

FEDERAL HOME LOAN BANK OF PITTSBURGH

Third Quarter

2002 FINANCIAL REPORT

To Our Stockholders

Your FHLBank posted net income of \$18.3 million for the third quarter of 2002, compared to a reported loss of \$7.6 million in the third quarter of 2001. This quarterly performance, though improved over first and second quarters of this year, continues to be hampered by two consequences of low interest rates. First, the historically low interest rate environment serves to reduce absolute net interest income. Second is the effect of fixed-rate debt issued to fund assets which have been prepaid. As assets turn over faster than debt, we experience a lingering effect of carrying the higher-cost debt on the balance sheet. This quarter's earnings also include an adverse FAS133-related effect of \$0.4 million, which is certainly modest compared to the adverse effect of approximately \$39.8 million in the third quarter of 2001. All of that said, Bank core earnings continue to provide for a dividend rate – currently 3.25% – which we believe compares favorably to alternative market investment yields.

As a cooperatively owned enterprise, your FHLBank continues to provide significant member value through attractively priced funding products. At September 30, 2002, direct loans to members increased to \$31.4 billion. Member-generated residential mortgage loans originated through the Mortgage Partnership Finance® Program also continued to increase, ending the third quarter at \$3.8 billion. We look forward to continued growth in this important, competitively priced outlet for members' fixed rate mortgage production.

Looking ahead, we remain on track to implement the Bank's Capital Plan on December 16, 2002. I hope you have had an opportunity to review the material we mailed to all member stockholder institutions in September, which contains important information about the Capital Plan implementation. We believe that the new structure, as envisioned under Gramm-Leach-Bliley, will further strengthen the FHLBank cooperative model. If you have any questions about this or any aspect of your FHLBank, please do not hesitate to call on us.



James D. Roy
President and Chief Executive Officer
November 15, 2002

Selected Financial Highlights

Unaudited (dollars in millions)	Third Quarter	
	2002	2001
Net Income - GAAP	\$ 18.3	\$ (7.6)
Net Income - pre-FAS133	18.7	32.2
Dividend rate paid	3.25%	6.75%
Earned dividend - pre-FAS133	3.93%	7.22%
Return on equity - GAAP	3.71%	(1.61)%
Return on equity - pre-FAS133	3.79%	6.77%
Return on assets - GAAP	0.16%	(0.07)%
Return on assets - pre-FAS133	0.16%	0.31%

Certain accounting entries required under Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS133), introduce earnings variability in the financial statements. Taken together, these entries result primarily from timing recognition differences that do not affect cash flow and will reverse if the associated derivative and hedged positions are maintained through contractual maturity. Furthermore, because FAS133 may only be applied prospectively, financial statements based on generally accepted accounting practices (GAAP) from years prior to 2001 are no longer readily comparable with those of current and future years.

To facilitate readers in more fully understanding the Bank's core performance and in making meaningful comparisons of results across time periods, management is providing supplemental financial information identified as "pre-FAS133" performance. This supplemental information presents the Bank's financial performance in amounts that differ from the results presented under GAAP. Although management believes these adjustments represent the most material effects and that this supplemental information may be useful to the reader, it is not intended to include all of the effects associated with FAS133. Readers are encouraged to use the GAAP statements in conjunction with this supplemental information in assessing the Bank's performance and condition.

This supplemental information is further defined in the Bank's annual report on pages 16-17.

