Federal Home Loan Bank of Pittsburgh First Quarter 2019 Member Conference Call

May 7, 2019, 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, and Mark Evanco, our Senior Director of Business Development and Strategy. Mark is filling in for Kris Williams, our Chief Operating Officer, who was unable to be with us this morning.

Today we'll be talking about our first quarter 2019 performance, which continued the momentum we generated throughout the course of 2018. Ted will discuss our financial results, and Mark will present information about Bank products and services that can help your business. Finally, I'll return to welcome any 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" 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 $98 million, advances of $75.2 billion, retained earnings of $1.3 billion and a set-aside of $11 million for affordable housing programs.

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 April 30.

The first quarter was another quarter of solid results for the Bank. We are pleased by our strong capitalization and our consistent performance, which enable us to deliver value to our members 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 4.

Moving to slide 5 of my presentation, the Bank recorded net income of $98.0 million in the first quarter of 2019 compared to $78.9 million in 2018. This increase was primarily driven by higher net interest income, partially offset by higher other expenses.

For the first quarter of 2019, net interest income was $129.9 million, an increase of $20.3 million, compared to $109.6 million for 2018. The year-over-year increase was primarily due to an increase in outstanding average advance balances and higher interest rates.

The net interest margin increased 4 basis points.

Other noninterest income was $4.1 million in the first quarter of 2019, up $2.4 million compared to the first quarter of 2018. The increase was primarily due to mark-to-market adjustments to derivatives and trading securities, which netted to a $2.9 million loss in 2019 compared to a $4.6 million loss in 2018.

Other expense increased $3.4 million to $24.6 million for the first quarter of 2019 compared to the first quarter of 2018. The increase was primarily due to higher compensation and benefit-related expenses, including a $2.0 million voluntary contribution to the Bank's defined benefit pension plan in the first quarter of 2019 compared to a $1.0 million voluntary contribution in the first quarter of 2018.

These results allowed the Bank to set aside $11.0 million for affordable housing programs.

Please turn to the next slide.

Financial Highlights – Statement of Income

(in millions)	Three months ended March 31, 2019	Three months ended March 31, 2018	Over/(Under)
Net interest income	$ 129.9	$ 109.6	$ 20.3
Provision for credit losses	0.4	2.4	(2.0)
Other noninterest income	4.1	1.7	2.4
Other expense	24.6	21.2	3.4
Income before assessment	109.0	87.7	21.3
Affordable Housing Program (AHP) assessment	11.0	8.8	2.2
Net income	$ 98.0	$ 78.9	$ 19.1
Net interest margin (bps)	51	47	4

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Total average assets were $103.6 billion, up $7.9 billion, or 8 percent, from 2018, primarily due to higher average advances. Average advances were $77.0 billion in 2019, an increase of $6.1 billion, or 9 percent, from 2018.

At March 31, 2019, total advances were $75.2 billion, down 9 percent from $82.5 billion at Dec. 31, 2018.

It is common for the Bank to experience fluctuation in the overall advance portfolio, driven primarily by changes in member needs.

Retained earnings at March 31, 2019, totaled $1.3 billion, an increase of $28 million from Dec. 31, 2018, reflecting earnings for the first quarter 2019 less dividends paid.

Financial Highlights – Selected Balance Sheet

(in millions)	Three months ended March 31, 2019	Three months ended March 31, 2018	Over/(Under) Amount	Over/(Under) Percent
Average:				
Total assets	$ 103,591	$ 95,712	$ 7,879	8 %
Advances	77,020	70,946	6,074	9
Total investments	21,107	19,979	1,128	6

(in millions)	Mar 31, 2019	Dec 31, 2018	Over/(Under) Amount	Over/(Under) Percent
Spot:				
Advances	$ 75,233	$ 82,476	$ (7,243)	(9) %
Capital stock	3,746	4,027	(281)	(7)
Retained earnings	1,304	1,276	28	2

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Please turn to slide 7.

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

At March 31, 2019, the Bank continues to be in full compliance with all regulatory ratios, and permanent capital exceeds the risk-based requirement.

