

Federal Home Loan Bank of Pittsburgh Second Quarter 2018 Member Conference Call

July 31, 2018, at 9 a.m. ET

WINTHROP WATSON

Good morning and thanks for attending our quarterly member call. I'm joined by Ted Weller, our Chief Accounting Officer.

This morning, Ted will discuss our financial results, and then I will provide a few Bank updates and open the line for questions or comments. Our remarks will be accompanied by slides. If you cannot access the slides, please email "I-R at F-H-L-B hyphen P-G-H dot com" right now and we'll forward them to you.

As always, please note that elements of this call are forward-looking, based on our view of broad housing, financial and other market conditions, and our business as we see it today. These elements can change due to changes in our business environment or in market conditions. Please interpret them in that light. Also note that a transcript of this call will be available on our website by tomorrow morning.

Last week's earnings release included the following highlights for the second quarter of 2018: net income of \$91.6 million, net interest income of \$117.1 million, advances at \$76.3 billion, and letters of credit at \$18.6 billion and retained earnings at \$1.2 billion.

The Board declared quarterly dividends of 6.75 percent annualized on activity stock and 3.50 percent annualized on membership stock. These dividends were paid on July 27.

The second quarter was another good one for the Bank. We are pleased by our solid, consistent performance, which enables us to achieve our mission every day. To review our financial performance in more detail, I'd like to turn the call over to Ted Weller, our Chief Accounting Officer. Ted...

TED WELLER

Thanks, Winthrop, and good morning. I am glad to be with you today to provide an overview of our financial results and the key drivers behind them. Please note the disclaimer language contained on slide 2.

Moving to slide 3 of the presentation – The Bank recorded net income of \$170.5 million for the first six months of 2018 compared to \$174.8 million in 2017. This decrease was primarily driven by lower other noninterest income, partially offset by higher net interest income.

Other noninterest income was \$9.3 million in the first six months of 2018, down \$10.4 million compared to the first six months of 2017. The decrease was primarily due to mark-to-market adjustments to derivatives

Financial Highlights – Statement of Income

<i>(in millions)</i>	Six months ended June 30,		Over/ (Under)
	2018	2017	
Net interest income	\$ 226.7	\$ 218.7	\$ 8.0
Provision (benefit) for credit losses	2.8	(0.1)	2.9
Other noninterest income	9.3	19.7	(10.4)
Other expense	43.7	44.2	(0.5)
Income before assessment	189.5	194.3	(4.8)
Affordable Housing Program (AHP) assessment	19.0	19.5	(0.5)
Net income	<u>\$ 170.5</u>	<u>\$ 174.8</u>	<u>\$ (4.3)</u>
Net interest margin (bps)	48	46	2

and trading securities, which netted to a \$3.2 million loss in 2018 compared to a \$7.7 million gain in 2017.

For the first six months of 2018, net interest income was \$226.7 million, an increase of \$8.0 million compared to \$218.7 million for 2017. The year-over-year increase was primarily due to higher interest rates. The net interest margin increased 2 basis points.

These results allowed the Bank to set aside \$19.0 million for affordable housing programs.

Please turn to the next slide. Total average assets for 2018 were \$96.2 billion, down \$0.6 billion or 1 percent from 2017 primarily due to advance maturities. Average advances were \$72.1 billion in 2018, a decrease of \$1.4 billion or 2 percent from 2017. At June 30, 2018, total advances were \$76.3 billion, up 3 percent from \$74.3 billion at December 31, 2017. It is common for the Bank to experience fluctuation in the overall advance portfolio driven primarily by changes in member needs.

Retained earnings at June 30, 2018, totaled \$1.2 billion, an increase of \$58 million from December 31, 2017, reflecting earnings for the first six months of 2018 less dividends paid.

Please turn to slide 5. This slide provides a summary of the Bank's capital requirements. At June 30, 2018, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement. Also at June 30, 2018, the ratio of Market Value of Equity to Capital Stock was 136.1 percent, relatively unchanged from 136.3 percent at year-end 2017.

This concludes my presentation, and I will now turn the call back to Winthrop.

WINTHROP WATSON

Thanks, Ted. Our results were strong for the first six months of the year and reflect the value the Bank continues to provide to its membership. The results of our 2018 member survey confirm this, as we received excellent results from you, including some of the highest ratings ever in the history of the survey. The Bank's responsiveness, performance, customer service and value continue to be highly rated, as is the ease of doing business with us. We appreciate the feedback and look forward to finding more ways to partner with you.

