

# Federal Home Loan Bank of Pittsburgh First Quarter 2017 Member Conference Call

**May 2, 2017 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 1st quarter 2017, which was another strong quarter 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 for first quarter 2017: net income of \$86.8 million, net interest income of \$108.3 million, advances of \$70.3 billion, letters of credit at \$20.0 billion, and retained earnings at \$1.0 billion. The Board declared dividends of 5 percent annualized on activity stock and 2 percent annualized on membership stock. These dividends were paid on April 28.

It was an extremely strong quarter. You have to go back nearly nine years to find higher quarterly net income. And even then, our results were driven by gains on derivatives, not by member activity. So with that perspective, we're celebrating the current quarter. It is gratifying that this quarter's success was driven by member activity, which of course is the key focus of our mission. And there was a lot of activity. Average quarterly advances were the highest in the Bank's history, at \$74 billion average for the quarter.

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. Please note the disclaimer language contained on slide 2. Moving to slide 3 of the presentation –

### Financial Highlights – Statement of Income

<i>(in millions)</i>	Three months ended March 31,		Over/
	2017	2016	(Under)
Net interest income	\$ 108.3	\$ 81.4	\$ 26.9
Provision for credit losses	-	0.2	(0.2)
Realized gains from sales of AFS securities	-	12.7	(12.7)
All other income (loss)	12.7	(11.8)	24.5
Other expenses	24.5	19.3	5.2
Income before assessment	96.5	62.8	33.7
Affordable Housing Program (AHP) assessment	9.7	6.3	3.4
Net income	<u>\$ 86.8</u>	<u>\$ 56.5</u>	<u>\$ 30.3</u>
Net interest margin (bps)	46	36	10

The Bank recorded net income of \$86.8 million in the first quarter of 2017 compared to \$56.5 million in 2016. This increase was driven by higher net interest income. In addition, all other income increased but was largely offset by \$12.7 million in gains on the sale of available-for-sale securities in the first quarter of 2016 and higher other expense in 2017.

For the first quarter of 2017, net interest income was \$108.3 million, an increase of \$26.9 million compared to \$81.4 million for the first quarter of 2016. The year-over-year increase was primarily due to improved funding spreads and higher average advance balances.

All other income was \$12.7 million in the first quarter of 2017, up \$24.5 million compared to the first quarter of 2016. The increase was primarily due to mark-to-market adjustments to derivatives and trading securities which netted to a \$6.7 million gain in 2017 compared to an \$18.3 million loss in 2016. Total other expense increased \$5.2 million in the first quarter of 2017 compared to the first quarter of 2016. The increase was primarily due to higher compensation and benefits related expenses, including a voluntary contribution to the Bank's pension plan.

These results allowed the Bank to set aside \$9.7 million for affordable housing programs.

## Financial Highlights – Selected Balance Sheet

<i>(in millions)</i>	Three months ended		Over/(Under)	
	March 31, 2017	March 31, 2016	Amount	Percent
<b>Average:</b>				
Total assets	\$ 96,917	\$ 93,842	\$ 3,075	3 %
Advances	73,994	70,117	3,877	6
Total investments	18,171	19,191	(1,020)	(5)

<i>(in millions)</i>	March 31, 2017	Dec 31, 2016	Over/(Under)	
			Amount	Percent
<b>Spot:</b>				
Advances	\$ 70,317	\$ 76,809	\$ (6,492)	(8) %
Capital stock	3,523	3,755	(232)	(6)
Retained earnings	1,031	986	45	5

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The net interest margin increased significantly, 10 basis points, primarily due to the improved funding costs. Please turn to the next slide.

Total average assets for 2017 were nearly \$97 billion, up 3% from 2016 due to growth in advances. Average advances were \$74 billion in 2017, an increase of \$3.9 billion or 6% from the first quarter 2016. At March 31, 2017, total advances were \$70.3 billion, a decrease of \$6.5 billion from the record \$76.8 billion at December 31, 2016. It's common for the Bank to experience variances in the overall advance portfolio driven primarily by changes in member needs.

Capital stock was \$3.5 billion at March 31, 2017, down 6% from December 31, 2016 due to repurchases related to advance maturities. Retained earnings at March 31, 2017 totaled \$1 billion, an increase of \$45 million from December 31, 2016 reflecting earnings for the first quarter 2017 less dividends paid. Please turn to slide 5

## Capital Requirements

<i>(in millions)</i>	March 31, 2017	Dec 31, 2016
Permanent capital	\$ 4,560	\$ 4,747
Excess permanent capital over RBC requirement	\$ 3,558	\$ 3,839
Regulatory capital ratio (4% minimum)	4.8%	4.7%
Leverage ratio (5% minimum)	7.2%	7.0%
Market value/capital stock (MV/CS)	134.1%	128.9%

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This slide provides a summary of the Bank's capital requirements. At March 31, 2017, the Bank continues to be in full compliance with all regulatory ratios, and permanent capital exceeds the risk-based requirement. Also at March 31, 2017, the ratio of Market Value of Equity to Capital Stock was 134.1%, up from 128.9% at year-end 2016 due to the decline in capital stock. This concludes my presentation, and now I'll turn the call back to Winthrop.

