# Federal Home Loan Bank of Pittsburgh
# First Quarter 2016
# Member Conference Call

## May 3, 2016 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, who will discuss our financial results. We will welcome your questions or comments at the end of the call.

Our remarks will be accompanied by slides. If you cannot access the slides, please email "IR 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 first-quarter highlights:

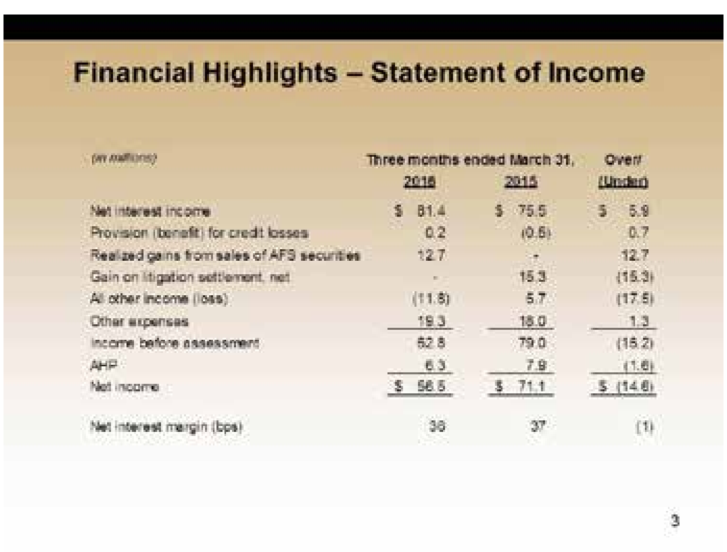
- Net income of $56.5 million
- Net interest income of $81.4 million
- Advances at $69 billion
- Letters of credit at $20.8 billion
- And retained earnings at $898 million

The Board declared dividends of 5 percent annualized on activity stock and 2 percent annualized on membership stock. These dividends were paid on
April 29.

To review our financial performance for first quarter 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.



Financial Highlights – Statement of Income

| (in millions) | Three months ended March 31, 2016 | 2015 | Over/ (Under) |
|---|---|---|---|
| Net interest income | $ 81.4 | $ 75.5 | $ 5.9 |
| Provision (benefit) for credit losses | 0.2 | (0.5) | 0.7 |
| Realized gains from sales of AFS securities | 12.7 | - | 12.7 |
| Gain on litigation settlement, net | - | 15.3 | (15.3) |
| All other income (loss) | (11.8) | 5.7 | (17.5) |
| Other expenses | 19.3 | 18.0 | 1.3 |
| Income before assessment | 62.8 | 79.0 | (16.2) |
| AHP | 6.3 | 7.9 | (1.6) |
| Net income | $ 56.5 | $ 71.1 | $ (14.6) |
| Net interest margin (bps) | 36 | 37 | (1) |

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Please note the disclaimer language contained on slide 2.

Moving to slide 3 of my presentation – The Bank recorded net income of $56.5 million in the first quarter of 2016 compared to $71.1 million in 2015. The decrease was primarily due to a $17.5 million decline in all other income due to mark-to-market adjustments to derivatives and trading securities, which netted to an $18.3 million loss in 2016 compared to a $0.8 million net loss in 2015.

The Bank recognized gains on sales of available-for-sale securities of $12.7 million in the first quarter of 2016.

## Quarterly Net Income

| *(in millions)* | 1Qtr 16 | 4Qtr 15 | 3Qtr 15 | 2Qtr 15 | 1Qtr 15 |
|---|---|---|---|---|---|
| Net income | $ 56.5 | $ 54.4 | $ 50.3 | $ 80.6 | $ 71.1 |

| | | | | | |
|---|---|---|---|---|---|
| Derivative and hedging activity | $ (35.6) | $ 7.3 | $ (26.4) | $ 29.1 | $ (7.6) |
| Net gains (losses) on trading securities | 17.3 | (3.8) | 8.7 | (10.1) | 6.8 |
| Realized gains from sales of AFS securities | 12.7 | - | - | - | - |
| Gain on litigation settlement, net | - | - | - | - | 15.3 |

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## Financial Highlights – Selected Balance Sheet

| *(in millions)* | Three months ended March 31, 2016 | 2015 | Over/(Under) Amount | Percent |
|---|---|---|---|---|
| Average: | | | | |
| Total assets | $ 93,841 | $ 83,790 | $ 10,051 | 12 % |
| Advances | 70,117 | 59,884 | 10,233 | 17 |
| Total investments | 19,191 | 19,063 | 128 | 1 |

| *(in millions)* | March 31, 2016 | Dec 31, 2015 | Over/(Under) Amount | Percent |
|---|---|---|---|---|
| Spot: | | | | |
| Advances | $ 69,022 | $ 74,505 | $ (5,483) | (7) % |
| Capital stock | 3,314 | 3,540 | (226) | (6) |
| Retained earnings | 898 | 881 | 17 | 2 |

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## Capital Requirements

| *(in millions)* | March 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Permanent capital | $ 4,217 | $ 4,427 |
| Excess permanent capital over RBC requirement | $ 3,447 | $ 3,606 |
| Regulatory capital ratio (4% minimum) | 4.6% | 4.6% |
| Leverage ratio (5% minimum) | 6.9% | 6.9% |
| Market value/capital stock (MV/CS) | 127.2% | 127.9% |

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In the first quarter of 2015, the Bank recorded a $15.3 million gain on settlement of claims against certain defendants arising from investments the Bank made in private-label mortgage-backed securities.

