Federal Home Loan Bank of Pittsburgh Year-end and Fourth Quarter 2018 Member Conference Call

February 27, 2019, at 9 a.m. ET

WINTHROP WATSON

Good morning, and thanks for attending our quarterly member call. I'm joined by Kris Williams, our Chief Operating Officer, and Ted Weller, our Chief Accounting Officer. This morning we'll discuss the Bank's full-year 2018 performance, which was very strong.

First, Ted will review our financial results. Then I'd like to address what drives both the performance and the purpose of our Bank. Next, Kris will provide a membership update. Finally, we'll open the call to any questions or comments you may have.

Our remarks will be accompanied by slides. If you cannot access the slides for any reason, please email "IR at f-h-l-b hyphen p-g-h dot com" 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:

- Net income of $347.2 million for 2018, the highest in the Bank's 86-year history
- Advances at $82.5 billion, the highest ever
- Retained earnings of $1.3 billion, also a Bank record
- And an allocation of $38.7 million for affordable housing programs, which represent the largest allocation in our history

The Board declared quarterly dividends of 7.75 percent annualized on activity stock and 4.5 percent annualized on membership stock. These dividends were paid on February 22.

2018 was a record year in almost every conceivable way, surpassing our results from 2017, which was in itself a record year of earnings. These results demonstrate the solid, consistent performance that enables us to achieve our mission every day. That performance wouldn't be possible without the ongoing support and partnership of our members. And for that partnership, we are incredibly grateful.

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'm glad to be with you today to provide an overview of our financial results and key drivers behind them.

Please note the disclaimer language contained on slide 4.

Moving to slide 5 of my presentation –

The Bank recorded net income of $347.2 million for 2018 compared to $339.6 million in 2017. This increase was primarily driven by higher net interest income, partially offset by lower other noninterest income.

Net interest income was $470.1 million, an increase of $34.6 million compared to $435.5 million in 2017. The year-over-year increase was primarily due to higher interest rates.

The net interest margin increased three basis points.

Other noninterest income was $11.0 million for 2018, down $21.2 million compared to 2017. The decrease was primarily due to mark-to-market adjustments to derivatives and trading securities, which netted to a $14.2 million loss in 2018 compared to a $7.3 million gain in 2017.

These results allowed the Bank to allocate $38.7 million for affordable housing programs.

Financial Highlights – Statement of Income

(in millions)	Year ended December 31, 2018	Year ended December 31, 2017	Over/ (Under)
Net interest income	$ 470.1	$ 435.5	$ 34.6
Provision for credit losses	3.1	0.2	2.9
Other noninterest income	11.0	32.2	(21.2)
Other expense	92.1	90.1	2.0
Income before assessment	385.9	377.4	8.5
Affordable Housing Program (AHP) assessment	38.7	37.8	0.9
Net income	$ 347.2	$ 339.6	$ 7.6
Net interest margin (bps)	49	46	3

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Please turn to the next slide.

Total average assets were $96.6 billion and average advances were $72.4 billion in 2018, relatively unchanged from 2017.

At December 31, 2018, total advances were $82.5 billion, up 11 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 December 31, 2018, totaled $1.3 billion, an increase of $118 million from December 31, 2017, reflecting earnings for 2018 less dividends paid.

Financial Highlights – Selected Balance Sheet

(in millions)	Year Ended December 31, 2018	Year Ended December 31, 2017	Over/(Under) Amount	Over/(Under) Percent
Average:				
Total assets	$ 96,618	$ 96,800	$ (182)	- %
Advances	72,374	72,472	(98)	-
Total investments	19,233	19,397	(164)	(1)

(in millions)	As of December 31, 2018	As of December 31, 2017	Over/(Under) Amount	Over/(Under) Percent
Spot:				
Advances	$ 82,476	$ 74,280	$ 8,196	11 %
Capital stock	4,027	3,659	368	10
Retained earnings	1,276	1,158	118	10

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Please turn to slide 7.

This slide provides a summary of the Bank's capital requirements.

At December 31, 2018, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also at December 31, 2018, the ratio of Market Value of Equity to Capital Stock was 134.0 percent; down slightly from 136.3 percent at year-end 2017. The decrease was primarily due to the increase in capital stock as a result of higher advances, which was partially offset by the growth in retained earnings.