I'd like to provide three updates on your community dividends – the FHLBank products available to help you invest in your local community.

Financial Highlights – Selected Balance Sheet

<i>(in millions)</i>	Six months ended June 30,		Over/(Under)	
	<u>2018</u>	<u>2017</u>	<u>Amount</u>	<u>Percent</u>
<u>Average:</u>				
Total assets	\$ 96,162	\$ 96,721	\$ (559)	(1) %
Advances	72,119	73,472	(1,353)	(2)
Total investments	19,229	18,482	747	4

<i>(in millions)</i>	June 30,	Dec 31,	Over/(Under)	
	<u>2018</u>	<u>2017</u>	<u>Amount</u>	<u>Percent</u>
<u>Spot:</u>				
Advances	\$ 76,340	\$ 74,280	\$ 2,060	3 %
Capital stock	3,951	3,659	292	8
Retained earnings	1,216	1,158	58	5

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Capital Requirements

<i>(in millions)</i>	June 30, <u>2018</u>	Dec 31, <u>2017</u>
Permanent capital	\$ 5,171	\$ 4,822
Excess permanent capital over RBC requirement	\$ 3,820	\$ 3,770
Regulatory capital ratio (4% minimum)	5.1%	4.8%
Leverage ratio (5% minimum)	7.6%	7.3%
Market value/capital stock (MV/CS)	136.1%	136.3%

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First, our small business lending program, Banking On Business, and first-time homebuyer program, First Front Door, completed successful funding rounds this month. Our members were able to assist more than 70 small businesses and 2,300 first-time homebuyers this year. We can all be proud of these fantastic results.

Second, we recently launched Home4Good, a new community product that offers grants to combat homelessness in our region. More than \$7 million is available in 2018 through funding provided by the Bank and our partner state housing finance agencies. Ask your Business Development Manager about ways you can get involved.

Finally, our 2018 Affordable Housing Program round is currently open, with approximately \$30 million available to help members support housing in their communities. Applications are due August 9. I want to thank all of you who provided comments regarding the amendments to the Affordable Housing Program regulation that the FHFA proposed earlier this year. Your opinions are important to helping position the program for the future.

I have two housekeeping items to mention before we open the lines for your questions:

One is an update on this year's Director election. The nomination period closed last Friday, and the election site is scheduled to open in early October.

The second is a reminder that Term-Out Tuesdays are back every Tuesday through August 21. Contact your Business Development Manager for additional details, as now may be a good time to consider extending liabilities to counterbalance the risk of rising rates.

I'd like to thank everyone for attending today's call and your continuing business and support. Please enjoy the rest of your day.



Winthrop Watson
President and
Chief Executive Officer



Edward V. Weller
Chief Accounting Officer

Statements contained in this document, including statements describing the objectives, projections, estimates, or predictions of the future of the Federal Home Loan Bank of Pittsburgh (the Bank), may be "forward-looking statements." These statements may use forward-looking terms, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or their negatives or other variations on these terms. The Bank cautions that, by their nature, forward-looking statements involve risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: economic and market conditions, including, but not limited to, real estate, credit and mortgage markets; volatility of market prices, rates, and indices related to financial instruments; political, legislative, regulatory, litigation, or judicial events or actions; changes in assumptions used in the other-than-temporary impairment (OTTI) process; risks related to mortgage-backed securities; changes in the assumptions used in the allowance for credit losses; changes in the Bank's capital structure; changes in the Bank's capital requirements; membership changes; changes in the demand by Bank members for Bank advances; an increase in advances' prepayments; competitive forces, including the availability of other sources of funding for Bank members; changes in investor demand for consolidated obligations and/or the terms of interest rate exchange agreements and similar agreements; changes in the Federal Home Loan Bank (FHLBank) System's debt rating or the Bank's rating; the ability of the Bank to introduce new products and services to meet market demand and to manage successfully the risks associated with new products and services; the ability of each of the other FHLBanks to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which the Bank has joint and several liability; applicable Bank policy requirements for retained earnings and the ratio of the market value of equity to par value of capital stock; the Bank's ability to maintain adequate capital levels (including meeting applicable regulatory capital requirements); business and capital plan adjustments and amendments; technology and cyber-security risks; and timing and volume of market activity. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. FHLBank Pittsburgh does not undertake to update any forward-looking statements made in this announcement.



601 Grant Street
Pittsburgh, PA 15219

www.fhlb-pgh.com