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ABSTRACT
In every part of the world, financialreports form the basis of communicating the activities and performance ofbusiness entities to owners and outsiders. But it is rather unfortunate thatmost of these financial reports do not meet the need of users as a result ofdifferent accounting bodies with varying standards and codes. Most reports arepublished much more later than the date of the account when the state ofaffairs of the organization would have changed. Also, they do not disclose allthe pieces of information necessary to make decision by users. They have therefore,created what the accountant refer to as “expectation gap”.
In a developing country like Nigeria,the need to address some of these problems stated above cannot beoveremphasized. Certain rules such as companies and Allied Matters Act 1990(CAMA), Statement of Accounting Standards for Banks and other FinancialInstitutions Degree (BOFID), Stock Exchange rules and CBN Presidentialguidelines should be maintained and adhered to. The Statements of AccountingStandards are produced by the Nigerian Accounting Standard Board, which is theonly standard setting body in Nigeria.The standard is also a compliance of the internationally accepted standards offinancial reporting. If strictly adhered to, there is no doubt that thechallenges and limitations being faced will pave way for qualitative accountingstandards in Nigeria.

CHAPTER ONE

1.0INTRODUCTION

1.1 Background of the Study

FinancialRisk management is a relevant development that arises with deregulation ofNigerian economy through the introduction of Structural Adjustment Program(SAP) in 1986. The research was born out of an inquisitive mind and the desireto gain knowledge about the practice of financial risk management in Nigeriaespecially in the area of foreign exchange. It should be recalled that Nigerianeconomy moved away from fixed exchange regime in September 1986. The countryreturned back to fixed exchange regime in 1994 and guided deregulation in 1995.

Cliff(2003) notes that financial risk (which foreign exchange risk is a sub - set)is the chance or probability that some unfavouable event will occur and whichwill adversely affect the financial foreign exchange risk are financialposition or cash flow stream of an organizations other examples of financialrisk apart from foreign exchange risk are ownership, liquidity, credit,exchange rate, interest rate etc.

Thetopic foreign exchange risk management is relevant because humans are prone tomaking mistakes for business concern; all facts of its existence are fraughtwith risk exposure. The business environment in which companies operates isbecoming increasingly complex and uncertain due to the globalization ofbusiness and rapid introduction of new technologies.

Mostbusiness decision are taken with complete knowledge about how the future willevolve with this mind, business managements in twenty first century willemphasize financial risk management. The successful ones will be assessed onthe basis of its ability and capability to anticipate, plan and controls risks.

Thesubject will continue to be relevant in discourse because terms trading andinvestment are modern terms understood by the world.

Aslong as there is flexible and market determined exchange rate, exchange raterisk will exist and become inevitable.

Egwuonwu(1995) stated that foreign exchange risk management is a new phenomenon in thestudy of risk exposure. This is because little was known about the subject andits practice and also foreign exchange management itself has been given littlecognizant in the past and as a result, it was not considered as a possible toolfor long term development in the nations economy.

Thebreakdown in the fixed foreign exchange rate to a market determines exchangerate was the fundamental factor responsible for the demand for foreign exchangerisk management. Also, development in the fields of communication informationtechnology, emergence of global investment called derivative securities(currency futures) options and currency sways) are other factors whichcontributed to the emergence of the subject.

Nigerianbusiness organization are involves in international trade at both export andimport level: demand for exchange of currencies and the presence of exchangefluctuation is ever present under the arrangement hence exchange risk becomes apre - requisities. The major objective of risk management is to maximizereturns and to minimize risk.

Itis therefore in this light and in an effort to improve the effectiveness of theforeign exchange risk management in Nigeria that this work was undertaken.It could therefore be said that the inherent problems as experienced by thebanking industry today can be linked to the partial or total neglect of thecannons of lending by the officers of the bank, attitude towards risk.