For the first quarter of 2016, net interest income was $81.4 million, an increase of $5.9 million compared to $75.5 million for the first quarter of 2015. The year-over-year increase was primarily due to higher interest income from growth in advances.

The net interest margin declined one basis point primarily due to slightly higher funding costs.

These results allowed the Bank to set aside $6.3 million for affordable housing programs. Please turn to the next slide.

Slide 4 compares the first quarter 2016 net income with the prior four quarters. Excluding the items in the table, which are not part of our normal run rate, net income was $61.5 million in the first quarter of 2016; $10.3 million higher than the fourth quarter of 2015 and $3.5 million higher than the same period last year.

Our financial improvement has been driven by an increase in interest income on higher average advances which more than offset the decline in the net interest margin. Please turn to slide 5.

Total average assets for 2016 were $93.8 billion, up 12% from 2015 due to growth in advances. Average advances were $70.1 billion in the first quarter of 2016, an increase of $10.2 billion or 17% from the first quarter of 2015.

As of March 31, 2016, total advances decreased 7% compared with balances at December 31st. It is not uncommon for the Bank to experience variances in the overall portfolio driven primarily by changes in short-term advance demand from members.

Capital stock was $3.3 billion at March 31, 2016, down $0.2 billion from December 31, 2015 as a result of the maturity of short-term advances.

Retained earnings at March 31, 2016 totaled $898 million, an increase of $17 million from December 31, 2015 reflecting earnings for the first quarter less dividends paid. Please turn to slide 6.

This slide provides a summary of the Bank's capital requirements. At March 31, 2016, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also at March 31, the ratio of Market Value of Equity to Capital Stock was 127.2%, relatively unchanged from year-end 2015.

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

**WINTHROP**

Thanks Ted. As Ted's presentation shows, first quarter was another strong one for our cooperative.

I'd like to comment briefly on the dividend. As forecasted several times over the past year, the amount of difference between the two subclasses of stock widened slightly with our current dividend, which was paid on April 29. The dividend on activity stock remained at 5 percent while the dividend on membership stock declined from 3 percent to 2 percent.

Management and the Board recognize that a consistent, predictable dividend is desirable, and we anticipate that the current differential will hold relatively stable throughout the remainder of 2016. The amount of differentiation between the two subclasses, in 2017 and beyond, has yet to be determined.

In setting the dividends for each subclass, we keep three principles in mind:

- First – all members should continue to enjoy unfettered access to liquidity and receive a dividend
- Next – product usage is the main driver of the Bank's earnings and financial success
- And finally – users of the co-op should be rewarded with higher dividends than non-users

After many quarters of discussions with you, we are confident of general agreement on these points. I look forward to continuing the conversation and encourage you to reach out at any time.

Now I'd like to take just a few minutes to mention three opportunities for your business.


First, is Letters of Credit. If you're using securities, your most liquid asset, to secure uninsured public unit deposits, consider this: You can put the power of our strong credit rating to work using mortgage collateral pledged to the Bank – and free-up your securities for contingent liquidity or other business purposes. And with the dividend on activity stock at 5 percent, your all-in cost of the Letter of Credit is especially attractive.

The second opportunity is First Front Door, our first-time-homebuyer program, which offers qualified buyers a 3-to-1 matching grant. For every dollar provided by the homebuyer, First Front Door will provide three dollars in assistance for down payment and closing costs – up to $5,000. Nearly $6 million is available this year for First Front Door grants – and every penny of it will be provided through our participating members.

First Front Door is a great opportunity for you to help your qualified customers get into their first home, and the program is open now. Think of First Front Door as a community dividend – available to you as a benefit of membership in the Bank. But it's only a benefit if you use it.

Finally, I'd like to mention our MPF Program – Mortgage Partnership Finance. Spring is traditionally a good home buying season, and we've all seen headlines about how the housing market has perked up this year. So, if you're not a participating financial institution in the MPF Program, now might be your time.

MPF is an attractive secondary market alternative because:

- It includes products that offer fee income through a credit enhancement
- It avoids loan-level price adjustments and guarantee fees
- And it includes a jumbo program

All three of these opportunities – Letters of Credit, First Front Door and the MPF Program – are available now to help your business. Call your relationship manager for details.

I'd like to thank you for attending today's call and for your continuing business and support. It is truly our pleasure to serve you.

**Winthrop Watson**
President and Chief Executive Officer

**Edward V. Weller**
Chief Accounting Officer

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