Also at March 31, 2019, the ratio of Market Value of Equity to Capital Stock was 137.8 percent, up slightly from 134.0 percent at year-end 2018. This increase was primarily due to the growth in retained earnings and the decline in capital stock balances as a result of lower advances.

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

Capital Requirements

(in millions)	**Mar 31, 2019**	**Dec 31, 2018**
Permanent capital	$ 5,074	$ 5,327
Excess permanent capital over RBC requirement	$ 4,008	$ 4,089
Regulatory capital ratio (4% minimum)	5.0%	5.0%
Leverage ratio (5% minimum)	7.5%	7.4%
Market value/capital stock (MV/CS)	137.8%	134.0%

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WINTHROP WATSON

Thanks, Ted. There's no question that 2019 is off to a great start for our cooperative. The strength of our performance is a reflection of the partnership we have with our members. We appreciate your business, which continues to fuel our collective success. At this time, I'd like to turn the call over to Mark Evanco. Mark…

MARK EVANCO

Thank you, Winthrop.

As Ted and Winthrop discussed, it was a strong quarter for the Bank. Advances averaged $77 billion. Letters of credit ended the quarter at nearly $19 billion. And activity in the Mortgage Partnership Finance®, or MPF®, Program continued to be robust, with more than $150 million in fundings. This is pretty consistent with what we've seen in recent years.

As shareholders in our cooperative, dividends and the value of your stock are important. As customers, the liquidity and community investment solutions we provide help deliver value for your business.

As mentioned earlier, the Board approved a quarterly dividend of 7.75 percent annualized on activity stock and 4.5 percent annualized on membership stock. We're pleased to continue to be able to provide this level of dividend.

First Quarter 2019 Highlights

- $77 billion average advances
- $19 billion average letters of credit
- $151 million Mortgage Partnership Finance® (MPF®) Program fundings
- Membership Dividends
  - Cash
    - 7.75% on activity stock
    - 4.50% on membership stock
  - Community

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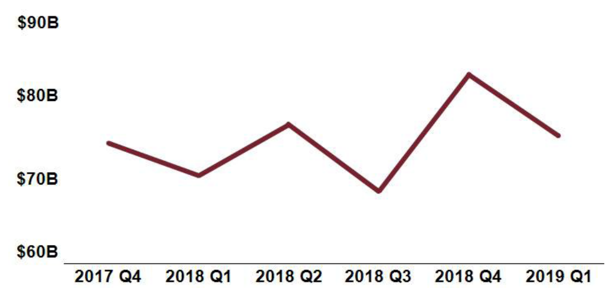
"Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.

I'll speak to the Community Dividends on slide 11 in a moment, but first, I'd like to address the advance balance trends on the next slide. Spot balances are down from year-end, similar to what we've experienced in prior first quarters. The structure of the co-op allows us to meet your needs despite this quarterly volatility.

On April 16, we kicked off our latest Term-Out Tuesday special with very attractive rates. This campaign will continue for the next three Tuesdays, including today. It will end on May 21. As of April 30, we've had 20 separate members take advantage of the Term-Out Tuesday rates.

Period-End Advance Balance Trends



- Term-Out Tuesdays are Back
  - 20 members have taken advantage of borrowings from 1.5 to 5 years

As of April 30, 2019

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On slide 11, you can see an overview of our Community Dividends. These are the grants and financing products that help you support revitalization in your community. I'd like to highlight a few things on the call this morning. In 2019, we have set aside $31 million in commitments for our Affordable Housing Program. The funding round begins in June, and all AHP applications will be due on August 8. And as usual, awards will be announced in December.

In addition, funding rounds for Banking On Business – that's our small business product – and First Front Door – our first-time homebuyer grant program – have already opened. They opened in March.

And finally, we're very excited about our 2019 Blueprint Communities® kickoff. Six West Virginia communities will be participating this year in a revitalization initiative. These initiatives provide training and resources to help local leaders create sustainable and thriving communities.