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

Capital Requirements

	2018	2017
Permanent capital	$ 5,327	$ 4,822
Excess permanent capital over RBC requirement	$ 4,089	$ 3,770
Regulatory capital ratio (4% minimum)	5.0%	4.8%
Leverage ratio (5% minimum)	7.4%	7.3%
Market value/capital stock (MV/CS)	134.0%	136.3%

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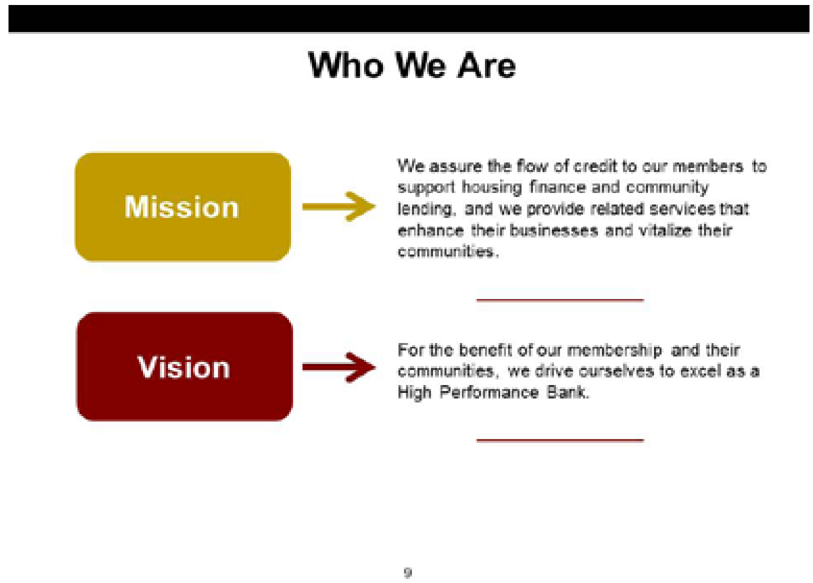
WINTHROP:

Thanks, Ted. There's no question that 2018 will be remembered as a year of strength and success for the cooperative. That success is largely due to the activity of our members. In reflecting on the results the Bank has generated this past year, and over the course of the last several years, I would like to take a moment to talk about what truly drives both our performance and purpose as an organization.

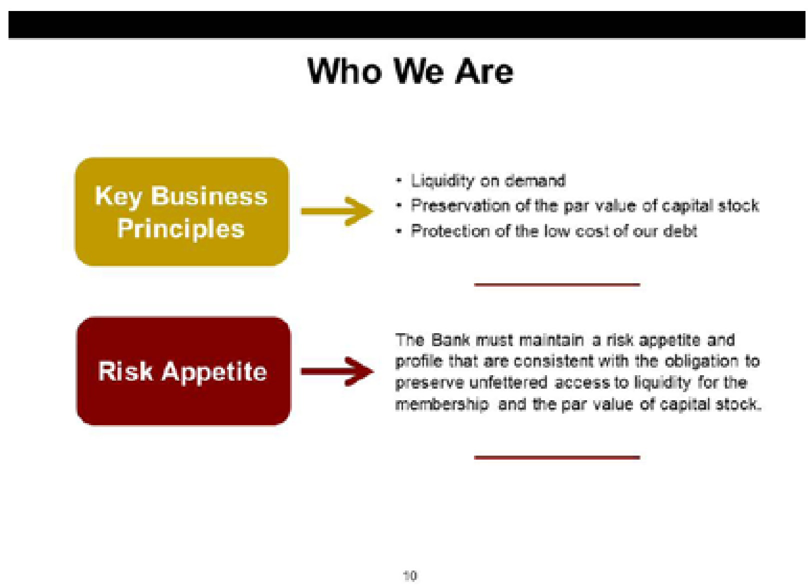
First of all, our mission – the reason we exist – is to assure that you have the liquidity you need to effectively manage your business and to support the housing finance and community lending activities that are so essential to economic growth and community well-being. Our vision is to drive ourselves to excel as a High Performance Bank for the benefit of our membership and their communities.