Statement of Condition

(in thousands)	September 30, 2002 (Unaudited)	December 31, 2001 (Audited)	September 30, 2001 (Unaudited)
ASSETS			
Cash and due from banks	\$ 104,846	\$ 44,419	\$ 89,476
Loans to members	31,361,994	29,315,410	27,053,586
Interest-bearing deposits	1,329,170	1,187,749	1,101,586
Federal funds sold	1,764,000	1,127,000	3,025,000
Investments:			
Held-to-maturity securities	9,118,544	5,078,263	6,038,127
Available-for-sale securities	383,132	119,584	134,258
Securities held at fair value	1,463,089	3,551,292	2,652,932
Mortgage loans, net	3,824,623	1,838,465	2,051,747
Derivative asset	227,011	94,183	159,721
Other assets	574,858	557,791	606,422
Total assets	\$ 50,151,267	\$ 42,914,156	\$ 42,912,855
LIABILITIES			
Deposits and other borrowings	\$ 2,327,287	\$ 1,718,012	\$ 1,859,420
Consolidated obligations	43,841,932	38,270,470	37,887,023
Affordable Housing Program	27,112	39,932	40,032
Derivative liability	1,461,705	537,933	574,833
Other liabilities	387,171	369,754	623,772
Total liabilities	48,045,207	40,936,101	40,985,080
CAPITAL			
Capital stock outstanding (\$100 par)	2,039,725	1,889,422	1,844,390
Retained earnings	70,857	86,818	81,648
Accumulated comprehensive income	(4,522)	1,815	1,737
Total capital	2,106,060	1,978,055	1,927,775
Total liabilities and capital	\$ 50,151,267	\$ 42,914,156	\$ 42,912,855

At September 30, 2002, the Bank had commitments for loans to members of \$86.9 million, interest rate exchange agreements notional principal of \$55.3 billion and standby letters of credit of \$129.4 million.

These financial statements should be read in conjunction with the audited financial statements and the related notes for the year ended December 31, 2001. Certain amounts in these financial statements have been reclassified to conform with the current presentation.

On January 1, 2001, the Bank adopted SFAS133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS138. As a result, the Statement of Condition and Statement of Operations report derivatives and their hedging relationship at fair value. On January 1, 2001, the transition to SFAS133 was reported as an accounting change, and subsequent changes to fair value are reported in Other Income/Expense. Derivative asset and derivative liability reported on the Statement of Condition includes accrued interest.

2001 Audited Financials may be obtained at www.fblb-pgh.com or by calling the Marketing Department at 412-288-3427.

Statement of Operations

Unaudited (in thousands)	Quarter Ended		Year-to-Date Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Interest income:				
Loans to members	\$ 149,053	\$ 269,330	\$ 459,054	\$ 980,731
Interest-bearing deposits	5,858	13,832	17,042	31,192
Federal funds sold	4,551	9,355	14,231	88,223
Investments:				
Held-to-maturity securities	97,866	93,486	254,585	303,599
Available-for-sale securities	2,852	2,103	12,107	9,282
Securities held at fair value	11,421	34,313	64,255	91,163
Mortgage loans	34,163	33,659	92,330	101,512
Total interest income	305,764	456,078	913,604	1,605,702
Interest expense:				
Consolidated obligations	262,245	385,891	782,471	1,386,387
Deposits and other borrowings	11,667	16,573	32,594	52,741
Total interest expense	273,912	402,464	815,065	1,439,128
Net interest income	31,852	53,614	98,539	166,574
Other income/expense:				
Service fees	1,656	2,854	5,090	10,803
Other net (expense)/income	(769)	1,060	(806)	1,042
Net loss on derivatives and hedging activity	(7,937)	(84,186)	(33,802)	(85,200)
Net unrealized and realized gain on securities at fair value	9,770	28,160	9,341	38,139
Operating expense	(9,028)	(11,233)	(26,285)	(33,970)
OF and FHFB assessments	(622)	(659)	(2,042)	(1,883)
Affordable Housing Program	(2,034)	849	(4,084)	(7,064)
REFCORP assessment	(4,577)	1,908	(9,190)	(15,896)
Income before change in accounting principle	\$ 18,311	\$ (7,633)	\$ 36,761	\$ 72,545
Cumulative effect of change in accounting principle	-	-	-	(8,962)
Net income	\$ 18,311	\$ (7,633)	\$ 36,761	\$ 63,583

FINANCIAL RATIOS

Net interest margin	0.28%	0.52%	0.30%	0.55%
Return on average equity	3.71%	-1.61%	2.45%	4.37%
Return on average assets	0.16%	-0.07%	0.11%	0.21%
Equity-to-assets (period end)	4.20%	4.49%	4.20%	4.49%

Board of Directors

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LLC

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Summit Financial Group, Inc.

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Laurel Savings Bank

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