INTERNATIONAL SERVICES

PARTICIPATING FORWARD CONTRACT

TAKE ADVANTAGE OF FAVORABLE CURRENCY RATE MOVEMENTS

Global business exposure may require you to hedge your currency risk, but you still want the opportunity to benefit from a favorable move in the currency markets. A participating forward contract may be the answer.

PNC DELIVERS

PNC's team of experienced foreign exchange specialists can help you take advantage of favorable currency rate movements, while helping to protect against unfavorable market moves. Through a participating forward contract, you get upside potential from favorable currency moves on a portion of your exposure, with protection against unfavorable currency fluctuations and usually no upfront premium.

WHAT IS A PARTICIPATING 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 rate prices are determined by an adjustment made to the spot, based on the interest rate differential between two currencies (countries), otherwise known as forward points.

Similar to a forward contract, a participating forward contract provides protection against an unfavorable currency fluctuation. However, priced at a hedge rate slightly worse than a forward rate, the participating forward allows some participation in favorable currency exchange rate movements.

The strategy involves buying one option (protection) and financing the premium associated with it by selling another option, typically on 50% of exposure.

OVERVIEW OF A PARTICIPATING FORWARD CONTRACT

- Usually structured with no upfront premium
- Provides protection (a cap or floor) against adverse currency movements
- Provides benefit from favorable currency moves on the participated portion of your exposure
- Participation level can be customized

CONSIDERATIONS FOR USING A PARTICIPATING FORWARD CONTRACT

- Cap (or floor) is less attractive than the forward rate
- Best utilized when a substantial favorable currency move is expected but otherwise carries a higher breakeven than a range forward contract

A range forward contract is similar to a participating forward contract and provides protection against unfavorable currency fluctuations, while allowing limited participation in favorable market movements up to a predetermined level or cap.

WHO CAN BENEFIT FROM USING A PARTICIPATING FORWARD CONTRACT?

- Importers looking to reduce the cost of foreign payables
- Exporters looking to stabilize the value of foreign currency receivables
- Businesses that need to protect their budget at a defined rate, while benefiting from favorable currency moves
- Businesses that need to accommodate different views on currency direction, yet still meet hedging requirements
- Businesses that want to take advantage of positive currency fluctuations usually with no upfront premium

EXAMPLES OF HOW A PARTICIPATING FORWARD CONTRACT WORKS

Your company protects against a strengthening euro by executing a participating forward contract with a 1.15 cap and a 50% participation level expiring June 29. If at expiry the EUR spot is:

- Above 1.15, you purchase 100% of your EUR at 1.15
- Below 1.15 (for example, 1.05), you purchase 50% of your EUR at 1.15 and the balance at 1.05, creating a blended rate of 1.10

PNC'S FOREIGN EXCHANGE SALES AND TRADING DESKS

Atlanta: 1-855-852-4700

Boston: 1-888-627-8703

Charlotte: 1-855-543-4026

Chicago: 1-866-245-4696

Cleveland: 1-800-622-7400

Dallas: 1-855-852-4700

Denver: 1-844-763-0006

Detroit: 1-800-362-1066

Houston: 1-713-345-1580

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 wide range of financial resources with a deep 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**.

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