In striving to achieve this fundamental purpose, there are three key business principles that we adhere to:

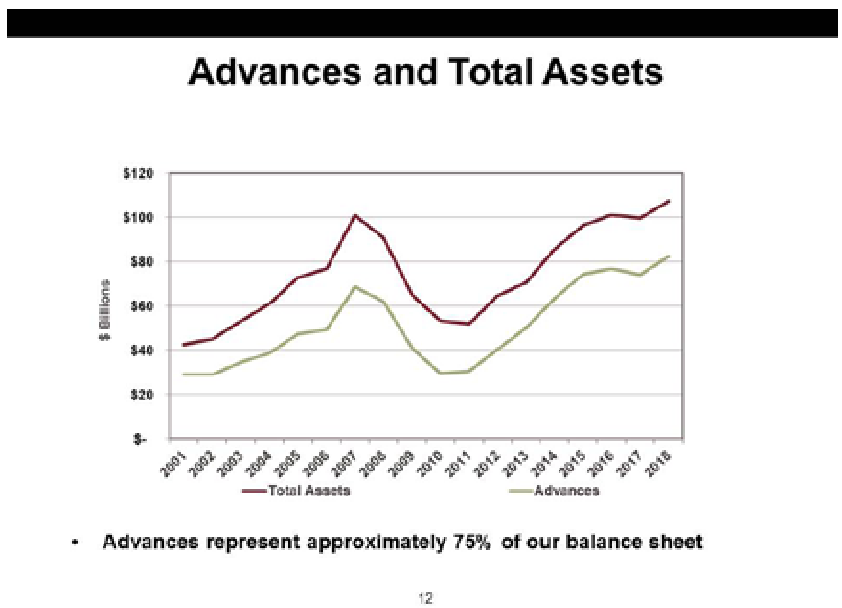
- First . . . ensuring that liquidity is available on-demand for our membership
- Second . . . preserving the par value of our capital stock
- And third . . . protecting the low cost of our debt

We accomplish these objectives by maintaining a constant focus on all the risk elements that affect our business. Our responsibility is to ensure that we maintain an appropriate risk appetite across our organization.

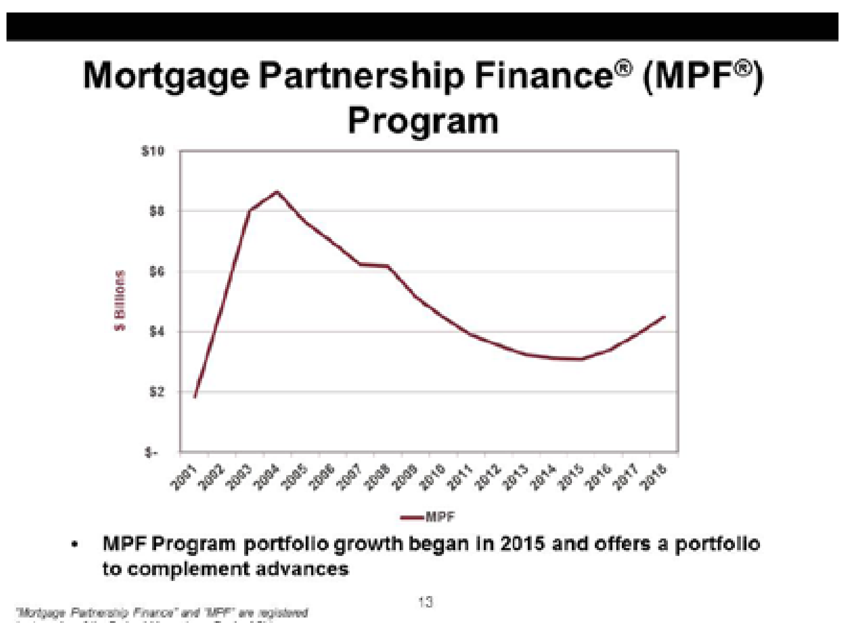


The feedback and survey results we receive from our members highlight the importance of key concepts like liquidity, partnership, community and dividends. These are the terms that our members use to characterize their experience with the Bank. So there is real alignment between our core purpose and principles, how we serve our members and how that service is perceived.

