

Question 1: Personal Investment and Financial Management

Case (pseudo case, not real one): Private banking is the driving force for revenue and profit growth of consumer banking in the booming Greater China. As the head of private banking group in Asia Pacific, you are the boss who takes charge of this critical business for Bank of Yield (BOY). In your company's strategic planning, the most important assignment for you is to develop the business in the Greater China (mainland China, Hong Kong, Macau, Taiwan, and Singapore).

Since the establishment in Basel, Switzerland, BOY has more than 100-year experiences in banking and insurance. It has more than \$150 Billion USD assets, and its offices are located in 66 countries. In 2004, BOY's revenue is around \$20 Billion, and it has 20% gross profit margin. BOY's market shares of banking business in mainland China, Hong Kong, Macau, Taiwan, and Singapore are: 0%, 3%, 0%, 5%, 3%.

You are fully aware of the two big events in 2004. The first one is that BOY acquired 20% share of Moolang Bank and gained the ticket to the China market. Moolang Bank is a state-owned national wide bank whose head quarter is in Beijing, and it just started to build the private banking business. The second one is BOY's expansion plan in Taiwan. With 12 existing branches in Taiwan, BOY wants to acquire 55% share of Taipei-based Winwang Bank. However, the case is not finished yet due to some complex issues.

Considering the regional macro-economics and corporate strategies, now you have to work on following challenges:

1. What kind of private banking service will you provide for the Greater China customers? (vision, mission, tasks, product/service specifications, etc.)
2. How will you educate the customers for personal investment and financial management and expand your market share? (There are many options in marketing, IT operation, organizational changes, HR training, etc. Be selective and design your options with the concern of best performance/cost ratio.)
3. What's the relationship of personal financial management and personal risk profile? What's the relationship of BOY's customer risk profile and BOY's Enterprise Risk Management?

Question 2: Enterprise Risk Management

Case (pseudo case, not real one): Dragon Prosperity is a manufacturing company of consumer electronics and home appliances. Its head quarter and biggest factory (by production value) are located in the suburban of metropolitan Shanghai. There are another two factories: the second biggest one is in Shenzhen, China, and the third one is in Austin, TX, USA.

Dragon Prosperity has made double digit growth in revenue for the past three years, and it just top \$1 Billion USD for total sales in 2004. Its 2004 financial snapshot is below:

Balance Sheet (Unit: \$USD Million):

Current assets: 600. Long-term investments: 250. Property, plant, and equipment: 300. Some deferred expenses/income. Current liabilities: 500. Long-term and other liabilities: 100. Minority interest: 30. Stockholders' equity: 600.

Income Statement:

Net sales: 1020. Gross profit: 150. Operating income: 40. Non-operating income: 20. Tax: -3.5. Minority interest: -0.5.

Cash Flow Statement:

Operating net cash: 22. Investment net cash: 6. Financing net cash: -20. Effect of exchange rate changes: -1.5. Cash at the year beginning: 30.

To catch the great market opportunity of the digital convergence of 3C (computer, communication, and consumer electronics) industries, the management team decides to develop the core technology in the System-on-Chip (SOC) for next generation multimedia. The current estimate for the 3-year financing in SOC is \$500 M USD. At the same time, Dragon Prosperity needs to accelerate the replacement of old facilities and consider more property insurance for high-end equipments.

Though Dragon Prosperity is a public traded company listed on Shanghai Stock Exchange A Share, its majority share is still state-owned. Therefore, Dragon Prosperity pays high attention for any employee layoff or pension fund issue. As China makes more legal changes to protect social welfare of labor, the management team foresees more expenses regarding employee's welfare and retirement.

Now, assume you are the decision maker in the executive committee, what will you do for the following challenges?

1. How to do the financial and risk management planning for the new SOC initiative?
 - a. Provide a general framework for the financial and risk management planning.
 - b. What source of capital can you access (by stock market, corporate bond, bank lending, GDR/ADR, securitization)? What are your trade-offs for capital (efficiency, cost of capital, risk premium)? How do you measure the Return on Investment, ROI (by IRR, ROC, or RAROC)?
2. What is the Enterprise Risk Management?
 - a. Give a definition of Enterprise Risk Management, ERM (ERM should include all kinds of FINANCE-related risks in a firm, including core and noncore risks.). What's the ERM for a company like Dragon Prosperity (In your scope, the following risk management is required: insurance of pure risk for properties, hedge of foreign currency exchange, hedge of major supply material, solvency risk management. But not limit yourself to those tasks above.)?
 - b. How do you identify and measure all financial risks in Dragon Prosperity? The major risks include market risk (exchange rate changes, interest rate changes, stock market, etc.), credit risk, and operational risk (operations of people/process/system, liquidity, etc.).