2019 Community Dividends

Affordable Housing Program	Banking On Business	Blueprint Communities®
• $31 million commitment • Funding round begins in June	• $6 million commitment • Funding round opened March 25	• $400 thousand allocation • New West Virginia cohort

Community Lending Program	First Front Door	Home4Good
• $2B revolving pool	• $12 million commitment • Funding round opened March 6	• $4.8 million commitment

"Blueprint Communities" is a registered service mark of the Federal Home Loan Bank of Pittsburgh.

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On slide 12, in addition to our focus on liquidity and community investment products, we've also committed a great deal of time and resources to prepare for our SOFR-indexed advances and funding. For those who may not be familiar with SOFR, it's the Secured Overnight Financing Rate that has been identified as the alternative to LIBOR. And the FHLBanks are leading the way in this transition effort.

The bottom line is we're ready and currently offering SOFR-indexed advances.

SOFR/LIBOR Update

- Secured Overnight Financing Rate (SOFR) Advances
  - We are ready
  - Bullet and returnable adjustable-rate advances available
  - Ongoing member updates and education
- Member SOFR/LIBOR Essential Steps
  - Inventory all instruments
  - Review fallback language
  - Assess operational readiness (including core systems)
  - Review LIBOR references in policies/procedures

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You'll be hearing a lot more about SOFR in the weeks and months ahead.

We will be providing ongoing updates and educational resources to members to help support you as you prepare for the essential steps of the transition from LIBOR to SOFR. These might include:

- taking inventory of your financial instruments;
- understanding the fallback language you currently have in place;
- and checking all your operational systems to ensure that they are ready.

In the meantime, we encourage you to start thinking about your planning for the LIBOR/SOFR change. A transition of this magnitude touches many places, but the right planning and preparation can make all the difference.

SOFR and other topics will be on the agenda of our 2019 Member Appreciation events in June. Chester Valley Golf Club will be the site of our June 10 event out in the East, and Fox Chapel Golf Club will be the location of our June 24 event here in the West. This year, we're going to do something a little bit different; we're bringing in Betsy Hubbard, an incredibly dynamic keynote speaker whose presentation will focus on the best ways to get your messages across for your clients and colleagues.

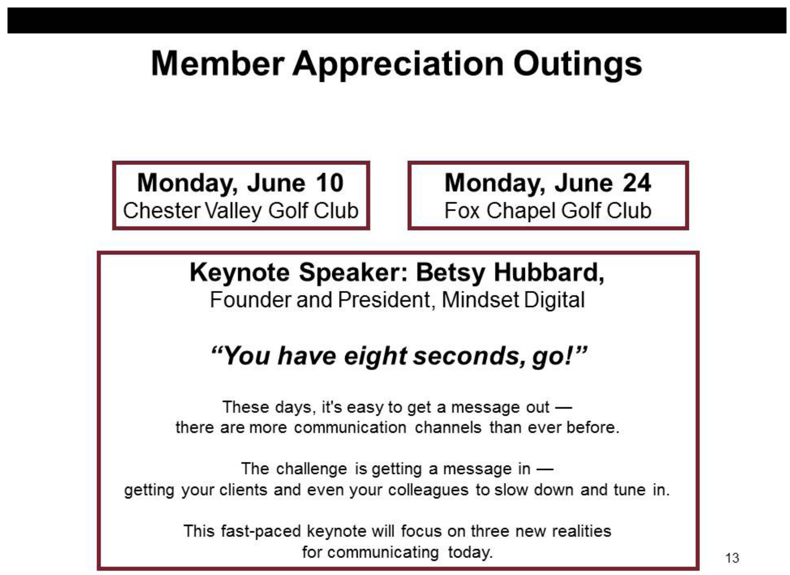
We look forward to seeing all of you at the appreciation events in June.

Lastly, I personally want to thank you for the confidence and the trust you continue to put in our cooperative. We sincerely appreciate your business.

With that, I'll turn the call back over to Winthrop.

