scoring model which proved this assumption to be correct. The second part of the survey analyzed the practical status quo of corporate evaluation. Almost 50% of the banks analyze their own value in order to do value based management. Nevertheless, the interlink between the bank's value and the related controlling numbers/tools is missing. Banks judge their value, but an integrated management process cannot be found. A practice-based impulse for a new model is

that some existing controlling methods, especially those derived from the risk covering mass processes should be used.

The model developed by Svend Reuse took all these aspects into consideration. By an integrated usage of the market interest rate method and the usage of secure cash flows, the CAPM approach could be avoided. The model sets the value of treasury as zero and quantifies a more realistic bank value accordingly. Even though the single parts of the model are not new, the integration of them led to new, interpretable aspects. Really new for the German banking sector is that the model is verified in practice. A number of 19 of the 51 banks of the survey wanted a detailed corporate evaluation based upon the data of the survey. On average, the treasury approach leads to lower results than the equity and earnings value method, even though a risk-free rate is used. The further empirical analysis was able to generate internal based multiples to evaluate the value of classical banks in a very simple manner.

To the opinion of Svend Reuse it has to be criticized that banks do not interlink the evaluation of the own value with a value-oriented management process. In the last section of his work, he offers a solution to this problem. Further he recommends the integration of intangible assets. The value of the brand, customer satisfaction and the employees will be responsible for the bank's value in the future.

The presented Master Dissertation combines existing literature in a new way and extends it in some parts. Considering the aspect that Svend Reuse has written this dissertation beneath his work in a few months, the results are very impressive. Some aspects can be used directly in practice to manage a bank in a rather present value oriented way. We hope that this dissertation will become well-known in Germany.

With his work, Svend Reuse has proved that attaining an excellent academic level is not exclusively possible under the conditions of a full-time degree programme. Nevertheless, part-time-concepts as the FOM's MBA programme make high demands on the participants. Consistent discipline and the ability to self-motivation are the key skills to cope with the challenges of graduating alongside a career –attributes characterizing people with long-term success.

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