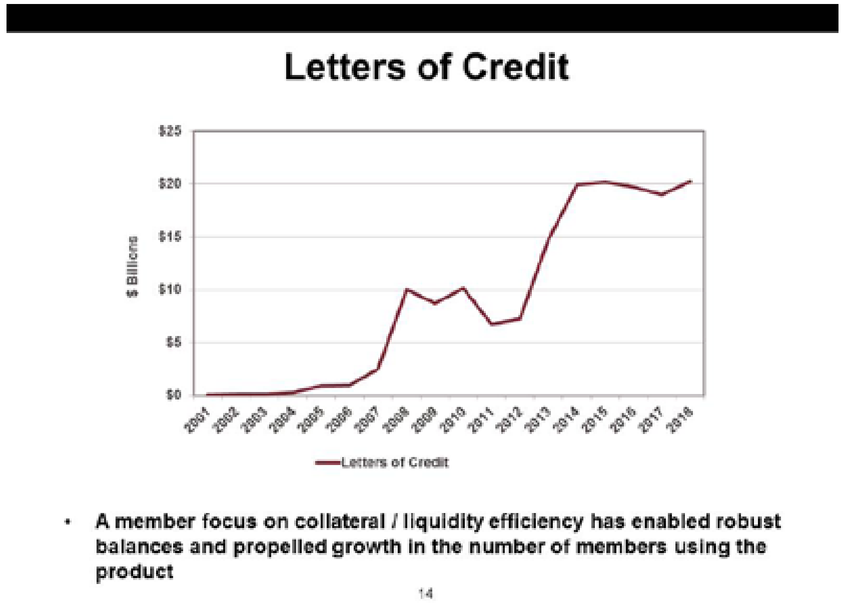
With liquidity at the heart of why we exist, advances are our primary product, and make up approximately 75 percent of our balance sheet. As we noted earlier in the call, 2018 saw our highest advance levels ever, at more than $82 billion. If you look back to 2010 or earlier, advances have been as low as $30 billion. So you can see that advances expand and contract as our members need them.



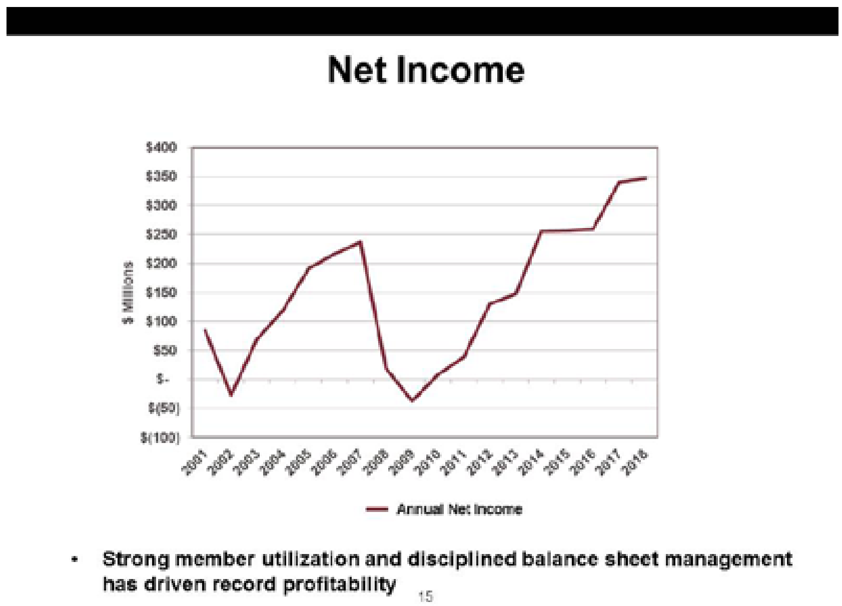
While advances go up and down, a more stable source of member activity is the MPF Program. MPF offers members liquidity on their 30-year residential mortgages. MPF represents about 5 percent of our balance sheet, but it provides a consistent income stream that complements our advance activity. And we've seen steady growth in the MPF Program since 2015.



