

Federal Home Loan Bank of Pittsburgh Year-end and Fourth Quarter 2017 Member Conference Call

February 27, 2018 at 9 a.m. EST

WINTHROP WATSON

Good morning and thanks for attending our quarterly member call. I'm joined by Kris Williams, Chief Operating Officer, and Ted Weller, Chief Accounting Officer. This morning we'll be talking about full-year 2017, which was very strong for the Bank.

Ted will discuss our financial results, then Kris will present information about Bank products and services that can help your business. And 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 "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 highlights:

- Net income of \$339.6 million for 2017, highest in the Bank's history
- Advances of \$74.3 billion
- Retained earnings of \$1.2 billion, highest in our history
- And a set aside of \$37.8 million for affordable housing programs, largest allocation in our history

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 February 22.

As you can see, 2017 was a record year in many ways. We're more than pleased with our results, which significantly outpaced last year's record earnings.

Even more than records, we are pleased by 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 my presentation –

The Bank recorded net income of \$339.6 million for 2017 compared to \$260 million in 2016. This increase was primarily driven by higher net interest income.

In addition, all other income increased but was largely offset by \$12.6 million in gains on the sale of available-for-sale securities in 2016 and higher other expense in 2017.

Net interest income was \$435.5 million, an increase of \$86.6 million compared to \$348.9 million in 2016.

The year-over-year increase was primarily due to improved funding costs and higher average advance balances.

During the first quarter of 2017 the Bank's cost of funds improved relative to LIBOR, which resulted in an increase in net interest spread. Funding spreads returned closer to historical levels during the remainder of 2017.

The net interest margin increased significantly, 8 basis points, primarily due to the improved funding costs.

All other income was \$32.2 million for 2017, up \$19.8 million compared to 2016. The increase was primarily due to mark-to-market adjustments to derivatives and trading securities which netted to a \$7.3 million gain in 2017 compared to a \$14.4 million loss in 2016.

Other expenses were \$90.1 million, an increase of \$6.3 million from 2016. 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 \$37.8 million for affordable housing programs.

Please turn to the next slide.

Total average assets for 2017 were \$96.8 billion, up \$4.4 billion or 5% from 2016 due to growth in advances. Average advances were \$72.5 billion in 2017, an increase of \$4.1 billion or 6% from 2016.

At December 31, 2017, total advances were \$74.3 billion, a decrease of \$2.5 billion from the record \$76.8 billion at December 31, 2016.

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

Retained earnings at December 31, 2017 totaled \$1.2 billion, an increase of \$172 million from December 31, 2016 reflecting earnings for 2017 less dividends paid.

Financial Highlights – Statement of Income

<i>(in millions)</i>	Year Ended December 31,		Over/ (Under)
	2017	2016	
Net interest income	\$ 435.5	\$ 348.9	\$ 86.6
Provision for credit losses	0.2	1.2	(1.0)
Realized gains from sales of AFS securities	-	12.6	(12.6)
All other income	32.2	12.4	19.8
Other expense	90.1	83.8	6.3
Income before assessment	377.4	288.9	88.5
Affordable Housing Program (AHP) assessment	37.8	28.9	8.9
Net income	<u>\$ 339.6</u>	<u>\$ 260.0</u>	<u>\$ 79.6</u>
Net interest margin (bps)	46	38	8

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Financial Highlights – Selected Balance Sheet

<i>(in millions)</i>	Year Ended December 31		Over/(Under)	
	2017	2016	Amount	Percent
<u>Average:</u>				
Total assets	\$ 96,800	\$ 92,381	\$ 4,419	5 %
Advances	72,472	68,363	4,109	6
Total investments	19,397	19,304	93	-

<i>(in millions)</i>	As of December 31		Over/(Under)	
	2017	2016	Amount	Percent
<u>Spot:</u>				
Advances	\$ 74,280	\$ 76,809	\$ (2,529)	(3) %
Capital stock	3,659	3,755	(96)	(3)
Retained earnings	1,158	986	172	17

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Please turn to slide 5

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

At December 31, 2017, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also at December 31, 2017 the ratio of Market Value of Equity to Capital Stock was 136.3%, up from 128.9% at year-end 2016 primarily due to increases in retained earnings.

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

WINTHROP

Thanks Ted. There's no question that 2017 will be remembered as a year of strength and success for the cooperative, much of it due to member activity, which drives our business. We are especially gratified that our results have allowed us to increase both our community dividends and our cash dividends.

Kris will talk about the community dividend in a moment, but I'd like to focus on the cash dividend briefly.

The Board and management are committed to returning a substantial portion of our earnings to our membership while, of course, maintaining prudent capitalization.

We recognize that a consistent predictable dividend is desirable to our membership, and we anticipate maintaining similar rates for dividends paid in 2018.

We are grateful for your business, which was a primary driver of our success, and we are truly pleased to be able to pay this level of dividend.

At this time, I'd like to turn the call over to our Chief Operating Officer, Kris Williams. Kris...

KRIS WILLIAMS

Thanks Winthrop, and good morning everyone. As Winthrop and Ted just noted, 2017 was a fantastic year for the co-op, and it was built on member activity.

A couple of highlights include: \$72.5 billion in average advances, highest ever. And we purchased \$980 million in mortgage loans from our members through our MPF Program, the highest full-year purchases since 2004. One of the keys to the co-op is that our business helps your business, and vice versa. And let us not forget return on your investment, through both the cash dividend and the community dividend.

