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Analysis of the Management of Foreign Exchange Risk by Nigerian Banks

Agu Fortune Nneka and Ozor Stella Nkiru

Department of Banking and Finance, Enugu State University of Science and Technology, Enugu, Nigeria.

ABSTRACT

The research examined the analysis of the management of foreign exchange risk by Nigerian banks. The objective of the study determine the various exchange risks which the treasury of banks are exposed to in its foreign exchange transactions and also investigate how these risks can be effectively managed by the banks. The findings of this study shows that risk management cannot be swept under the carpet, for it is one of the major catalysts to national development but they are means through which the risks can be averted. The research recommended among others that information technology should be imposed in the achievement of a sound policy in risk management and trading techniques. The study also recommends that the government should be consistent in all policies concerning foreign exchange.
Keywords: Foreign exchange, Banks, management and Economy.

INTRODUCTION

When we talk about the growth and development of a Nation's economy, hardly can there be any living soul that will not agree with me that spur catalysis is the Nations bank. Conventionally the banking system was focused on receipt of deposit from customers on demand. But today the banking system has transcended beyond that scope, the system now incorporate the performance of other auxiliary functions such as financial advising service, foreign exchange transaction of both domestic and international payment system.

Focusing on foreign exchange which is trading in foreign convertible currencies. It is an asset earned through export of goods and service as well as the flow of foreign investment, external grants and loans. A favorable nation having balance of trade will have a stock of foreign exchange from which it can meet up its financial obligation to the outside world including payment for goods and services and transfer. In fact a quantum of foreign exchange available at any point in time constitutes foreign exchange reserve which is mainly held by the apex bank [Central Bank of Nigeria (CBN)]. Whereby other banks in Nigeria such as Commercial, Merchant and other specialized banks make request for foreign exchange through bidding to satisfy their customers foreign exchange requirements.

The transaction in foreign exchange falls under the treasury of any legal bank. In treasury operation management, a sub-section of the unit is centered on treasury operation as a whole with a full range of services before cash management of which foreign exchange is among. Precisely the core of treasury function is to see that banks offer comprehensive range of service to enrich the customer relationship at any point in time. Being that treasury function cover a wider scope, it is undoubtedly subject to series of flaws that may hamper its ability to achieve the primary goals. In lieu of this view risk management cannot be swept under the carpet. The study delve into how the risk involve in foreign exchange can be effectively managed.

Definition of Foreign Exchange Risk

Foreign exchange risk or currency risk exposure as some authors prefer to call are risk associated with fluctuations in currencies. It has been defined severally by different authors. One thing that is glaring is the lack of consensus on what the term actually connote.

According to [1] foreign exchange risk can be defined as the potential transaction, translation gains and losses when foreign investment are valued in terms of the investors home currency.

[2] also advanced a simplistic definition when he defined foreign exchange risk as the variability in the value of the firm that is caused by certain exchange rate changes. [3] defined it as the appreciation or depreciation of currencies.

The risk can result from mismatch of maturity dates of the assets and liabilities of banks.

Why Banks Deals in Foreign Exchange

According to [4], there are three main reasons for dealing in foreign exchange.

1. To purchase goods and services from another country or to send gifts or investment income payments abroad.
2. To sell receivable or purchase payable, mostly in fulfillment of business commitment opposite customer.
3. To increase their service to their customers.

What Make Currencies to Fluctuate

A foreign exchange rate is a prices or a numerical expression of value of the currency of one country in terms of that of another country at any given time.

Most authorities believe that currencies movement is caused by some or all of the following factors which influence the demand and supply of each currency in the market.

1. Relative price levels and inflation rate
2. Relative economic growth
3. Relative interest rate especially in foreign traded money market like the Euro currency areas.
4. Relative change in the money supply in currency areas.
5. Interest rate
6. Interest by central bank etc.

The Effect of Effective Management in Foreign Exchange Risk

1. It helps to increase their profitability.
2. It helps the bank to render effective services to their customers.
3. It helps the bank to increase the bank portitles etc.

Research Questions

The following research questions will guide the study;

1. What are the various risks associated with foreign exchange?.
2. Are there any means through which these risks can be averted by banks?