WINTHROP WATSON

Thanks, Mark. It was a successful quarter in a variety of ways. From the member engagement we've seen with the return of Term-Out Tuesdays to the strong funding round openings of both Banking On Business and First Front Door. And as Mark mentioned, we're very excited about the upcoming kickoff of our newest Blueprint Communities cohort in West Virginia.

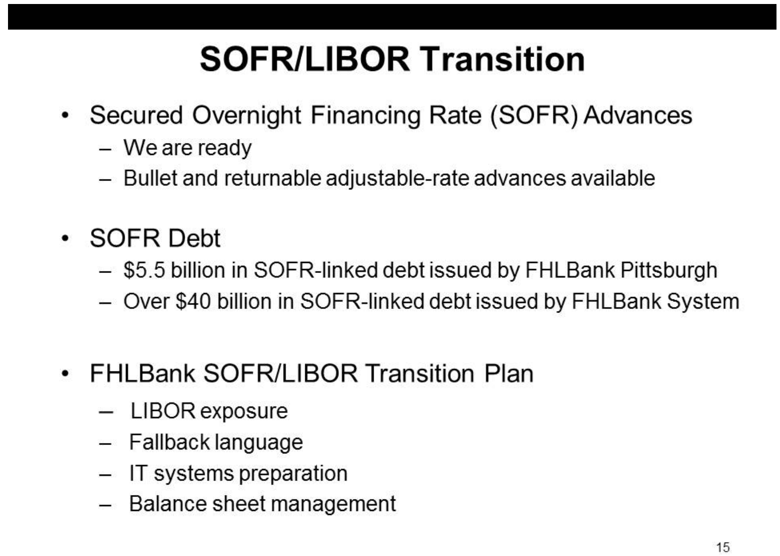


Before we wrap up the call and open the lines to your questions, I would like to briefly address the LIBOR/SOFR transition that Mark mentioned and all the work being done in preparation.

This is an enormous undertaking for the banking system and the financial markets. The Federal Home Loan Banks are committed to helping lead the markets in the transition from LIBOR to SOFR before the pending 2021 deadline.

As Mark stated earlier, we are ready to do advances. Bullet and returnable adjustable-rate advances are available now.

The Federal Home Loan Bank of Pittsburgh has already issued $5.5 billion in SOFR-linked debt, and the Federal Home Loan Bank System has issued over $40 billion out of a total SOFR issuance in the marketplace of just under $100 billion.



We've developed a comprehensive LIBOR transition plan for our Bank. As part of this plan, we've assessed our current exposure to LIBOR by developing an inventory of all impacted financial instruments. We've added or adjusted fallback language to our advance agreements with members. We've assessed our operational readiness, including potential effects on core Bank systems.

We have made tremendous progress, but much more remains to be done. A huge part of those efforts will be focused on supporting our members through their transition efforts. If you would like to talk to us regarding any aspect of the SOFR transition, we'd be delighted to hear from you. And you will certainly be hearing from us as we reach out with ongoing updates and educational resources.

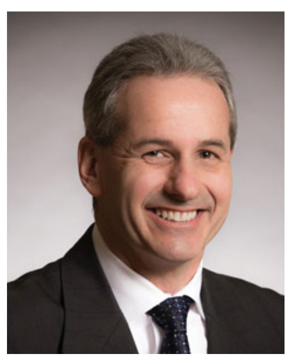
Whether we're talking about SOFR or the underlying stability of our co-op, our first quarter performance was a reflection of the tremendous amount of activity and progress underway throughout our cooperative.

Our goal is to ensure that those efforts deliver the most possible value to our members and the communities you serve. With that, we'll open the lines to any questions or comments you may have.

Thanks everyone for attending today's call and for your continued business and support. Please enjoy the rest of your day.

Winthrop Watson
President and
Chief Executive Officer

Edward V. Weller
Chief Accounting Officer



Mark Evanco
Senior Director, Business
Development and Strategy

FHLBank
PITTSBURGH

601 Grant Street
Pittsburgh, PA 15219

www.fhlb-pgh.com