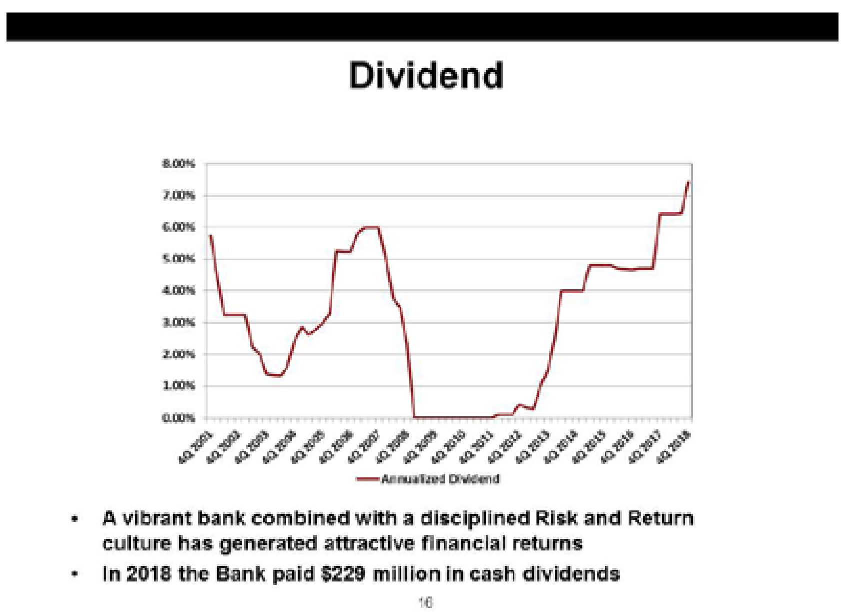
Our members can find value in yet another source of liquidity as well . . . our letter of credit product. This product is designed to secure public unit deposits and eliminate pledging of our members' investment securities. Our Business Development Managers have focused on the fundamental needs of our members and have prioritized identifying opportunities where members can take full advantage of the benefits of this product.



Strong member utilization across our entire product portfolio, coupled with disciplined balance sheet management, has driven profitability. As we discussed earlier, net income in 2018 was the highest in the Bank's history. This performance allows us to pay strong dividends and to make significant investments in our communities.



Slide 16 illustrates how our members benefit from the performance we have generated. Whenever possible, our Board and management seek to return a substantial portion of our earnings to our members, while also maintaining a prudent capitalization to preserve the par value of member stock. This month, the Board declared a dividend of 7.75 percent annualized on activity stock and 4.5 percent annualized on membership stock. In 2018, the Bank paid a total of $229 million in dividends.

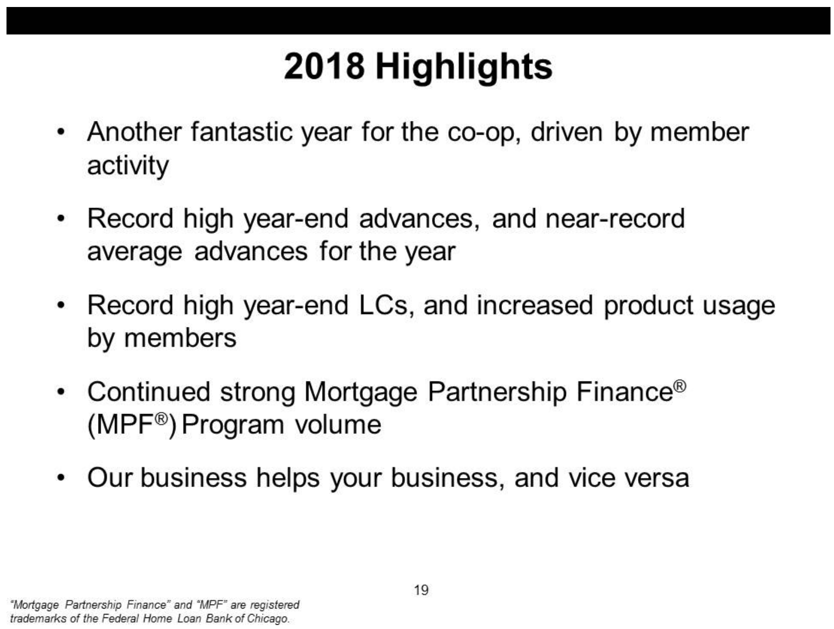


So when you bring this all together . . . the reason we are here is to deliver value to our members. Ultimately, we do this by providing the relevant products and services to meet your liquidity, housing and community lending needs. To speak more about these efforts and how we delivered that value in 2018, I'd like to turn the call over to Kris Williams. Kris . . .