Objectives of the Study

1. To determine the various exchange risks which the treasury of banks are exposed to in its foreign exchange transactions.
2. To investigate how these risks can be effectively managed by the banks.

Statement of Hypotheses

H0: There is no risk inherent in foreign exchange transactions.

H0: There is no means through which foreign exchange risk can be averted.

Scope of the Study

This study focused on the management of foreign exchange risk by Nigeria banks

REVIEW OF LITERATURE

Theoretical Literature

Risk Management Policy and Strategies

The fear of risk, the possibility of loss injury, damage perils or possibility that actual outcome of an investment decision will not be the same as the forecasted result is inevitable in life. No aspect of human endeavor is devoid of it or can escape it. It is inherent in everyday life and more so in life of a banker. The banker business has been and continues to be that of taking risks which he does though maturity transformation-borrowing short and lending long. One can infer that the basis for doing this is the probability that he will not be called upon any one time to redeem his entire obligation provided he managed his affairs prudently.

This implies having adequate capital and earning and adequate liquidity to honor his obligation as and when they fall due. In congruous it also means avoiding excessive risk. Risks that are taken must be compatible with profitability, liquidity and prudence [5].

Thus, if profitability is the foundation of banking then confidence is its cornerstone, if confidence collapse and or is shattered the whole edifice collapse and so will the bankers business. Managing risk just as managing capital and liquidity is therefore a core function of banking and thus has been increasingly seen in the banking business for decades. The risk inherent in foreign transaction is part of risk a banker faces in the 1950s attention was focused on techniques for the management of bank assets while the 1960s and 1970s emphasized liability management. However banking in 1980s and 1990s shitter attention to risk, how to measure risk, how to control it for the betterment of the industry and its customer [6].

Essentially the over-riding consideration of banking business is the necessity to minimize risk and maximize returns, consistent with the prudential constraints and regulations.

In reality the cardinal objective of a risk manager is to ensure that at the and of the day, he tries as much as possible to minimize his loss and maximize profit through efficient and effective management. [7] posit that foreign exchange risk is probably the most involved of the banking risks. The risks involved frequently not limited to losses due to unanticipated exchange rate changes.

As each bank has to be in a position to meets its own foreign currency demand on time, there is risk for dealing in the forward foreign exchange market. Since exchange rate movement correlate with movement in relative interest rate, a mismatched currency position and mismatched inherent position may frequently not be independent.

Accordingly, most of the instruments and techniques for addressing these other risk particularly the interest rate risk are frequently uses for managing foreign current exposure risk (CBN Renew 1991).

With the expansion of treasury business activities, the need to adequately manage the associated exposure is becoming increasingly important. Some treasury functions today have introduced and others are planning to introduce an overall exposure monitoring and management system, also to integrate balance sheet and off balance sheet business activities.

This is done by consolidating all information element relevant to risk and exposure offering a comprehensive view that facilitate control.

Why Hedge Foreign Exchange Risk

For some companies, managing foreign exchange my seem too complex, costly or time consuming. Others may not know about heading instrument and technique or believe that heading is a speculative activity. Yet companies that choose not to manage foreign exchange risk may be assign that exchange rate will remain at their present level or move in a directive that will be favorable to the company something that closely resembles speculation.

Numerous studies have found out that managing this risk can successfully reduce your companies foreign exchange exposure managing foreign exchange risk provide the following benefit to the bank.

- ❖ Minimize the effect of exchange rate movement on profit margins
- ❖ Increase the profitability of future cash flows.
- ❖ Eliminate the need to accurately forecast the future direction of exchange rate.
- ❖ Facilities the pricing of product sold on export
- ❖ Protect, temporally company's competitiveness if the value of Nigeria naira rises (thereby buying time for the bank to improve productivity).