Foreignexchange is regarded as a vital instrument in banking industry especially as itaffects the commercial banking system and hence attention should be focused onthis area of endeavor.

1.2Statement of Research Problems

Fromwhat has been said earlier, business organization and firms operate in anenvironment that is characterized by numerous variables.

Thesevariables are dynamic in nature. Two calls for corporate planning andmanagement of foreign exchange risk in an organization in order to cope withthe challenges facing foreign exchange risk management.

Itis widely acknowledge today that the rate, magnitude and complexity involves inthe management of risk has not been able to achieve their desired goal.

Overthe years, the transaction involving the use of foreign exchange has increaseso also the increase in the risk involve in foreign exchange transaction. Theproblem is how to effectively manage these foreign exchange risks.

Hence,some of these questions one is tempted to ask include.

i.What is/are the problems with the managementof foreign exchange risk in the Nigerian economy?

ii.What measures/steps could be taken tosubstantially improve foreign exchange risk management in Nigeria?

iii.What is/are the cause (s) of this/theseproblem

iv.What role has banks played in improvingforeign exchange risk management

v.What are the impacts or strategy formanaging foreign exchange risk

1.3Objectives of the Study

Thestudy will attempt to ask questions and provide answers to the following.

1. Toknow if there is any significant relationship between foreign exchange risk andprofitability.
2. Todetermine the effectiveness of the techniques and tools being used.
3. Toassess the understanding and the depth of knowledge of the practitioners
4. Todetermine to what extent applicability of the practice of foreign exchange risk management is practiced in theNigerian economy

5. Todetermine the constraints why the concerned parties are not applying thetechniques

6. Recommendpossible modern techniques and how they can be employed in Nigerians economy.

1.4Statement of Hypothesis

Researchhypothesis is a testable statement regarding the relationship between two ormore variables that comes from research problems. Aigbokhearvbolo and Ofanson(2004) in fact, research problems cannot be properly address unless it isreduced to hypothesis. Hypothesis is a reasonable guess or statement which isto be tested. (Emele and Emele, 1995).

Hypothesisare stated in Null and alternative form.

Thenull is the hypothesis one need to reject it states that the variables are motrelated. The alternative is the compliments of the null hypothesis, once thenull is rejected with the help of both statistical and quantitative analysisthe alternative will be accepted and vice verse. Using the topic under studyone can now establish the statement of research problem in hypothesis form.

1. Ho:the banks do not bother themselves with foreign exchange risk while transactingin foreign exchange currencies.

Hi:the banks do bother themselves with foreign exchange risk while transacting inforeign exchange currencies.

2. Ho: Banksevaluate the risk of foreign exchange exposures using modern techniques beforetransactions.

Hi: Banks do not evaluate the effect of foreignexchange exposure exposures using modern techniques before transactions.

3. Ho: the banks do not have administrativepolicies and control measure to mitigate foreign exchange risk.

Hi: the banks haveadministrative policies and control measures in place to reduce foreignexchange risk.

1.5Scope of the Study

Thisresearch work emphasizes on the practice of foreign exchange risk management inNigeriaeconomy from bankers and its impacts.

Perspective:it is arranged to find out how losses on fluctuation in exchange rate aremitigated, controlled, transferred or minimized by the practitioners. Extensiveinvestigation is conducted on the techniques or tools used and preference (ifany) and why such.

Thiswork is restricted to the bank under study. And no attempt was made to comparefindings with what is obtained in other banks within the same sector. Informationwas obtained from head office of banks treasury, foreign exchange/international departments and selected investing company.

1.6Significant of the Study

Thefindings of this study will throw more light on the role of foreign exchangerisk and why it is good for every organization.

a) Torecommend more sophisticated method of managing and controlling foreignexchange risk that would guarantee optimum level of profitability.

b) Itwill enable the public to know the influence of foreign exchange risk

c) Toexport the constraints facing foreign exchange risk

d) Thiswork would also serve as a base to subsequent researchers who tend tounderstand the same topic or work.

e) Thistopic will be useful to individuals and banks

1.7Limitation of the Study

Aspreviously mentioned earlier foreign exchange risk management practice is notyet at it's fullest in Nigeria.Few works are in existence on the subject in Nigeria seminars papers, work shopconference proceeding and few text are available.