Capital Requirements

<i>(in millions)</i>	As of December 31,	
	2017	2016
Permanent capital	\$ 4,822	\$ 4,747
Excess permanent capital over RBC requirement	\$ 3,770	\$ 3,839
Regulatory capital ratio (4% minimum)	4.8%	4.7%
Leverage ratio (5% minimum)	7.3%	7.0%
Market value/capital stock (MV/CS)	136.3%	128.9%

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2017 Highlights

- A fantastic year for the co-op – built on member activity
- \$72.5 billion average advances – highest ever
- \$980 million in MPF fundings from our members – highest full-year fundings since 2004
- Our business helps your business, and vice versa
- Cash Dividends + Community Dividends
 - Includes \$37.8 million set aside for affordable housing programs
 - highest ever

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On the next slide, this pictorial represents the value of using multiple products. Two specific product examples are included on the right-hand side of the page.

First, advances: I'm pleased to note that Term-Out Tuesdays are back. They run through March 27 for terms of 18 months through 30 years. The best rates are available in the morning from 9:30 a.m. through noon. Term-Out Tuesdays allow members to extend liabilities to counterbalance the risk of rising short-term rates.

The second product, letters of credit, can be used to secure public deposits. Our LC is a widely accepted, safe alternative for securing public deposits, and it allows members to unencumber securities and optimize liquidity.



Advances: Term Out Tuesdays Are Back

- Feb 20 through Mar 27
- Terms: 18 months to 30 years
- Best rates: 9:30 a.m. through noon
- Allows members to extend liabilities to counterbalance the risk of rising short-term rates

Letters of credit for public deposits

- Widely accepted, safe alternative for securing public deposits
- Allows members to unencumber securities and optimize liquidity

Call your Business Development Manager – or Product Delivery Service Center – 800-288-3400, x 2.

And now, let's talk about returns on your investment via cash dividends. The red line shows return on equity, which was primarily driven by member activity. The blue line shows the dividend rate. Our outstanding performance, as Winthrop just noted, allowed us to increase dividend levels to annualized rates of 6.75 percent on activity stock and 3.50 on membership stock. Together we have come a long way in the last five years, and the Bank is cognizant of how important a predictable dividend is to our members.

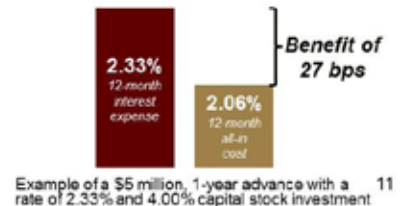
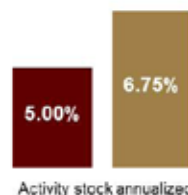
Cooperative Ownership: Cash Dividends



- Return on equity improved significantly over the past five years driven by member activity
- 2017, 2016 and 2015 results were generated from member activity, whereas 2014 benefited from litigation gains
- A predictable dividend is important to membership value

The next slide demonstrates the magnitude of the cash dividend increase on activity stock. It's up 35 percent from 5 percent to 6.75, which translates to a reduction in your all-in borrowing cost of 27 basis points.

Cash Dividends: a Business Perspective



Now let's focus on the second part of your return on investment, your community dividends. Four of our key products are noted on this slide.

First, the Affordable Housing Program: it supported more than 1,500 households. Second, our First Front Door program helped over 1,900 first-time homebuyers with down payment and closing cost assistance. Third, our Banking On Business program helped 73 small businesses, retained or created 891 jobs. Fourth, our Community Lending Program provides loans at the Bank's cost of funds for qualifying community development projects.

And finally, I'm excited to announce a new community dividend in 2018 – Home4Good. This new initiative provides grants to combat homelessness – for those who are homeless and those who are at risk for homelessness.

The Board of Directors has committed \$4.8 million in 2018 to this important initiative. We are partnering with state housing finance agencies to provide this much-needed support in an effective and efficient manner. Look for program launch announcements later this summer.

And that concludes my remarks. And now, back to Winthrop.

WINTHROP

Thanks Kris. Before I open the lines for your questions, I'd like to underscore Kris's enthusiasm for the new initiative, Home4Good, and the important work to come in combatting homelessness in our region.

I'm confident that, as members of this co-op, you appreciate how your Board of Directors reflects the Bank's success through increases in both cash dividends and community dividends.

And finally, beginning next week Campos Research will begin contacting you regarding our biennial member satisfaction survey. I encourage you to participate and to offer your candid feedback. This is your cooperative, and your opinions matter. We take this seriously.

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

2017 Community Dividends



Affordable Housing Program
•\$23.4 million committed
•Supported more than 1,500 households

First Front Door
•\$9.5 million committed to 1,913 homebuyers¹

Banking On Business
•\$6 million for 2017
•Helped 73 small businesses
•Retained or created 891 jobs

Community Lending Program
•\$1.25 billion revolving pool
•\$195.2 million available

¹\$9.5 million includes funds from homebuyer withdraws and partially funded disbursements that are recommitted during the open round

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New Community Dividend in 2018: Home4Good

- Grants to combat homelessness
 - Those who are homeless
 - Those at risk for becoming homeless
- Board commitment: \$4.8 million in 2018
- Partnering with state housing finance agencies
 - Applications through members
 - Coordination through Continuums of Care

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Winthrop Watson
President and
Chief Executive Officer



Edward V. Weller
Chief Accounting Officer



Kris Williams
Chief Operating Officer

Statements contained in these slides, including statements describing the objectives, projections, estimates, or predictions of the future of 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 Federal Home Loan Bank of Pittsburgh (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 quarterly 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 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 risks; and timing and volume of market activity. We do not undertake to update any forward-looking information. Some of the data set forth herein is unaudited.



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