KRIS WILLIAMS:

Thanks, Winthrop. As Winthrop and Ted have both pointed out, it was another fantastic year for the co-op, driven by member activity.

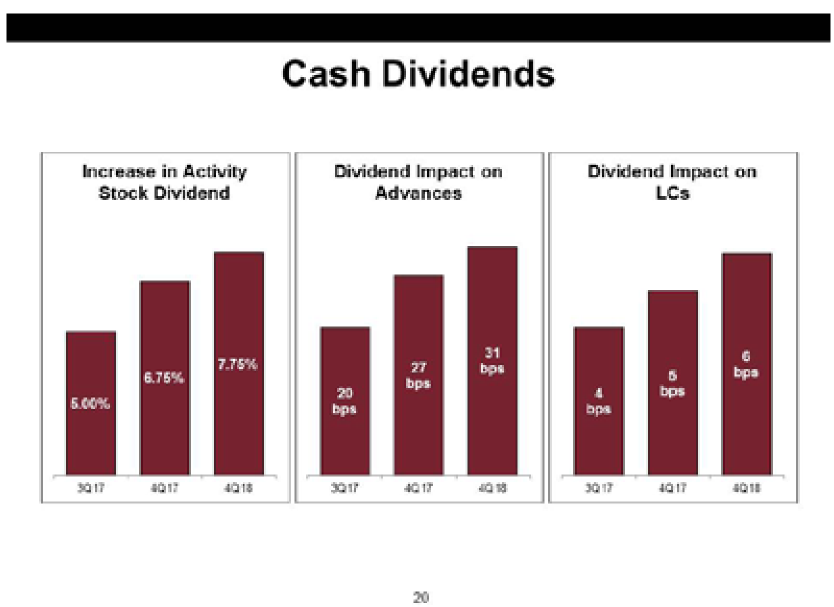
Record high year-end advances and near-record average advances for the year. Record high year-end Letters of Credit, with increased product usage by our members. Continued strong MPF® Mortgage Partnership Finance® partner volumes, just to name a few. The bottom line is our business helps your business, and vice versa.



The next slide drives home the value of the cash dividends. As noted earlier, we paid $229 million in cash dividends, so let's translate that into product benefit. Our last three dividend rates are shown in the first box to the left for the activity stock. You can see that they were 5.00 percent, 6.75 percent and of course our latest - the 7.75 percent rate.

The middle box takes the dividend rate and multiplies it by the stock requirement of 4 percent on advances. So with our new rate of 7.75 percent times the 4 percent capital requirement, the dividend impact on advances is a reduction of 31 basis points.

Also illustrated are letters of credit or LCs, which is a 75 basis point stock requirement. The dividend impact would apply to all products that have a capital stock requirement.

