

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

August 1, 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.

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.

Monday's earnings release included the following highlights for the second quarter of 2019: net income of \$67.7 million, net interest income of \$110.6 million, advances at \$81.8 billion, and retained earnings at \$1.3 billion.

The Board declared quarterly dividends of 7.75 percent annualized on activity stock and 4.50 percent annualized on membership stock. These dividends were paid on July 30.

Our results for the second quarter and first half of the year represent continued solid performance for our cooperative. This consistent performance enables us to deliver on our mission every day. To review our financial results in more detail, I'd like to turn the call over to Ted Weller. 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 \$165.7 million for the first six months of 2019 compared to \$170.5 million in 2018. This decrease was primarily driven by lower other noninterest income, partially offset by higher net interest income.

Other noninterest income was a loss of \$7.3 million in the first six months of 2019, down \$16.6 million compared to the first six months of 2018. The decrease was primarily due to mark-to-market adjustments to derivatives and trading securities, which netted to a \$19.9

Financial Highlights – Statement of Income

| <i>(in millions)</i> | Six months ended June 30, | | Over/ |
|---|---------------------------|-----------------|-----------------|
| | 2019 | 2018 | (Under) |
| Net interest income | \$ 240.5 | \$ 226.7 | \$ 13.8 |
| Provision for credit losses | 1.4 | 2.8 | (1.4) |
| Other noninterest income (loss) | (7.3) | 9.3 | (16.6) |
| Other expense | 47.2 | 43.7 | 3.5 |
| Income before assessment | 184.6 | 189.5 | (4.9) |
| Affordable Housing Program (AHP) assessment | 18.9 | 19.0 | (0.1) |
| Net income | <u>\$ 165.7</u> | <u>\$ 170.5</u> | <u>\$ (4.8)</u> |
| Net interest margin (bps) | 48 | 48 | - |

million loss in 2019 compared to a \$3.2 million loss in 2018.

For the first six months of 2019, net interest income was \$240.5 million, an increase of \$13.8 million compared to \$226.7 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 was unchanged at 48 basis points.

Other expense increased \$3.5 million to \$47.2 million for the first six months of 2019 compared to the first six months of 2018. The increase was primarily due to higher compensation and benefits expense, technology-related costs and contractual service fees.

These results allowed the Bank to set aside \$18.9 million for affordable housing programs.

Please turn to the next slide.

Total average assets were \$102.2 billion, up \$6.0 billion, or 6 percent, from 2018 due to a \$2.9 billion, or 15 percent, increase in average investments and a \$2.3 billion, or 3 percent, increase in average advances.

Average investments increased due to additional short-term liquidity balances.

At June 30, 2019, total advances were \$81.8 billion, down 1 percent from \$82.5 billion at December 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 June 30, 2019, totaled \$1.3 billion, an increase of \$23 million from December 31, 2018, reflecting earnings for the first six months of 2019 less dividends paid.

Please turn to slide 7.

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

At June 30, 2019, the Bank continues to be in full compliance with all regulatory ratios, and permanent capital exceeds the risk-based requirement.

Also at June 30, 2019, the ratio of Market Value of Equity to Capital Stock was 135.8 percent; up slightly from 134.0 percent at year-end 2018.

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

Financial Highlights – Selected Balance Sheet

| <i>(in millions)</i> | Six months ended June 30, | | Over/(Under) | |
|----------------------|---------------------------|-----------|--------------|---------|
| | 2019 | 2018 | Amount | Percent |
| Average: | | | | |
| Total assets | \$ 102,209 | \$ 96,162 | \$ 6,047 | 6 % |
| Advances | 74,455 | 72,119 | 2,336 | 3 |
| Total investments | 22,141 | 19,230 | 2,911 | 15 |

| <i>(in millions)</i> | June 30, | Dec 31, | Over/(Under) | |
|----------------------|-----------|-----------|--------------|---------|
| | 2019 | 2018 | Amount | Percent |
| Spot: | | | | |
| Advances | \$ 81,827 | \$ 82,476 | \$ (649) | (1) % |
| Capital stock | 3,643 | 4,027 | (384) | (10) |
| Retained earnings | 1,299 | 1,276 | 23 | 2 |

6

Capital Requirements

| <i>(in millions)</i> | June 30, | Dec 31, |
|--|----------|----------|
| | 2019 | 2018 |
| Permanent capital | \$ 5,286 | \$ 5,327 |
| Excess permanent capital over RBC requirement | \$ 4,278 | \$ 4,089 |
| Regulatory capital ratio (4% minimum) | 4.7% | 5.0% |
| Leverage ratio (5% minimum) | 7.0% | 7.4% |
| Market value/capital stock (MV/CS) | 135.8% | 134.0% |

7

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 value generated through the partnership with our members can be seen far beyond our financial performance. That partnership was clearly on display during our recent Member Appreciation events held in June. It was great to have so many of you attend the sessions and share your feedback on a variety of topics.

During the second quarter, we also put a significant focus on community revitalization. FHLBank Pittsburgh joined with our member institutions, government officials and community development stakeholders in Bridgeport, West Virginia, to welcome six new communities into our Blueprint program.

Blueprint Communities is a revitalization initiative that provides leaders and volunteers from neighborhoods across our district with the tools and resources needed to establish a clear vision for economic development, to support local leadership, to enhance collaboration and to attract public and private investment. The Blueprint initiative is based on the premise that our members thrive when their communities are healthy and prosperous.

The last item I'd like to mention before we take your questions is a reminder that our 2019 funding round for the Affordable Housing Program is open only for a few more days, with approximately \$32 million available to help our members support housing in their communities. Applications are due by 5 p.m. on Thursday, August 8. The awarded AHP projects will be announced on December 19.

That concludes our prepared remarks. We appreciate your questions and comments. We'd like to address a question we received via email about the timing of our next Term Out Tuesday.

These periodic specials are generally driven by market dynamics and member demand. While we don't have any immediate plans to offer a special, we welcome your input and feedback.

Please share your views with your Business Development Manager.

I'd like to thank 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

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