## WINTHROP WATSON

Thanks Ted. There's no question that 2017 is off to a great start for our cooperative. As always, we appreciate your business, which fueled our success. At this time, I'd like to turn the call over to Chief Operating Officer, Kris Williams. Kris...

## First Quarter Highlights

- Great quarter for the co-op
- Highest average advances – maintains mission focus
- Recent performance reflects
  - Demand for liquidity
  - FHLBank's financial stability

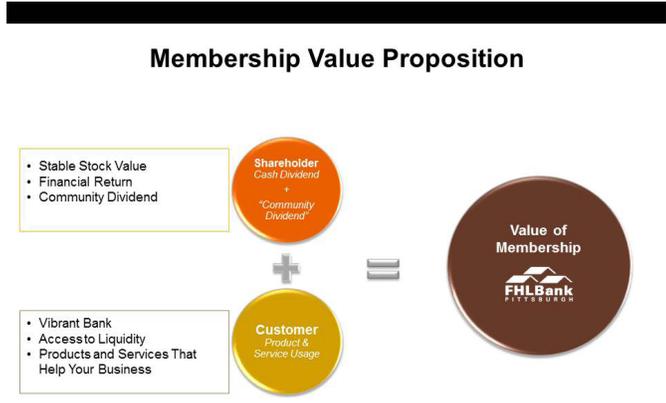
## KRIS WILLIAMS

Thanks Winthrop. Good morning to everyone on the call. I have a few quick slides on member activity. First, I want to reinforce a couple of key messages from Ted and Winthrop: number one, it was great quarter for your cooperative; two, highest average advances; three, the Bank's performance is driven by your activity.

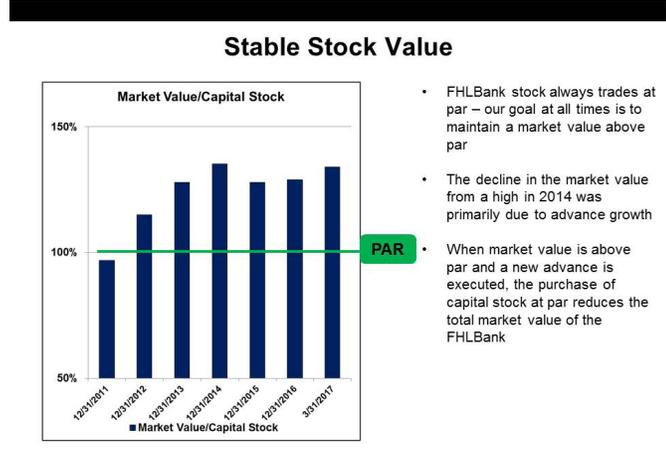
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On the next slide is a pictorial of membership value as a shareholder and customer – both together generate your all-in value of membership.

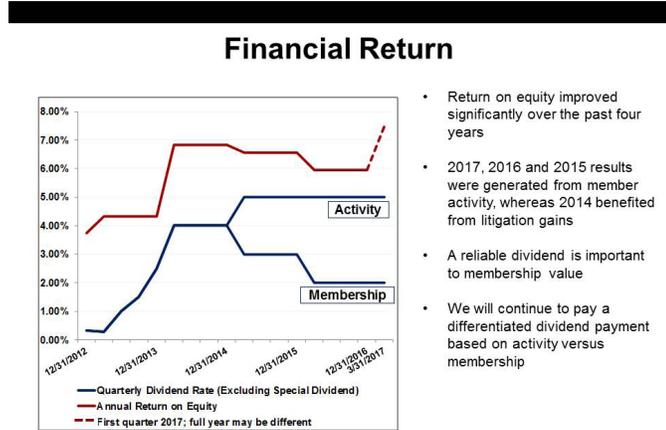
As a shareholder, you like to think about your stock in a stable form, the financial return, and community dividend. And as a customer, you want the Bank to be vibrant, to have easy access to liquidity and products and services that help your business. We will explore each of these quickly.



First, as shareholder, you care about your stock value. Federal Home Loan Bank stock always trades at par. Our goal at all times is to maintain a market value above par. Some variability in the market value will occur, due to advance activity, but management and the Board are focused on always protecting the par value.