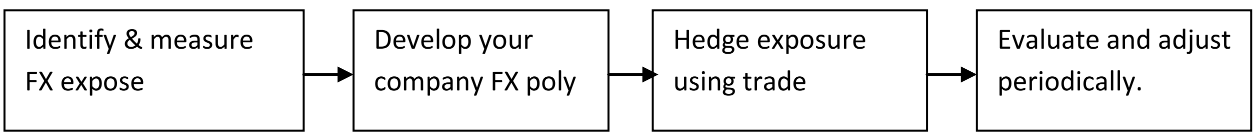
If a risk can be reduced to a reasonable cost, then it is generally accepted that steps should be taken by managers to protect their companies. The decision to purchase foreign exchange hedging instrument is similar to the one made when the company buys other forms of insurance.

The issued risk in the case is the reduction in caused by unfavorable change in an exchange rate. May firms do not hesitate to protest their account receivable from the risk of non-payment and all time obtain property and casualty insurance. They do so in order to protect cash flow and ensure that company's effort and talent are focused on its come business activities.

Many banks involved in international trade view foreign exchange risk managers this way.

Managing Foreign Exchange Risk

Managing foreign exchange risk is a four step process as illustrated below:-



STEP 1: **These Involve Identifying And Measuring Exchange Exposure That You Want To Manage**: As mentioned earlier, the focus for most companies is on transition risk. For an exporting companies paid in U.S. dollar measuring exposure involves subtracting the U.S. dollar it exports to receive over a one year period, for example against the money it will need in order to make payment in U.S. dollar over the same period. The different determine the exposure to be hedged. If your company already has U.S. dollar in the bank, subtract the account balance to determine the next exposure. Some banks only include confirmed transactions while others include both confirmed and forecasted foreign currency cash flow over the designated the period.

Once you have calculated your exposure you need to develop your company's foreign exchange policy.

STEP 2: Develop Your Companies Foreign Exchange Policy

This policy should be developed by the company senior management and usually provides detailed answers to such questions as:-

- ❖ When should foreign exchange exposure hedge?
- ❖ What tools and instrument can be used under what circumstances?
- ❖ Who is responsible for managing foreign exchange exposure?
- ❖ How will the performance of the banks hedging action be measured?
- ❖ What are the regular reporting requirements?

  The question of when to hedge is interesting. As it can be understood, transaction exposure begins much earlier than accounting exposure. A well pre-transaction exposure cannot be required as selling price, once quoted can rarely be changed in today global market place.

Therefore you most carefully assess when to start hedging your exposure.

STEP 3: Hedge Exposure Using Trade and The Techniques. This involves putting in place hedges that are consistent with your policy. For example you may want to increase the value of raw materials imported from other countries to partly offset the exposure created by sales of other currency to buyers alternatively, you may put in place basic financial hedges with a foreign exchange broker. The most commonly used financial hedges are discussed further below.

STEP 4: Evaluate and Adjust Periodically
This requires that you periodically measure whether the hedges are effectively reducing your company's exposure. Establishing clear objective and benchmark will help facilitate this evaluation. It will also alleviate the fear of those responsible for implementing the policy that they have somehow failed if the exchange rate moves in the companies favor and the hedges they put in place prevent the company from benefiting from the move.

Common Techniques and Instrument
There are two methods that companies can use to manage foreign exchange risk natural hedging and financial hedging. Many companies use both methods.

Natural Hedging: The objective of natural hedging is to reduce the different between receipts and payment in a given foreign currency. For example a Nigeria manufacturer exports to the United State and expect to collect 5 million over the next year. If it expects to make payment of US$ 500,000 during that time, the company forecasted exposure to the U.S. Dollar is US$4.5 millions (assign it holds no U.S dollar in a bank account at present. Natural hedging can be effective at reducing a company's foreign exchange risk but it can take time to implement natural hedging (e.g. finding new suppliers in another country) and this solutions often constitute long-term commitments (e.g. borrowing in U.S dollar).

Financial Hedging
The other method involves buying foreign exchange hedging instrument that are typically sold by foreign exchange broker. The ones most commonly used are foreign exchange forward contract currency options and swaps.