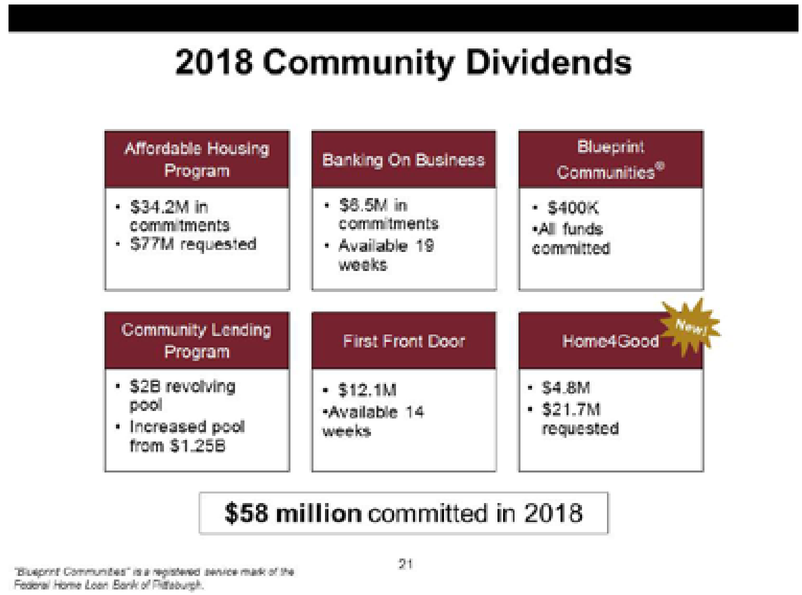


The next slide discusses our other form of dividends . . . the community dividend. In 2018, we committed $58 million in community dividends, all of which are provided through our members.

Let me call out a few examples. First, the Affordable Housing Program, or AHP, more than two times over-subscribed for this competitive grant product. Always a need for more affordable housing dollars.

Second, our First Front Door program is our first-time homebuyer product that provides down-payment and closing-cost assistance on a first come first served basis. This $12.1 million grant only lasted 14 weeks in 2018.

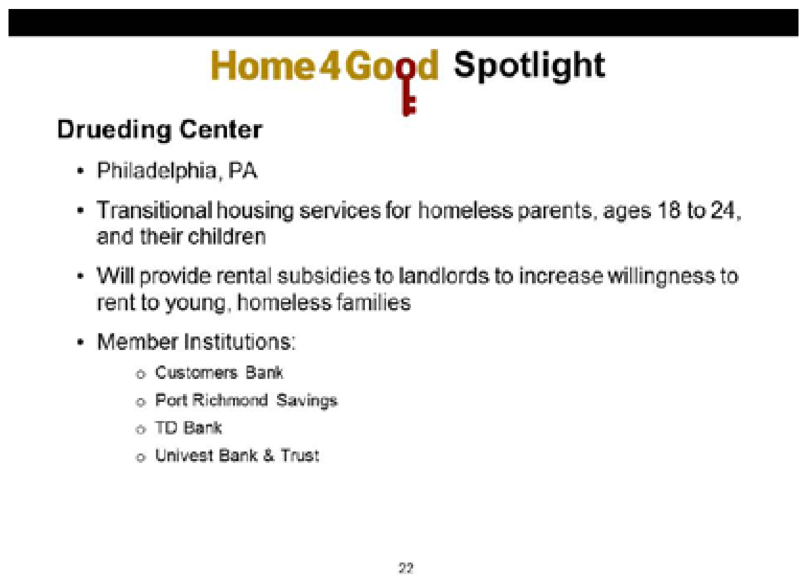
And finally, a new product for 2018 – Home4Good, which are grants to combat homelessness. There is an example on the next slide.



The Drueding Center in Philadelphia, Pa. provides transitional housing services for homeless parents, ages 18 to 24, and their children. Our grant will help rental subsidies to landlords to increase willingness to rent to the young, homeless families. These types of services are not typically funded by federal dollars.

As with all other products, our member institutions are involved. And the four member institutions who supported this project are Customers Bank, Port Richmond Savings, TD Bank, and Univest Bank & Trust.

We have partnered with our housing finance agencies in our three states of West Virginia, Pennsylvania, and Delaware to provide these grants. With their dollars and our dollars combined, we granted over $7 million of much needed support for homelessness.