Next is financial return, which comes with your stock. A financial return as demonstrated on this slide: red is return on equity and blue is your dividend. For the last several years, results were generated from member activity, whereas in 2014 benefited from litigation gains. We know a reliable dividend is important to membership value. We expect to continue to pay a differentiated dividend based on activity versus membership stock.



Another dividend form is the community dividend, which we think about in four pieces. First, are the funds awarded through community investment products in 2016. The Affordable Housing Program saw a funding round of \$23 million. First Front Door, our first-time home buyer program, was funded with \$8 million. Banking On Business, our small business product, was funded with \$5 million. And our Community Lending Program, which is a \$1 billion revolving loan pool at our cost of funds, was very active in 2016 and into 2017. Second, are business advantages for our members: first, the new relationships that you can create, the CRA requirements that you can meet, and, of course, just good corporate citizenship. Third is community needs served: housing, development, jobs and dreams. And the fourth piece of your community dividend is the impact on the people and communities you serve, providing dignity, security, progress and hope.

Now let's talk about value as a customer. The primary reason for being a member is access to liquidity. We raise money in the capital markets, then add a small spread and lend it to you in the form of advances. The two charts on the left demonstrate this value. Top is our funding cost versus Treasuries and the bottom graph is our funding cost versus LIBOR on a spread basis. The blue line is the five-year average and the green line was the levels at 3/31. As you can see, it's a great time to do term advances.

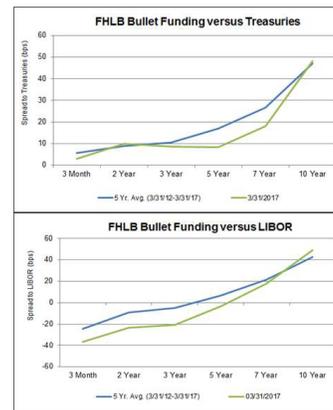
Next, let's talk about the vibrant bank. As noted before, our Bank's vibrancy is due to our member activity. The chart shows advances to total assets. The chart has seen some growth, but fluctuations do occur based on member need. In addition to advances, other important products include the Mortgage Partnership Finance program, or MPF, which is celebrating 20 years this year, and you're going to hear more about that shortly. Another key product are letters of credit, primarily used to secure public unit deposits. We have the most users ever in that product.

## “Community Dividends”

- Funds awarded through Community Investment products in 2016:
  - Affordable Housing Program funding round -- \$23 million
  - First Front Door -- \$8 million
  - Banking On Business -- \$5 million
  - Community Lending Program -- \$1 billion revolving pool
- Business advantages for members:
  - new relationships, CRA requirements, cost-of-funds advances, corporate citizenship
- Community needs served:
  - housing, development, jobs, dreams
- Impact on people and communities:
  - dignity, security, progress, hope

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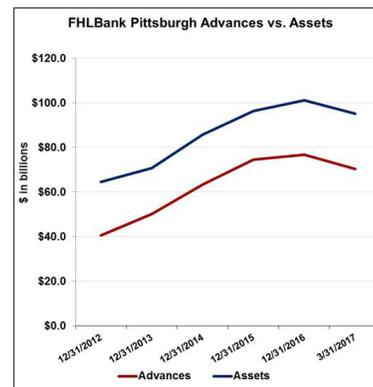
## Access to Liquidity



- Attractive advance pricing depends on the FHLBank's ability to raise attractively priced funding in the capital markets
- Current FHLBank funding spreads versus Treasuries are attractive in maturities three years and out when compared to the 5-year average of spreads
  - An excellent time to term out advances!
- FHLBank floating-rate funding is currently pricing quite well relative to LIBOR due to increased demand from Money Market Funds

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## Vibrant Bank



- FHLBank vibrancy is driven by member activity with the Bank
- Advances have seen significant growth in the last four years
- Advances declined from year end; however, it is not uncommon for the Bank to experience variances in the overall portfolio driven by member needs
- The Mortgage Partnership Finance® (MPF®) Program continues to grow year over year
- Letters of Credit had highest number of users

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And I'll end with a pictorial on how to maximize your value of membership: use all of our products and services. We truly appreciate your business. And now I will turn the call back over to Winthrop. Winthrop...

## WINTHROP WATSON

Thanks Kris. Before I open the line for your questions, I'd like to reinforce Kris's reference to the Bank's "community dividends" – because they really do provide significant return to both members and communities. The dollars, products and advantages to members are important. But these dividends also support real community needs such as housing, development, jobs and dreams. And they touch individual lives in meaningful ways: security, self-reliance and hope. We are now ready to take any questions you may have. Kyle, please open the lines.

It appears there are no questions. I'd like to thank you for attending today's call and for your continuing business and support. Enjoy the rest of your day.

## Products and Services



The value of your membership increases the more you use FHLBank products and services.

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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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