Forward contract: This allows a company to set the exchange rate at which it will buy or sell a given quantity of foreign currency in the further (on either a fixed rate or during a fixed period of time). They are flexible instrument that can easily match future transaction exposure (generally up to one year). For example if a bank expect to have over the coming year a foreign exchange exposure where it receives US$350,000 more than it need to pay every month, it can enter into a series of forward contract to sell at a predetermined exchange rate, this (or a lower amount) of US dollars each month. By entering into this forward contract, the company will have eliminated all or most of the transaction exposure it faces.
Forward contract are easy to use and carry no purchase price which makes them very popular with banks in Nigeria. However you do have a contractual commitment to deliver to (or purchase firm) a broker a focused quality of foreign exchange at a future data if you don't, then the forward contract could be determined or extended which could carry a price tag for your company (bank). This last point is important because it explains why banks and brokers set limit on the maximum amount that a company can hedge using forward contract.
It also serves to explain why collateral is often required when you buy a forward contract. If you buy from a commercial bank, the collateral required is usually a reduction in the amount that you can draw under your line of credit.

Currency Option: These are other tools that can be used to mitigate transaction exposure. Standard options give a company the right, but not the obligation to buy or sell foreign exchange in the future at a predetermined exchange rate. Because these options do not oblige the company to sell or buy foreign currency (contrary to forward contract) they are offer used by companies that bid on contract. Currency option allow companies to benefit from favorable movement in exchange rates, which is highly most types of currency options carry an upfront cost.

For example, a company has purchase an option giving it the right to sell US. Dollar at an exchange rate of 0.96351 USD/N. naira six months from now. If at that time the exchange rate is 0.9170 USD/Naira then the company what exercises its right to sell its U.S dollar at 0.96351 USD/N. Naira. If however the exchange rate is 0.98551 USD/N. Naira, then the company will exercise its right to sell US dollar at a rate of 0.96351 USD/N. Naira.

The perceived complexity of currency option and the fact that most of them carry a purchased price has limited their use by Nigerians banks.

Yet basic options are not difficult to understand and some of them commonly called Zero-cost collars, or participating forward, cost nothing to purchase (some collateral may be required).

The principles behind this free option are simple. In return for accepting some downside risk (i.e. an unfavorable change in the exchange rate) your company will be able to benefit from some favorable movement in the rate of exchange.

Swap: This involves the simultaneous selling and buying (or buying and selling) of foreign currency, can help firm match receipts and payment in a foreign currency. Swap is simply a combination of a spot transaction (purchase or sale of foreign currency for delivery within 24-48 hours) and a forward contract. There are no direct costs associated with the purchase of swaps (some collateral may need to be posted). Swap is extensively used by Nigeria companies for cash management purchase. They are also regularly used by hedge firms that borrow in foreign currencies.

Risk Inherent In Foreign Exchange and Dealings

According to [8]. The increase globalization of foreign exchange with its risk of contagion. The term "contagion refers to the risk one nations economics difficulties or problems affecting the other country or countries by transferring into another country or other countries, thereby transferring into global recession. Relatively small countries such as Greece, Bosnia, and Argentina etc may ignite international financial panic because of their own debt defaults and devalued currencies. Crisis ensues when investors fear that financial obligation will not be honored by the trading partners.

Currency Risk

Currency exchange risk is the exposure of an institution to the potential impact of movement in foreign exchange rate. Foreign exchange risks are risk arising from either payments or receipts of foreign exchange. Friedman et.al (1993) defined currency risk or exchange rate risk as a form of risk that arises from the potential change in the exchange rate of one currency against another.

The risk is that adverse fluctuation in exchange rate may result in a loss in Tanzania dollar in them of Nigeria naira. Suffice it to note that foreign investment involves additional risk which includes:-

1. currency fluctuation and
2. political uncertainty

Foreign exchange risk arises from two main factors namely,

a. Currency mismatches in an institution assist and liabilities that are not subject to any fixed exchange rate vis-à-vis other currencies.
b. The frequency and direction of rate of change.

Types of Currency Risk

There are basically two types of currency risk namely, transaction risk and translation risk. Let's discuss them briefly.

Transaction Risk
This is the types of currency risk that indicates that an exchange rate will change unfavorably overtime. It is associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract the greater the transaction risk. This is so because there is more time for the two exchange rates to fluctuate.

Translation Risk
This is an accounting concept which is proportional to the amount of assets held in foreign currencies. Changes in the exchange rate over time will render a report in accurate and so assets are usually balanced by borrowing in that currency.