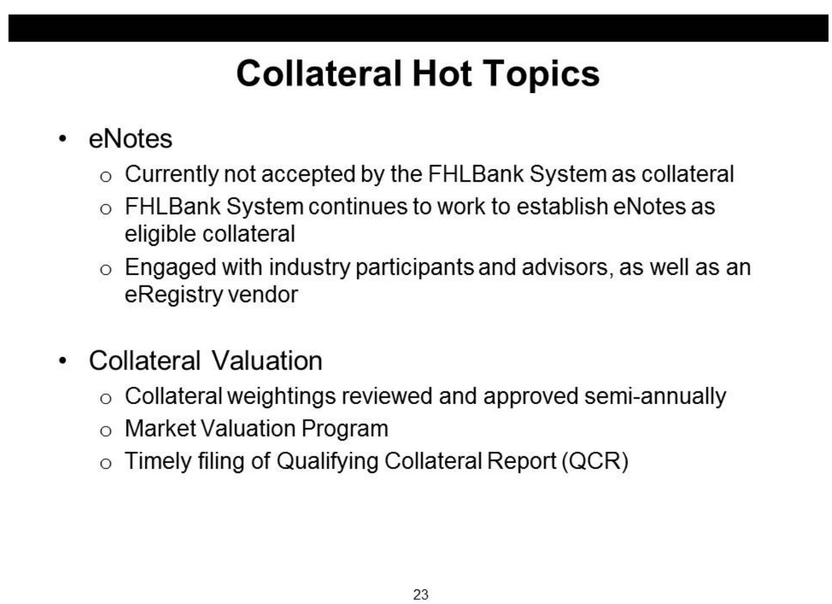
Moving to the next slide . . . a few collateral items.

First, we know how important your collateral pledged to us is. It establishes your borrowing capacity, which is critical to your liquidity plans and your liquidity needs.

First, I want to discuss eNotes. eNotes are promissory notes that are created, executed, transferred, and stored electronically. They currently are not accepted by any of the Home Loan Banks in the Federal Home Loan Bank System as collateral. We're working hard to try to change that.

We are engaged with industry participants and advisors, as well as an eRegistry vendor. We're hoping to be able to accept eNotes at some point in the future.

Next, collateral valuation. The most common type of collateral is our 30-year, fixed rate mortgage, which typically declines in value when rates rise, all else being equal. That's why we review collateral weightings semi-annually to ensure the standard collateral weight is appropriate. And we are in that process now.



An alternative to the standard collateral weight is called our Market Valuation Program. It's there as an option for members who can provide us loan listings with anywhere from 14 to 60 data points, which provides us with the ability to provide a value or specific price on your exact loans. This usually results in a higher collateral value for you. You would need to submit listings on either a monthly or quarterly basis to try to qualify for this program.

And a final word on Qualifying Collateral Reports or QCRs. They are due on the 15th of February, May, August, and November. The template is available the first day of each quarter. The QCR is checked against call report data. Once filed, your borrowing capacity is adjusted within 24 to 48 hours. And if late, your borrowing capacity may be impacted.

On my final slide are some important dates to remember.

We thank you for your membership. And we thank you for your business. And with that, I'll turn the call back over to Winthrop.

✓ Mark Your Calendar

- Community Investment Product Funding Round Openings
  - March 6: First Front Door
  - March 25: Banking On Business
  - June 17: Affordable Housing Program
- Member Reporting
  - April 1: Annual stock confirmation
  - May 1-30: Bank4Banks® user certification
  - May 15: First quarter 2019 QCR due
- Member Appreciation Events
  - June 10: Malvern, PA
  - June 24: Pittsburgh, PA
- Stay tuned for additional member education opportunities in 2019

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"Bank4Banks" is a registered trademark of the Federal Home Loan Bank of Pittsburgh.

WINTHROP:
Thanks, Kris. 2018 was truly an exceptional year, and our performance has direct impact on our members and the communities they serve.

Before we open the call to questions, I'd like to quickly look ahead to the remainder of 2019 and beyond. The Bank has a fundamental mission that is arguably more important today than ever. Liquidity is an essential life blood for financial institutions, and the Federal Home Loan Bank is an essential source of that liquidity. We believe it's critical to celebrate and protect a business model that has proven itself and its value to the financial system. In doing so, we want to be absolutely clear about our core principles and our priorities.

Our obligation is to provide liquidity on demand to our members – in all economic and market environments. At the same time, the par value of our stock must be maintained. And the factors that lead to the low cost of our debt must be protected.

We believe that accomplishing these objectives requires an unwavering focus on delivering member value. This value can be found in the liquidity, housing and community lending solutions our members utilize every day.

I look forward to working with all of you over the coming months to ensure that we continue to deliver that value in every possible way.

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

Looking Ahead

- Remain steadfastly focused on our membership
- Celebrate and protect a business model that works
- Be clear about principles, priorities and values
- Follow our roadmap for sustained high performance

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