

FORWARD CONTRACT

MITIGATE FOREIGN EXCHANGE RISK

Conducting business globally may leave you exposed to currency and interest rate risk. A common example is the commitment to make or receive a foreign currency payment on a future date. One of the simplest methods of protecting your cost or profit is a forward contract.

PNC DELIVERS

PNC's team of experienced foreign exchange specialists can help you to effectively hedge foreign exchange risk through a forward contract, offering protection with no upfront premium cost.

WHAT IS A FORWARD CONTRACT?

A forward contract is a contractual obligation to buy from or sell to PNC a fixed amount of foreign currency on a future maturity date at a predetermined exchange rate. Forward prices are determined by an adjustment made to spot, based on the interest rate differential between two currencies (countries), otherwise known as forward points.

OVERVIEW OF A FORWARD CONTRACT

- Mitigate currency risk, as foreign exchange costs are determined upfront.
- Establish contracts to match your organization's cash flows — a requirement to qualify for hedge accounting treatment.
- Set up delivery dates to match your cash flows.
- Secure a contract in any freely convertible currency.

CONSIDERATIONS FOR USING A FORWARD CONTRACT

- You have no ability to participate in favorable rate movements.
- You should have firm commitments to hedge. Since a forward contract obligates you to transact, it should only be used in these types of situations.

WHO CAN BENEFIT FROM USING A FORWARD CONTRACT?

- Importers that purchase goods or services overseas and pay in a foreign currency
- Exporters that sell merchandise outside the United States and are paid in a foreign currency
- Organizations that receive foreign-denominated dividends or royalties
- Businesses that invest in foreign securities or make capital infusion payments and/or are involved in a foreign acquisition where the exchange of payment will not be in U.S. dollars

VARIATIONS OF FORWARD CONTRACTS

Forward contracts can be customized in a variety of ways. All forward contracts protect against adverse currency fluctuation by locking in an exchange rate. However, customized product structures provide for flexibility in timing and hedging opportunities.

- **Window forward** — Allows you to select a time frame (typically 30 days) during which you can draw down and make payment from an existing contract at the pre-agreed-upon exchange rate.
- **Non-deliverable forward** — Allows you to hedge foreign currency risk where no traditional forward market exists. It is a synthetic type of hedge that is net settled in U.S. dollars. No delivery of foreign currency will occur under this type of forward contract.

PNC'S FOREIGN EXCHANGE SALES AND TRADING DESKS

Atlanta: 1-855-852-4700

Charlotte: 1-855-543-4026

Chicago: 1-866-245-4696

Cleveland: 1-800-622-7400

Detroit: 1-800-362-1066

Indianapolis: 1-800-622-7410

Milwaukee: 1-844-290-1442

Philadelphia: 1-888-627-8703

Pittsburgh: 1-800-723-9106

Washington, D.C.: 1-877-856-6957



READY TO HELP

At PNC, we combine a wider range of financial resources with a deeper understanding of your business to help you achieve your goals. To learn more about how we can bring ideas, insight and solutions to you, please call PNC's Foreign Exchange group or visit pnc.com/fx.

The information contained herein ("Information") was produced by an employee of PNC Bank, National Association's ("PNC Bank") foreign exchange and derivative products group. Such Information is not a "research report" nor is it intended to constitute a "research report" (as defined by applicable regulations). The Information is of general market, economic, and political conditions or statistical summaries of financial data and is not an analysis of the price or market for any product or transaction. This document and the Information it contains is intended for informational purposes only, and should not be construed as legal, accounting, tax, trading or other professional advice. You should consult with your own independent advisors before taking any action based on the Information. Under no circumstances should the Information be considered trading advice or a recommendation or solicitation to buy or sell any products or services or a commitment to enter into any transaction. The Information is gathered from sources PNC Bank believes to be reliable and accurate at the time of publication and are subject to change without notice. PNC Bank makes no representations or warranties regarding the Information's accuracy, timeliness, or completeness. All performance, returns, prices or rates are for illustrative purposes only. Markets do and will change. Actual results will vary, and may be adversely affected by exchange rates, interest rates, or other factors.

PNC is a registered service mark of The PNC Financial Services Group, Inc. ("PNC"). Foreign exchange and derivative products are obligations of PNC Bank, Member FDIC and a wholly owned subsidiary of PNC. Foreign exchange and derivative products are not bank deposits and are not FDIC insured, nor are they insured or guaranteed by PNC Bank or any of its subsidiaries or affiliates.

©2017 The PNC Financial Services Group, Inc. All rights reserved.

CIB CM PDF 0816-0151-363601

pnc.com/fx