Tools for Managing Currency Risk
Various tools or strategies for managing foreign currency risk abound, but we are concerned with only three thus:

a. **Risk Avoidance:** This is a tool of foreign exchange risk management whereby an investor tries to dodge or avert risk by withdrawing his investment for fear of encountering loss.
b. **Forecasting**: This is an effective strategy of foreign exchange risk management whereby an investor anticipate that a particular currency will appreciate in value in future, hence he buys such currency sell same at a profit when the rate appreciate as forecasted.
c. **Spot Translation:** This is a technique to minimize risks when applied correctly. Foreign exchange can be regarded as the life wire of national economic growth and development but its risk is impendent to foreign exchange performance. A higher majority opinion is formed that foreign exchange risk are determine to foreign exchange performance while may reduce returns.

How to Avoid Currency Risk
One of the most effective ways of avoiding foreign exchange risk is to enter forward market. A foreign exchange investor who wants to avoid risk may enter the forward exchange market.
As long as the return from oversees investment is greater than the domestics return one would sell forward pound (or whichever currency in question). Only when the forward transaction is made the risk can be avoided. However avoiding the foreign exchange risk may be too costly, in which case it is not profitable to avoid the risk knowing fully well that in every investment, the higher the risk the higher the expected return, a prudent foreign exchange investor should be the last to dodge risk rather he should manage the risk.
The international monetary system refer primarily to the set policies, institutions, practices, regulations and mechanisms that determine the rate at which each currency is exchange for another [6]. Trading of currencies, international trade and investment. If there were a single international currency there would be no need for foreign exchange market. The purpose of foreign exchange is to enhance transfer of purchasing power dominated in one currency for another currency.
The foreign exchange market is not a physical place rather it is a electronically linked network of banks. Foreign exchange brokers and dealers whose functions are to bring together buyers and sellers of foreign exchange. It is not confined to any one country but is dispersed throughout the leading financial center of the world (Shapiro 1991). Foreign exchange market consist of two tiers, the interbank market in which major banks trade with each other and the retail market in which banks deals with their commercial customers [4].
The major participants in the foreign exchange market are the large commercial banks foreign exchange brokers in the interbank market, commercial customers primarily Multi-national Corporation and

central Bank which intervene from time to time in the market to smoothen exchange rates. Exchange rate represents the number of unit of a given currency of one country that can be exchanged for unit of another currency [7].

Today foreign exchange has been the talk of the town and this is because foreign exchange plays a very crucial role in the overall performance of the national economy.

The practice of managing foreign exchange resources has therefore evolved broadly in line with the globalization and liberalization of economics and financial market. This has played over such areas as risk management and active portfolio management. Broadly speaking foreign exchange is held and managed to facilitate international transactions. [3].

Consequently, some of the objectives which management of foreign exchange reserve seeks to achieve include security, liquidity, profitability and adequacy of the reserve.

Empirical Literature

[5] was of the opinion that foreign exchange major tasks is to ensure that the reserve maintained at an adequate level to serve as cushion or buffer at times of temporary foreign short falls in foreign exchange receipt. In fact such a respite enables country to put its house in order and adopt necessary measure to deal with the external shock destabilizing the economy [4]. According to [2] the main objective which management of foreign reserve seeks to achieve includes security, liquidity, profitability and adequacy of the reserves. The security have is referring to the issue of risk. The fear of risk which entails the possibility of loss, injury damage perils or possibility of outcome of an investment decision will not be same as the forecasted results is inevitable in life. There is no aspect of Human endeavor that is devoid of risk or can escape it. As a product financier, you should identify foreign exchange, before making financial decision. But never have you forgotten that the higher the risk the higher expected returns and vis versa.