Also,in the process of gathering the material needed for the project work and datathat are relevant for the project the following constraints were witnessed;constraints to data availability, time duration posed a limitation, and thecost to get data and materials was experienced.

1.8Historical Background of United Bank ofAfrican (U.B.A)

Sincethe historical emergence from the merger of former Standard Trust Bank andU.B.A Plc, the U.B.A group was positioned itself to be Nigeria dominant bankand a leading player in African continent. In 2000, Europe's frontline financeand economy magazine, Euro money named UBA The Best Domestic Bank in Nigeria,in recognition of the banks exponential growth for the past couple of years andthe comparatively higher inflow of investment from global finance player and in2007 pan African Newsmagazine awarded UBA the Emerging Global Bank which hasmost positively influenced the African continent.

UBAhas consistently positioned itself as the bank to beat in Nigeriafinancially strong banking industry. It has grown total assets by over 345.01percent in the last five years, up from NGN 198.68 billion ($ 1.656 billion) in2002 to NGN 884.14 billion central bank of Nigeria, 2007 Bulletin. ($ 7.368billion) in 2006 more recently, at the end of 2008 financial year, it recordedgross earnings of NGN 169.6 billion, profit before tax and exceptional items ofNGN 56.8 billion and total assets of NGN 2.2 billion (central bank of Nigeria2008 bulletin)

UBAhas the largest distribution network in Nigeria with over 6.5 millioncustomers in personal, commercial and corporate market segments, it has over14,000 staff globally who are also referred to as a “lions and lioness”

Regionally,the group has a presence in 18 African countries and in all major financialcentres. The bank currently operate in Nigeria, Ghana, Ivory coast, Cameroon,Sierra Leone, Liberia, Uganda, Benin, Burkina Faso and, Senegal, and has unfoldedplans to expand its banking operations to 15 additional countries in African.

UBAis the only sub-Saharan Bank with dual presence in the U.S and the UK. It is underthe direction of its G.M.D/C.E.O; Phillip Oduza the management team of thegroup is made up of people with skills in various backgrounds as well as depthsof experience.

1.9Definition of Terms

1. **Currency Option**:currency option is an instrument that gives its buyers the right but not theobligation to buy (all options) or sell (put options) a certain quantity of aspecified foreign exchange at a specified rate of exchange (the exercise price)within a certain limited time or at the end of that time (C.R.A Olowe 1997)
2. **Currency Future**:these are form of forward contracts, which gives a fixed rate for securityprice or interest rate or exchange rate at future date.
3. **Hedging**:hedging occurs when an enterprise deliberately invest in an asset or grant loanto depreciate the rate of exchange. Hedging attempts to immunize an investmentfrom currency movements up and down.
4. **Currency Swap**:a swap is an instrument that combines a spot purchase (or sale) of foreigncurrency against a future sale (or purchase) of the same currency in effect, asoap

facilitates a temporary exchange currencies.

5. **Arbitrage**:this is a process of buying the money of one country in the foreign exchangemarket and selling it in another at a higher price

6. **Spot Transaction**:this is an agreement to deliver some amount of one currency in two businessdays.

7. **Pegged Exchanged Rate**:the official determined exchanged rate under fixed exchange rate

8. **Rate of Exchange:** thebasis upon which money of one country will be exchange for that of another.

9. **Currency Conversion**:it is the process of expressing or stating transaction or operation in foreigncurrency of one country to that of another using the rate ruling on thetransaction date or an agree rate.

10.**CurrencyTranslation:** it is the process of restatingaccounting balance of foreign currencies of one country using appropriate ratemethods

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