

**Abstract**

In this paper we analyse bank efficiency in Germany for four cross-sections of data during the period 1995-2001. Under the assumption of cost minimisation we obtain firm-specific efficiency estimates using stochastic frontier analysis. To explicitly allow for different risk preferences when measuring efficiency we then develop a model based on utility maximisation. Using the almost ideal demand system, input- and profit demand functions are estimated and risk-preferences recovered. Efficiency is then measured in the risk-return space. Efficiency scores improve substantially and the dispersion of performance across sectors and size classes vanishes. Rank-order correlation between the two measures is low or insignificant. This suggests that best-practice institutes should not be identified only on the basis of cost efficiency. However, in terms of magnitude risk-return efficiency seems to be of less importance than cost efficiency.