According to a Canadian companies that sell their goods and services internationally and get paid in a foreign currency, foreign exchange risk is the likelihood that a change in exchange rates will results in the company receiving a lower amount of Canadian dollar, that originally anticipated for Canadian companies that import and pay suppliers in foreign According to a Canadian companies that sell their goods and services internationally and get paid in a foreign currency, foreign exchange risk is the likelihood that a change in exchange rates will results in the company receiving a lower amount of Canadian dollar, that originally anticipated for Canadian companies that import and pay suppliers in foreign currency, it is the likelihood that a change in exchange rate will mean the company has to pay more than planned. This form of foreign exchange exposure, which impact the cash flow of the company is commonly referred to as "transaction exposure other forms of exposure also exist such as accounting exposure and economic exposure. Accounting exposure applied when assets and liabilities dominated in a foreign currency need to be converted into a local currency for accounting purpose. The conversion normally results in foreign exchange gains or losses. This is of particular concern to Canadian companies that have foreign subsidiaries, but can also impact companies that export and import economics exposure relations to the overall impact that only sell domestically can also face economic exposure when for example the Nigeria naira strengthens and improves the competitive position of foreign producers.

For most bank, managing foreign exchange risk center on how to militate transaction exposure. It is against this backdrop that this study tends to study the management of foreign exchange risk by Nigerian banks.

Research Design

Primary and secondary sources of data collection will be adopted for this study.

Method of Data Collection

A questionnaire will be printed for the study. An appeal will be made to the respondents to answer the question independently to collect guideline and accurate information.

Method of Data Analysis

A simple distribution table and percentage will be used to perform data analysis.

Chi-square (x2) is used to test the hypothesis formulated in chapter one of this study. The formula is given below

$$X2\ s = \frac{n(OI - E1)^{\ \ 2}}{E\ I}$$

Where

X^2 = Chi square

0i = Observation frequency

DATA PRESENTATION AND ANALYSIS

Presentation of Data

A total number of ninety two (92) copies of questionnaire were distributed to the studied population in all eight four (84) copies were returned. Therefore, the analysis was based on these 84.

Table 1:Distribution of Table for the Usurped and Returned Questionnaire

Bank	Questionnaire distributed	Returned	%	Not Returned	%	Total	%
Fidelity	42	39	42	3	3.3	42	45.3
First Bank	50	45	49	5	5.4	50	54.4
Total	92	84	91	8	9	92	100

Source: field survey 2019

The table 1 above shows that a total number of ninety two (92) copies of questionnaire we distributed in all 84 selected banks. 91% were returned while 8 or 9% was not returned.

Analysis of Research Question:

Are risk associated with foreign exchange?:

Table 2

Response	Total	Percentage
Yes	44	52%
No	25	30%
No Idea	15	18%
Total	84	100%

Source: field survey, 2019

As it can be seen from the total above, number of respondents that said yes are 44 or 52%, 25 or 30% said no while 15 or 18% had no idea. Therefore, the respondent that says yes shows that there are risk associated with foreign exchange.

Research Question 2: Are there any means through which these risks can be averted?

Response	Total	Percentage
Yes	47	56%
No	24	29%
No Ideal	13	15%
Total	84	100%

Source: field survey, 2019.

As it can be seen from the table above 47 or 57% respondents said yes while 24 or 29% said no and13 or 15% has no ideal. Therefore the respondents that said yes shows that there are means through which this rise can be averted.

Hypothesis One:
Ho: There is no risk inherent in foreign exchange transaction.
Ho: There are rise inherent in foreign exchange transaction

Contingency Table

Categories	Response			
	Yes	No	No Idea	Total
Fidelity Bank	14	15	10	39
First Bank	30	10	5	45
Total	44	25	15	84
Percentage	52%	30%	18%	100%

These are the observed frequencies from questionnaires.

Hypothesis One:
Ho: There is no risk inherent in foreign exchange transaction.
Ho: There are risks inherent in foreign exchange transaction

Contingency Table

Categories	Response			
	Yes	No	No Idea	Total
Fidelity Bank	14	15	10	39
First Bank	30	10	5	45
Total	44	25	15	84
Percentage	52%	30%	18%	100%

These are the observed frequencies from questionnaires. Now we will get the expected frequency by multiply the Row total and the Column total and divide them by the overall total.

Expected frequency $= \frac{\text{Row total x Column total}}{\text{Over roll total}}$

CIRI $= \frac{39X\ 44}{84} = 20.43$

C2RI $= \frac{39X25}{84} = 11.61$

CIR2 $= \frac{45X\ 44}{84} = 23.57$

C3R2 $= \frac{45X\ 25}{84} = 13.\ 39$

C2R2 $\frac{45X\ 15}{84} = 8.\ 04$

Frequency Distribution Table for Hypothesis One

Response Fidelity Bank	0i	Ei	0i-Ei	$(0i\text{-}Ei)^2$	$\frac{(0i\text{-}Ei)^2}{Ei}$
Yes	14	20.43	6.43	4. 34	2.02
No	15	11. 16	3.39	11. 49	0.99
No Ideal	10	6. 96	3. 04	9. 24	1.33
First Bank Yes	30	23.57	6.34	4.34	1.75
No	10	13.39	3.39	11.49	0.86
No ideal	15	8.04	3.04	9.24	1.15
Total					8.1

Calculated value = 8.1
Critical value =
Degree of freedom = (R.1) (C-12)
= (2-1) (3-1) = (1) (2) = 2
Assuming a 95% significant level, level of error = 100-95 = 5% (0.05).
Critical value = 5.99 i.e. 2 under 5% in chi-square (X^2) table.

Decision Rule
Since the calculated value is greater than the critical value, then we accepted alternative hypothesis and rejected the null hypothesis. Therefore, there are risks inherent in foreign exchange.

Hypothesis 2
HO: there are no means through which foreign exchange can be averted.

Categories	Response			
	Yes	No	No ideal	Total
Fidelity bank	16	17	7	40
First bank	31	7	6	44
Total	47	24	13	84
Percentage	56%	29%	15%	100%

$$\text{EXPECTED FREQUENCY} = \frac{\text{Row total x column total}}{\text{Overall total}}$$

CIRI = $\frac{40X\ 47}{84}$ = 22.38

C2RI = $\frac{40X24}{84}$ = 11.43

C3R1 = $\frac{40\ X\ 44}{84}$ = 6.19

C1R2 = $\frac{44\ X\ 47}{84}$ = 24.62

C2R2 = $\frac{44\ X\ 24}{84}$ = 12. 57

C3R2 = $\frac{44\ X\ 13}{840}$ = 6. 57

Contingency distribution table for hypothesis

Response Fidelity Bank	0i	Ei	0i-Ei	$(0i\text{-}Ei)^2$	$\frac{(0i\text{-}Ei)^2}{Ei}$
Yes	16	22.38	-6.38	40.70	1.82
No	17	11.43	5.57	3.02	2.71
No idea	7	6.19	0.81	0.66	0.10
First bank					
Yes	31	24.62	6.38	40.70	1.65
No	7	12.57	5.57	31.62	2.47
No idea	6	6.81	0.81	0.66	0.10
Total					9.85

Calculated value = 9.85
Critical value
Degree of freedom (R-1) (C-R)
= (2-1) (3-1)
= (1) (2) = 2
Assuring a 95% significant level. Therefore level of error = 100-95 = 5% (0.05) using chi-square table, critical value will be 5.99 i.e. 2 under 5%.

Decision Rule
Since the calculated value is greater than the critical value, then we accepted the alternative hypothesis and rejected the null hypothesis.
Therefore, there are means through which foreign exchange risk can be averted.

CONCLUSION AND RECOMMENDATION

From the findings of this study it is obvious that risk management cannot be swept under the carpet, for it is one of the major catalysts to national development.

The research also reveals that the exposure to risk come from other adverse areas, such as avoidance of risk, forecasting in exchange rates movement and profit, spot transaction, protection against exchange rate fluctuation and effective and efficient use of risk trading.

Stringent control measures and administrative bottle neck of the Central Bank of Nigeria are considered as the major factor hindering the achievement of some exchange police.

In this study it was also found that many banks applies different measures in the management of their foreign exchange and that foreign exchange in banks is under the control and management of the treasury department of the bank through the risk manager.

RECOMMENDATIONS

Based on this study the following recommendations are made:

1. That information technology should be imposed in the achievement of a sound policy in risk management and trading techniques.
2. The government should be consistent in all policies concerning foreign exchange.
3. That government should try to have an efficient management of foreign exchange risk for national economic growth.
4. Government should put in place effective measures to arrest capital flight and attract foreign investment and capital inflow.

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